

CFA Study Finds Local Rate Hikes Force Consumers to Give Up Phones

Telephone service—once strictly a “one-stop shopping” operation—has become “a consumer nightmare” and spiraling local rate increases will force two million people to give up their telephones in 1985.

These are the conclusions of a lengthy study on the impact of AT&T's breakup on the American consumer, released in December by Consumer Federation of America. The study was co-authored by Gene Kimmelman, CFA Legislative Director, and Energy Director Mark Cooper.

Entitled *Divestiture: One Year Later*, the CFA report examines telephone costs, both before and after divestiture, in states that include 75 percent of the U.S. population. It also projects the impact of rate changes, using a model of demand for residential service developed for the Bell companies by National Economic Research Associates. The projection indicates that approximately 750,000 households (more than 2 million people) will be forced to do without a phone by the middle of 1985.

Low-Income Consumers Hit

“The projected decrease in households with a phone results from the more than \$2 billion worth of residential service charge increases in 1984,” Kimmelman said, “so it should come as no surprise that lower-income consumers will bear a disproportionate share of the phone loss burden.”

The CFA study found that the average cost of flat-rate, unlimited-use residential service has risen 19 percent since January 1, 1984. In the same period, the average cost for the cheapest measured-rate residential services escalated by 26 percent. A similar increase of 26 percent was recorded in the average cost of a simple installation job, one which required no home visit by a phone service technician.

The report reveals that local phone companies requested \$10.9 billion in revenue increases in the 12-month period since the AT&T breakup. State regulatory commissions granted slightly less than half that amount—\$5.1 billion.

And that's not all. Beginning in June of this year, federal and state regulators will start piling on access, or subscriber line, charges which could eventually cost consumers \$2 to \$4 billion on top of local increases already imposed.

Consumers Pay—and Pay

Effective in June, 1985, all residential customers will be required to pay an interstate access charge. The automatic \$1 monthly charge will be levied whether or not

the customer makes any long distance calls. The charge will rise to \$2 per month in 1986, at which time the Federal Communications Commission (FCC) will determine whether it should continue to rise.

The rationale for the access charges is to have all users pay for equipment costs formerly charged only to interstate long distance users.

“What this does,” says Kimmelman, “is transform \$2 billion worth of long distance costs into local rate increases. It is an inequitable strategy which could force over a million more people to give up phone service.”

who threaten to leave or “bypass” the public network.

In addition, the CFA study predicts that “the states are likely to increase local rates to parallel the FCC's interstate access charge” to keep intrastate long distance rates from going significantly higher than interstate ones.

Kimmelman and Cooper contend that “unnecessary and inequitable rate increases pose a clear and present danger to universal phone service” and they stress that the danger is rooted in phone industry pricing policies, not in competition or divestiture itself.

is a system in which “all telephone users share the burden of transforming our monopoly system into a competitive one,” says Cooper.

CFA Proposes Alternatives

Alternative policies proposed by the CFA study include an equitable division of public network costs, cost-based pricing of new investment, and a universal service fund.

“These policies would keep the industry efficient and competitive while holding down local rate increases,” the two authors say, noting that “there is no reason why an industry that achieved universal service under monopoly conditions cannot do the same in a competitive market.”

(Copies of Divestiture: One Year Later are available from CFA at \$10 per copy for non-members; free for members.)

Local Phone Rate Increases Since AT&T Divestiture

Kind of Service	Average Cost—1983	Average Cost—1984	Percentage Increase
Flat-Rate Unlimited	\$11.80	\$14.09	19%
Cheapest Measured Rate (Dial Tone Only)	7.12	8.97	26%
Simplest Installation, Requiring No Visit By Technician	42.35	53.45	26%

Based on data from state regulatory commissions, National Telecommunications and Information Administration (NTIA) and Federal Communications Commission (FCC). 1983 figures as of December 31, 1983. 1984 figures as of November 1, 1984.

The FCC's access charge decision includes a surcharge of 35 cents per month that may be added to all local charges by state regulators in 1985. The surcharge is in-

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tended to offset a decrease in revenues caused by rate reductions offered to large-volume users—generally big businesses—

Cooper charges that consumers have been unjustly bombarded with rate increases “because phone companies are moving profits into long distance and unregulated ventures, while shifting costs to local residential customers.”

And the costs are not only financial. The consumer also pays in the currency of confusion. Should a phone be purchased or leased? How should the best long distance carrier be chosen? Who is responsible for repairs? And where does one go to find answers to questions such as these?

It didn't have to be this way. As the CFA report points out, “The breakup of Bell was supposed to produce benefits to consumers through increased competition. Instead, rate increases threaten the affordability of phones and industry developments threaten to weaken or eliminate competition, robbing consumers of any benefits.”

The cure for “the consumer nightmare” which has developed over the past year

TRAC Wins One for Consumers

Consumers may be losing the post-divestiture price war but they won a long-sought pre-divestiture victory in a decision handed down by the Federal Communications Commission (FCC) at the end of November.

The FCC ordered AT&T and its former operating companies to reduce interstate long-distance rates and some local charges by \$178.2 million in order to refund overcharges made in 1978 when the company exceeded its regulated 10 percent rate of return.

The Telecommunications Research and Action Center (TRAC) estimates that the FCC decision could reduce household and business telephone bills by from \$2 to \$200, depending on the volume of interstate calls. TRAC initiated the petition and later legal action which resulted in the FCC decision. CFA and other consumer groups were parties in the dispute which has been pending before the FCC since 1979.

AT&T must pass the savings along to consumers no later than the first or second quarter of this year, the FCC said.

State and Local Consumer Groups Fight for Lifeline Banking

by Ken McEldowney,
Director, San Francisco Consumer Action

Ever increasing charges for banking services, and the resulting fear that people on low and fixed incomes are gradually being priced out of such services, have sparked consumer drives for Lifeline checking and savings accounts in several states and at the federal level.

Such efforts gained new impetus in 1984 after Consumer Federation of America and Consumer Action of San Francisco coordinated a nationwide survey which found that high banking service fees were alarmingly widespread. In city after city, state and local consumer groups discovered that yearly charges on a typical low-income account totaled more than \$100.



Groups Join in Petition

In California, we have attacked the problem on several different fronts. Last August, Consumer Action and Public Advocates filed a 50-page administrative petition with the State Superintendent of Banking, outlining the impact of current banking practices on the poor and advocating several reforms to correct the situation. A number of groups, representing the specific concerns of the elderly, women and minorities, as well as the poor, joined in the petition.

The petition detailed how low-income people were being priced out of checking accounts by high fees and/or high minimum balances. It also charged that checking accounts were effectively restricted to the middle and upper classes by requirements for high minimum deposits and possession of credit cards before an account could even be opened.

How Lifeline Works

One reform advocated by the petition was a requirement that California banks establish Lifeline checking and savings accounts for those families seeking them, whose yearly income was \$11,000 or less. Such checking accounts would have no monthly service charge and no charge for the first 10 checks each month. The accounts would also feature a maximum of \$5 per day in bounced check charges and no more than a 48-hour hold on local checks. No fees would be allowed on savings accounts with balances of under \$300.

The superintendent rejected the petition's recommendations but the document continues to be useful, serving as a focus for discussion on the banking problems of low-income people, not only in California but in other parts of the nation as well.

CU's Baseline Accounts

Consumers Union in California has formulated a different model which it calls baseline checking. The key difference in its approach is the absence of an income ceiling to determine eligibility.

Baseline checking accounts would include the following features: no monthly charge, eight free checks per month, no minimum deposit to open, no minimum balance requirement, five free deposits each month, and no means test.

CU's belief is that allowing the institutions to charge relatively high fees for an excess number of checks or deposits would deter more affluent consumers from taking advantage of the free baseline accounts.

CU is currently seeking legislation that would enact baseline checking into law. Consumer Action and Public Advocates are also urging that legislation establishing Lifeline accounts be adopted at the state level.

Action in Other States

There is precedent for such legislative action. A version of Lifeline checking accounts is already state law in Massachusetts. Beginning last October, banking institutions in that state have been required to offer free checking to consumers under the age of 18 and over 65.

In New York, an attempt is under way to put together a legislative package which would allow banks to enter the insurance business in return for a requirement that Lifeline checking accounts be offered.

And the battle is not confined to state legislative fronts. The CFA Board of Directors, at its December meeting, adopted a policy statement recommending that Congress pass federal legislation that would ensure access to banking services for low-income consumers.

It should be pointed out that a number of banking institutions around the country already offer discount checking similar to Lifeline accounts. California consumer leaders have initiated meetings with representatives of the banking industry to see if similar voluntary efforts can provide affordable checking for poor people in this state.

New Faces at CFA



Two new staff members at CFA are Legislative Representative Alan Fox and CFAnews editor Terry Schuette. During the past two and one-half years, Fox served as deputy campaign coordinator, then as legislative assistant to Rep. Robert Carr (D-MI). Before that, he worked for the Michigan Citizen Lobby's Center for Public Accountability and was a legislative aide to the Consumer Committee of the Michigan Legislature. Banking and product safety issues will be his primary lobbying responsibilities at CFA. Schuette was press secretary for former Rep. Gladys Spellman (D-MD) and was Carol Tucker Foreman's speechwriting assistant when Foreman was Assistant Secretary of Agriculture for Food and Consumer Services. She later worked as a writer and editor in the Publications Office of the United Food and Commercial Workers.

CFAnews



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FTC Issues Stripped Down Used Car Rule

A stripped-down version of the Federal Trade Commission's used car rule, first proposed in 1976, will finally roll off the agency's assembly line and go into effect in May.

The subject of a long-running, see-saw controversy among the FTC, Congress and public interest groups, the new regulation does not include the original proposal's requirement that dealers inform buyers about known major defects.

Commissioner Patricia Bailey dissented in the 3-1 vote because of that omission. This is only a "consumer education campaign masquerading as significant, industry-wide regulation," she said.

Instead of the disclosure requirement, the final regulation mandates only a six-point buyers' statement with general information such as the terms of the warranty, if any, and who pays for repairs if they are needed.

The Future of Consumerism

by Stephen Brobeck, CFA Executive Director

(This article is an edited version of a longer essay which appeared in the December issue of *At Home with Consumers*.)



The future of the Consumer Movement depends largely on its ability to retain and expand public support. This support can be sustained only if two conditions are met: (1) The public must continue to recognize that their interests as consumers are at risk, and (2) they must remain convinced that consumer advocates effectively defend and promote these interests.

Profound changes occurring in our society virtually guarantee that the consumer interest will continue to be threatened. Scientists and engineers are developing new products, particularly drugs and food additives, that are introduced before their long-term health effects are fully understood. As they improve our understanding of the world around us, researchers also are discover-

ing new consumption-related health hazards such as indoor air pollution.

Communications Revolution Is Upon Us

Advances in information storage and transmission have set in motion a communications revolution that may alter our society as greatly as the industrial revolution of the last century. At some point in the future, consumers will be able to evaluate, select, purchase, and service nearly all products from their home. Already, computers and new communications technologies are driving changes in the type and pricing of telephone and banking services. Benefits to consumers include a more diverse array of products and, to the extent efficiency gains are shared, price savings as well.

But the costs are also substantial—sharp rises in the price of local phone service, greater difficulty in securing repairs, fewer bank branches with tellers, higher service fees on accounts, riskier loans, less secure savings, and less privacy. These expenses are borne disproportionately by the least affluent, for deregulation and the unbundling of services have shown banks and local phone companies what insurers have known all along—it costs more to service a lower middle-income household than affluent families or large institutions.

Consumers Need Advocates

These changes remind consumers of their need for advocates, as does the persistence with which some businesses seek to take advantage of consumer ignorance and vulnerability by offering shoddy, dangerous products at inflated prices, or by making false claims about products.

Future public support rests on the ability of advocates to seriously address these issues. It also depends on the willingness of consumerists to advocate policies supported by most consumers and on the effectiveness of their advocacy. There is, unfortunately,

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some disturbing evidence that advocates have grown more insensitive to their constituents. The 1983 Louis Harris consumer survey found an increase in the proportion of respondents who felt consumer leaders were “out of touch with consumers” from 22 percent in 1976 to 45 percent in 1982.

Is the Price Tag Too High?

One reason for the increase was suggested by consumer responses to a related question. The percentage of respondents who said that advocates “do not consider the cost of what they are asking for” rose from 30 to 49. Apparently, much of the public has become convinced that some consumer regulations favored by advocates carry a price tag that is too high. From my conversations with consumers, I am increasingly convinced that the public wants citizens to take on more responsibility for their welfare, rather than rely on government.

Advocates do have a responsibility to provide leadership, not just passively reflect the opinions of citizens who may be poorly informed. But this leadership can best express itself by seeking to better inform consumers about the issues. When we make our best case and the public still does not respond, we must proceed with caution. Citizens may not have heard us, but they also may have decided that other interests or commitments are more important, or that their consumer priorities—their ranking of cost, safety, convenience, and other values—differ from our own.

Need for Greater Resources

On issues which advocates receive strong public support, can our advocacy be more effective? I suspect not, without significantly greater resources. Full-time advocates,

many of whom have been active for more than a decade, have a fairly sophisticated understanding of different advocacy tools. What we lack are the funds necessary to support comprehensive, lasting campaigns. Today, only our excellent access to the media and credibility with the general public allow us to remain competitive with much better-funded opponents.

These are not inconsiderable resources. But resources available to the Consumer Movement do not even approach those of major corporations and their associations. Moreover, I doubt that parity will ever be achieved. Affluent citizens who represent

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the major source of support for public interest groups have never demonstrated as much of a willingness to make contributions to the Consumer Movement as to other movements that appeal to their more fundamental commitments.

Since resources are limited, could they be deployed more efficiently through greater planning and coordination? Clearly there is some redundancy in the activities of various advocacy groups. But the heterogeneity of the Consumer Movement is also a source of its strength and vigor. Public and private consumerists can be seen as entrepreneurs in the fields of information dissemination, education, and protection. Those that respond most creatively and effectively to consumer demand are usually the most successful. Thus, although the movement's lack of structure may be perceived as weakness, it should help ensure that consumerism remains an influential and beneficial force in our society well into the twenty-first century.

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Federal Budget Cuts Threaten Consumers

In its budget proposals for Fiscal Year 1986, the Reagan Administration has renewed its assault on consumer programs, particularly those affecting the poor. The Legal Services Corporation, the Supplemental Nutrition Program for Women, Infants and Children (WIC), Rural Electrification Administration, and other programs have all been targeted for extinction or severe cutbacks.

An analysis of these proposals by the Center on Budget and Policy Priorities conservatively estimates that 20 percent of all cuts affect programs primarily serving the poor. The Legal Services Corporation is slated for elimination; low-income weatherization subsidies are scheduled to be phased out by 1990, and planned cuts in WIC will force a 17 percent reduction in its caseload.

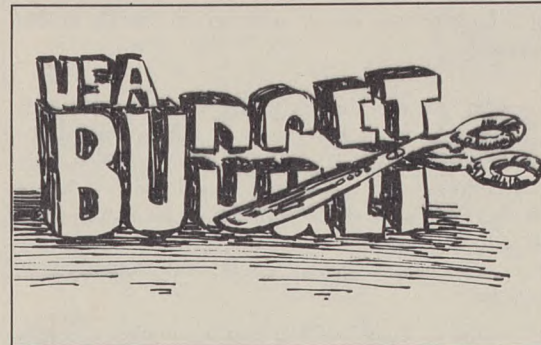
Rural Consumers Hit Hard

In addition, other budget cutbacks in programs not income-tested would harm low-income as well as middle-income consumers. Rural consumers would be hit especially hard if the Administration succeeds in phasing out loans and loan guarantees to rural electric cooperatives, in terminating rural housing subsidies, and in cutting out most assistance to small family farmers.

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Because of low population density, residents of rural areas cannot afford essential services like electricity without government-mandated subsidies. "These subsidies," notes CFA Executive Director Stephen Brobeck, "permitted the electrification of rural areas

in the 1930s and '40s, and today allow rural electric cooperatives to supply members with affordable electricity, albeit at higher rates than are found in urban and suburban areas. One wonders if by eliminating these and other rural subsidies, the White House isn't conspiring to destroy our agricultural sector by forcing a massive migration to urban areas."



CPSC Reductions Rescinded

At the end of December, the Office of Management and Budget (OMB) announced

a belated Christmas "present" for consumers—a proposed 30 percent reduction in the Consumer Product Safety Commission's FY '86 budget and a lay-off of 25 percent of its employees. The major savings would have been achieved by eliminating the CPSC's field operations, which are responsible for the investigation of potential product hazards and for compliance with existing regulations.

Even Reagan-appointed commissioners expressed shock and dismay at the proposed cutbacks. And Congressional and consumer leaders promised to stiffly resist them. In response to this opposition and to a special plea from new Chairman Terrence M. Scanlon, OMB decided to rescind the proposed cutbacks. It now is asking only for the 5 percent wage cut and 10 percent reduction in administrative expenses it has proposed for other agencies.

Increases Bloat Defense Budget

The Administration is trying to sell its proposed domestic cutbacks as deficit reduction. Yet, what they clearly represent is a budget transfer from domestic programs to defense. For FY '86, the White House has proposed \$33.2 billion in domestic cuts and a \$32 billion increase in military spending. CFA's Brobeck emphasized that groups representing the poor and other victims of budget slashing not only must resist cutbacks in their own programs, but must also advocate reductions in an already bloated defense budget.

Food Ads Rule Change Would Hurt Consumers

The Federal Trade Commission (FTC) is considering rescinding a regulation which discourages supermarkets from advertising items which are unavailable to consumers when they come to shop.

Well over a decade ago, an FTC study showed that an average of 10 percent of advertised supermarket "specials" were either unavailable sometime during the sale period or were not available at the advertised price. In some areas, the percentage of unavailability was even higher. So the commission, in 1971, adopted regulations requiring supermarkets to have all advertised items in stock in quantities sufficient to meet consumer demand and conspicuously available at or below the price advertised.

The regulations seemed like a good idea at the time. And CFA and other consumer groups believe they still are. But the FTC is considering either abolishing or amending its advertising regulations governing retail food stores.

Current FTC officials say that the regulations are burdensome for industry and that "market forces" would compel stores to stock what they advertise without government regulation. They do not say why "market forces" were less compelling prior to 1971.

"Ads are used as a come-on to get people into stores," says CFA Vice President Mark Silbergeld, Director of the Washington office of Consumers Union. "If advertised sale items draw them to a more expensive store than where they usually shop and the advertised item is not available, consumers lose twice. They don't get the advertised saving and their overall bill is more."

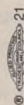
An FTC staff report disputes that view and says that the costs of industry compliance are passed along to the consumer and may exceed the benefits. But the key word is "may." The commission's own economic study concedes that benefits may be greater and the costs substantially less than some surveys indicate.

Consumers should stand united "in absolute opposition" to repeal of the regulations, Silbergeld says, "and should make their views known to the commission."

The FTC is accepting comments on the proposed rule change until February 8. Comments should be addressed to: Secretary, Federal Trade Commission, Washington, D.C. 20580.

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