Local Phone Rates Keep Rising, CFA Finds

The average consumer must now pay between 35 and 52 percent more to get the same local phone service available on December 31, 1983, just prior to the breakup of AT&T, a new CFA report shows. "Divestiture: Two Years Later" documents the growing burden on consumers of skyrocketing local phone rates. "Where are the promised benefits from the Bell breakup?" asked CFA's Legislative Director Gene Kimmelman. "Consumers are paying more and getting less for their phone service since divestiture," he charged. "Local phone companies are earning tremendous profits from local rate increases," Kimmelman noted. "Regulators have helped the phone companies outperform all other industries by shifting costs from highly profitable computer and long-distance business into local rates." The CFA report includes residential flat and measured rates in urban and rural areas from all 50 states. The major findings of the report are that:

- Since January 1, 1984, local phone companies asked for $11.7 billion in new revenue from state regulatory commissions. As of September 30, 1985 state regulators granted $4.7 billion of $9.0 billion requested—about 52 percent.
- If state regulators grant 52 percent of the pending $2.7 billion in rate requests, local phone companies will receive $1.4 billion to add to the $4.7 billion already granted—a grand total of $6.1 billion in post-divestiture revenue.
- The average cost of flat rate, unlimited-use residential service rose from $10.55 per month at the end of 1983 to $14.29 per month at the end of November 1985. Over the same period, the average cost of the cheapest measured-rate residential service rose from $5.15 per month to $7.81 per month—an increase of $2.66 per month, or 52 percent.
- Long distance rates declined approximately 10 percent since the breakup. But for the 75 percent of consumers who make few long distance calls each month, the 10 percent long distance rate reductions do not come close to offsetting the 35 to 52 percent local rate hikes.
- Local phone companies' earnings have far exceeded those of other industries and utilities since January 1984—including profit margins, return on equity, sales growth and earnings per share of stock.

The CFA report charges that phone company pressure for dramatic local rate increases, coupled with regulatory mismanagement, threatens the affordability of basic phone service. "Congress must step in to make the benefits of competition available to all consumers," said CFA's Mark Cooper, co-author of the report. "Without renewed efforts to distribute the benefits and costs of the Bell breakup equitably, the average consumer will remain a net loser in the post-divestiture era," Cooper concluded.

Industry Derails Safety Commission Bill

The amusement park industry has single-handedly stalled congressional action on a bill authorizing the Consumer Product Safety Commission (CPSC).

The compromise bill, H.R. 3456 (see CFA News, November 1985), was endorsed by consumer organizations, including CFA, and by key industry groups, including the U.S. Chamber of Commerce and the National Association of Manufacturers. It was reported out of the House Energy and Commerce Committee by a 22-2 vote. But when the full House voted on November 19 under special procedures requiring a two-thirds vote, H.R. 3456 fell ten votes short, 264-146. The controversy preventing passage of the bill grew out of its limited restoration of CPSC authority over fixed-site amusement park rides. The bill died when the Senate failed to act. Shortly after the vote, CFA Legislative Representative Alan Fox urged voters to explain to their constituents why they switched their votes.

"There is no excuse for this switch," Fox said. "These members of Congress must explain to voters why their constituents' safety is only important during election years."

The 34 House members, identified in a CFA news release, are: Beryl Anthony (D-AR); William H. Boner (D-TN); Beverly B. Byron (D-MD); William Carney (R-NY); Bob Whitaker (R-KS); Jamie L. Whitten (D-AL); E. Clay Shaw (R-FL); Bud Shuster (R-PA); F. James Sensenbrenner (R-WI); Ike Skelton (D-MO); Virginia Smith (R-NE); Gene Snyder (R-KY); G. William Whitehurst (R-VT); Bob Whittaker (R-KS); Jamie L. Whitten (D-MD); Chalmers P. Wylie (R-OH); and Ed Zachary (R-CA).

The House is expected to reconsider the bill soon after it returns from its recess on January 20. At that time, only a majority vote will be required for passage, but amendments such as the one proposed by Rep. Hyde will be in order and could be adopted.

Please write your representative and ask him or her to oppose any changes in H.R. 3456 and to vote for passage of the bill unamended. Point out that the bill is a compromise supported by nearly all major consumer and business organizations. Specifically, urge retention of the bill's compromise amusement park safety language. Constituents of the members listed above should be particularly sure to contact their representatives.
Are Credit Card Rates Too High?

by Stephen Brobek, CFA Executive Director

(Original article in an earlier version of a longer essay published by Scripps Howard.)

Most banks are charging prices far above actual costs on their credit cards. Consequently, cardholders are paying record charges while banking institutions earn record profits.

Banks levy three types of credit card charges. They charge retailers fees ranging from one to five percent of credit card purchases. These fees total several billion dollars annually. Most are passed on to shoppers through higher prices.

Institutions also assess annual fees and a variety of special charges. Most levy fees for failing to make minimum payments. A small but growing number also charge for exceeding credit limits, for making credit card purchases, and even for paying bills in full. These fees also total several billion dollars per year. Further, in the past several years the average non-interest charges per account have increased sharply.

In addition, a rising number of banks have been reducing the "float period" by charging interest from the date of posting when balances are carried over from month to month. Since an estimated 70 percent of accounts carry over balances, the additional interest charges are substantial.

At the same time, the use of credit card-related expenses. The first is administering accounts. An American Bankers Association publication reports that these administrative expenses are lower for a credit card purchase than for a small installment loan. Moreover, they should be decreasing as new equipment raises productivity and as the growth of credit purchases permits economies of scale. At any well-managed institution, they should not exceed two to three percent of outstanding balances.

The second cost is bad debt losses. These can be reduced to practically nothing by restricting the issuing of cards to good credit risks. Any bank with bad debt losses exceeding one percent is either marketing credit cards indiscriminately or has consciously chosen to accept rising debt losses for increased business. In either case, the average cardholder should not be forced to pay these losses.

The third bank expense is the cost of borrowing funds, much of which is lent by the Federal Reserve and by consumer depositors. Today the rate charged by the Fed is around 7.5 percent, while that paid consumers on liquid deposits ranges from zero on regular checking to about 7.5 percent on money market deposit accounts.

In the past several years, both rates have declined. From 1981 to August 1985, the Fed's discount rate fell from a high of 14.0 percent to 7.5 percent. Although a rising proportion of consumer deposits have earned interest, most of these rates have declined recently.

In brief, credit card charges have risen while related expenses have plummeted. The result has been record profits for banking institutions issuing these cards. Banks freely admit that their credit card charges do not believe they have a choice.

But banks also attempt to justify high rates by arguing that credit cards were not profitable several years ago. This defense is unsupportable. Well-managed institutions have always made money on credit card accounts. Even in early 1981, average bank card rates exceeded 17 percent, while the cost of borrowed funds from consumer depositors was under 7 percent.

The few institutions that could not earn acceptable profits cancelled old cards and stopped issuing new ones. Whether credit card rates are too high, however, depends partly on whether cardholders are freely choosing to pay high rates and other charges. The answer to this question is not clear.

"But consumers should not wait for legislative relief, which may never come. Instead, they should try to avoid interest charges by paying balances in full."

Many cardholders who know banking institutions are assessing substantial charges do not believe they have a choice. They correctly perceive that major banks in an area rarely charge rates differing by more than two percentage points. They recognize that shifting cards involves consider-
**A Look at 1985 Consumer Bills**

HR 2707—Regional/Interstate Banking. Includes consumer benefit, community reinvestment and safety and soundness standards for interstate bank acquisitions and mergers. Reported by the House Banking Committee June 12, 1985. Held up in House Rules Committee; Chairman Rep. Claude Pepper (D-FL) objects to provisions requiring states that pass “regional compact” laws to allow wider interstate acquisitions three years later.

HR 2443—Expedited Funds Availability. Limits funds on holds deposited by check to one to three days beginning three years after enactment; two to six days in the interim, with faster availability for small checks and government checks, and longer periods for large checks, new accounts and others posing risks. Reported by the House Banking Committee November 20, 1985. Full House action is expected in early 1986.


HR 2282—Truth in Savings Act. Requires full and consistent disclosure of fees and interest on checking and savings accounts. No committee action scheduled.

HR 3456—Consumer Product Safety Commission Reauthorization. Authorizes the CPSC for three years (1986-88), with $37 million in 1986. Increasing by $1 million each year. Also sets a minimum staff level of 568 FTEs, and establishes limited authority over amusement park rides. Reported by the House Energy and Commerce Committee, but defeated on the House floor under special procedures.

HR 2600—Bill S. 1198. Similar provisions are in HR 397, expanding consumer choice in Martinez court cases.

HR 2100—Omnibus Farm Bill that includes a price support program for sugar growers, and possibly import quota reduction. Signed into law December 23. According to the Sugar Users Group, the provisions indicate “the likelihood of higher prices for sugar over the next few years.”

S. 51—Superfund Improvement Act of 1985. Amended by the Senate to include the Indoor Air Quality Research Act of 1985, which was originally introduced as S. 1390. Similar provisions are in HR 2105, S. 477—Consumer Rail Equity Act. Would require the Interstate Commerce Commission to adopt several accounting procedures in assessing railroad rate requests; in the long run, would save electricity consumer several billion dollars annually. Approved by House Energy and Commerce Committee, awaiting House floor vote.

S. 477—Consumer Rail Equity Act. Would require the Interstate Commerce Commission to adopt several accounting procedures in assessing railroad rate requests; in the long run, would save electricity consumer several billion dollars annually. Approved by House Energy and Commerce Committee, awaiting House floor vote.

S. 412—Malt Beverage Interbrand Competition Act. Would provide beer wholesalers throughout the country with exclusive territorial distribution of particular brands, forcing all retailers in a metropolitan area to purchase from a single wholesaler. Approved by Senate Judiciary Committee, awaiting Senate floor vote.

S. 50—Product Liability. Would have established federal standards for defective products litigation, preempting stronger state laws and limiting victims’ rights. Blocked by 8-8 tie vote in Senate Commerce, Science and Transportation Committee, pending full Senate floor vote.

As economic deregulation progressed, threats to competition mounted. Most significant was continued failure of the Federal Trade Commission to adopt regulations for the establishment of federal power programs to keep electric rates affordable. Despite the administration’s lack of interest in most consumer issues, consumers can draw encouragement in the fact that their congressional allies are increasingly taking a more proactive role in influencing federal agencies in responding to serious health and safety threats. They can also take heart that they have influential congressional allies who vigorously advocate the consumer interest.
CFA Conference Examines Problems, Prospects of Financial Services Revolution

New technologies and deregulation have created a whole new ball game in the financial services industry. But will these changes benefit consumers across the board, or will upper-income consumers gain the lion's share of benefits at the expense of their moderate-income counterparts? This was the central question explored at the CFA conference titled “The Consumer in the Financial Services Revolution: Pressing Concerns and Future Marketplace,” held December 13-15, 1985 in Washington, D.C. The conference brought together more than 150 consumer advocates, industry representatives and government officials to examine the rapidly evolving financial services marketplace and consider policy alternatives for reform.

Banking and Deregulation: An Overview

Congressman Barney Frank (D-MA) opened the conference with an examination of financial regulation and deregulation. In many areas of banking I’m a deregulator. Competition in the industry is essentially pro-consumer, Frank said, because it increases the number and variety of services available. But, there must be a tempering of competition with consumer protection, he emphasized. He said some areas of financial deregulation were not working well, such as bank policies on check holds. “Too many banks are nickle and diming consumers” with unnecessary check holds, Frank said. In contrast, the ABA’s Daniel Buser maintained the key to ensuring widespread benefit from deregulation is consumer education. Statistics do not show that large numbers of the poor and elderly are effectively barred from the financial services marketplace, he said.

Boon or Burden for Consumers?

The panel on consumer banking needs allowed conference participants to evaluate the divergent views of consumer attorney Joanne Faulkner; Daniel Buser of the American Bankers Association (ABA) and Kent Brunette of the American Bankers Association of Retired Persons. Faulkner asserted that deregulation was at best a “mixed bag” for consumers and that low-income consumers are “invisible to banks.” She called for more regulation to meet consumer needs that currently are not being addressed. Faulkner’s agenda for reform included “lifeline” banking services, access to credit for the poor and more reasonable check hold policies.

Tax Reform Clears House, Heads for Senate

CFA helped consumers win a major legislative victory with House passage of the Ways & Means Committee’s tax reform bill. The legislation, which now goes to the Senate for consideration, would give low- and middle-income citizens major tax relief by shifting some of the tax burden to upper-income taxpayers and corporations, and by closing loopholes. The Ways & Means bill would raise corporate taxes $139 million over five years and would continue the hikes into the future, in contrast to the short-term, $125 billion corporate tax hike proposed by the Reagan administration. The legislation sets the corporate tax rate at 36 percent and establishes a solid 25 percent minimum tax for corporations and individuals.

Foreign tax havens, tax breaks for mergers and acquisitions and the oil depletion allowance (which permits producers and royalty owners to deduct a flat percentage of gross income) would all be limited under the bill.

Individual taxes would be cut $137 billion over the next five years, with a top rate of 38 percent. According to the Children’s Defense Fund, a poverty-level family of four would gain $900 to $1,000 under the legislation.

The Ways & Means Committee preserved several important consumer provisions in the tax code. The 40 percent credit for solar installations up to $10,000, scheduled to expire in 1985, would stay in effect over a three-year phase-out period. The Committee shot down the administration’s proposal to end exemptions for all but the smallest credit unions, voting to keep the current exemptions for all credit unions. It also rejected the Reagan proposal to tax health insurance premiums paid by individuals and families.

When the Senate takes up the bill, the White House likely will seek to cap the maximum tax rate at 35 percent and preserve investment tax credits and the $2,000 personal exemption. But, given the enormous federal deficit, it is doubtful that the administration can achieve passage of a bill that sharply limits federal revenues.

Consumers face a tough fight in the Senate to preserve the bill’s consumer-oriented tax provisions. They also confront the spectre of oil import fees, proposed as a means to raise revenues, that would fall heavily on the poorest 40 percent of households (see CFAnews, November 1985). It remains to be seen whether Congress passes legislation benefiting the vast majority of taxpayers.