CFAnews

Consumer Assembly '82 Issue

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Reaganomics As "Economic Water Torture"

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The economic policies of the Reagan Administration were faulted by all three keynote speakers at Consumer Assembly '82. MIT economist Lester Thurow labeled Reaganomics "the laetrile of the economics profession;" Robert Partridge, Executive Vice President of the National Rural Electric Cooperative Association called it "a form of economic water torture," and Tom Donahue, Secretary-Treasurer of the AFL-CIO, described it as a discredited "trickledown economic theory."

Partridge, Donahue and Thurow cited high interest rates, continuing inflation, falling real earnings, and an unemployment rate "rapidly approaching the highest level since the Great Depression" as evidence of the failure of Reaganomics. Inflation and high interest rates, noted Partridge, are "pushing hundreds of thousands of farmers and small enterprises over the precipice" into bankruptcy.

Behind this failure, explained the speakers, lies a faulty economic analysis that assumes redistributing wealth, keeping interest rates high, and eliminating what Donahue called the "checks of antitrust, consumer, environmental and safety protection" will ultimately increase prosperity. Thurow noted that the poor have so little money that taking some of it away will make available little capital for new investment. Partridge characterized the use of high interest rates to reduce inflation as "trying to cure a headache with a guillotine."

Each of the keynoters criticized the Administration's unquestioned faith in the ability of the private sector to solve all our economic problems. Donahue argued that the "energy monopolists and central bankers" who dominate economic decision-making have shown more interest in "ferocious exercises in corporate cannibalism, in speculation and in high-interest money markets" than in economic reconstruction. At the same time, he added, "the private economy is neither able nor willing to take care of the poor" who are being abandoned by the Administration.

CFA photo by Anne C. Averyt

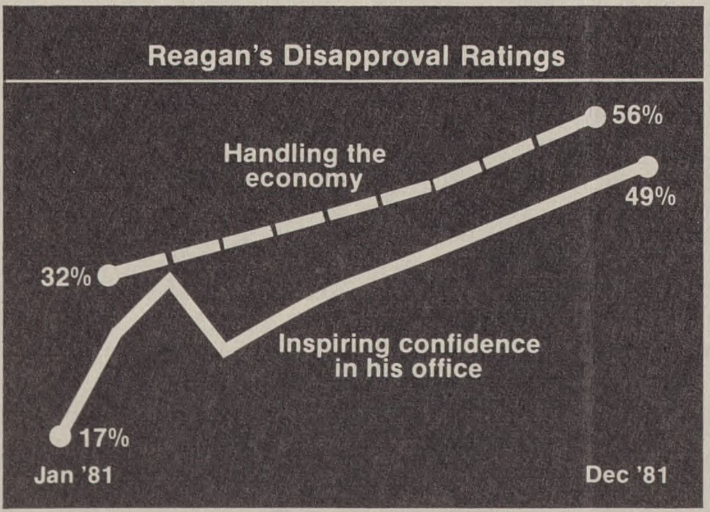
While none of the speakers saw easy solutions to the economic crises, each proposed alternatives to Reagonomics. Thurow emphasized the importance of increasing savings through measures such as eliminating the deductibility of interest on consumer loans. Focusing more on decision-making processes, Donahue stressed the need for the public, business, and labor to develop a "coordinated industrial policy." This policy, he went on to explain, must include credit regulation. Although Partridge stopped short of proposing such controls, he did assert that credit should be used for production, not to "finance mergers and corporate takeovers."

Consumers can successfully challenge Reaganomics, explained Partridge, only by "acting in concert" and by joining with labor unions, farm organizations, and those who represent the poor. Donahue urged that Election Day, November 2, 1982 be a target for this coalition.

The Public Rates Reaganomics

Consumer Assembly '82 attendees heard how Reagan and his policies fare with the American people from Jeff Hallett, President of the Naisbitt Group; John Boyle, Vice President for Washington Operations, Louis Harris Associates; and Karlyn Keene, Managing Editor of the American Enterprise Institute's *Public Opinion* magazine.

The panelists told the general assembly audience that while Reagan is still very popular personally with the American public, his performance ratings have steadily declined. "President Carter's rating at the end of his first year in office was slightly higher than Reagan's," admitted Keene, who works for the conservative Republican think-tank, AEI. "And Reagan has received higher negatives [disapproval rate] all during his presidency than did Carter."



Boyle added that the public feels much less confident about Reagan's ability to handle the economy now, and that the majority of people favor an end to the Administration's budget cuts. "This is in contrast to a year ago when people favored cutting many federal grant programs," he said.

One of the major declines in the polls is the perception of the fairness of Reagan's programs. Although earlier polls showed Americans felt Reagan's policies were fair to all segments of the society, people now feel his programs favor the wealthy and big business at the expense of the needy.

"People are saying a qualified yes to Reagan's program," Keene explained. "They support the concept that the government which governs least governs best. But at the same time an overwhelming 76% say the government has the responsibility to care for those who can't care for themselves—the elderly, the handicapped and the poor. The public is continually shifting. They approve of lessening regulation but they also want to be protected. It is the decade of second thoughts."

Reaganomics at the Grassroots: The Economic Impact

The economic impact of high interest rates, Reagan's budget cutting measures and energy deregulation are already being felt at the grassroots, but the worst is yet to come, according to many of the speakers at Consumer Assembly '82.

"The current economic policies are hitting hard at both moderate and low-income families," said Nancy Amadei, Executive Director of Food Research Action Center. "But for the poor the cutbacks are truly devastating. They suffer in the most fundamental and vital areas of survival: food, housing and energy."

Here's how some of the other speakers assess the problems:

Food

"Federal food programs have been emorously effective in the past, especially the school lunch program and the WIC program which provides milk and dairy products for high risk pregnant women. More than $4 billion was cut from food programs last year—one-ninth of the entire amount of budget cuts. The results are already being felt—school lunch prices are up, and we're going to see more handicapped and retarded babies born to high risk, poor mothers."

—Nancy Amadei
Executive Director
Food Research Action Center

Utilities

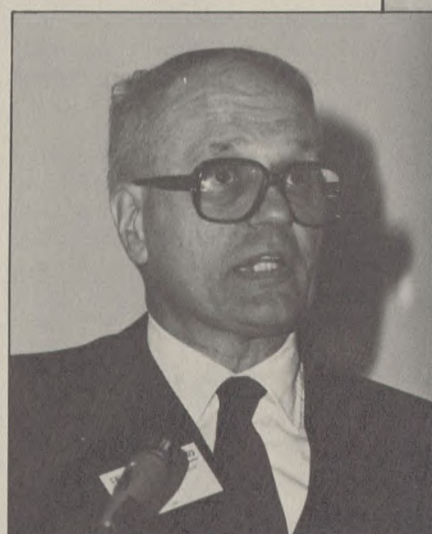
"Utility bills are already rising steeply. In fact in California, utilities are the fastest rising component in the Consumer Price Index. The impact of the Alaskan gas pipe-line legislation will drive up prices, and the proposed decontrol of natural gas would have a devastating impact on consumers' utility bills."

—Sylvia Siegal
Director
Toward Utility Rate Normalization

Housing

"The housing situation is going from bad to worse. High interest rates are hurting the construction industry as are budget cuts. The greatest impact of the housing shortage is on moderate and low-income people."

—Cushing Dolbeare
President, Low Income Housing Coalition



Rep. John Dingell and panel discuss the implications of natural gas decontrol.

CFA photos by Anne C. Averyt

Energy

"Let's call natural gas deregulation by its real name, the great American ripoff of 1982. If this Administration were successful in imposing deregulation in 1982, it would mean an increase of between 50 and 100% in the price of natural gas, raising the average consumer's gas bill by between $200 and $400 per year. But it isn't only the direct charges that would hurt the consumer . . . the increase in the cost of gas would lead to increases in the costs of virtually every product and every service."

—Rep. John Dingell (D-MI)
Chairman
House Energy Committee

Credit

"Administration-backed legislation now before the Senate to preempt state interest rate ceilings will have the greatest impact in those segments of the lending markets that are least competitive: used car financing, home equity, home repairs, and ghetto retail. The bill will also make comparative shopping for loans almost impossible because it will allow lenders to impose any fees or charges they want, and will remove much of the uniformity in information disclosure now required by state laws."

—Ellen Broadman
Governmental Affairs Counsel
Consumers Union, Washington, D.C.

Scenes from Consumer Asembly '82

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The President's Regulators vs. The Public Interest

U.S. Department of Agriculture

Are you better off today than you were a year ago?

"At the Department of Agriculture I believe our primary function is with agricultural producers. I will quarrel vigorously though, with the thought that it is exclusively there. But we believe what is good for the farm producers is good for the country."

— Richard E. Lyng
Deputy Secretary, USDA

"The Administration has consistently subjugated the concerns of millions of American consumers to the desires of a few powerful economic interests. Those are the interests that want to put powdered bone in your hot dog and hide it, that want to lower the quality of beef but continue to label it choice, that want to jack up sugar prices so that we'll pay over a billion dollars more at the grocery store this year.

"I think it's time to ask that terribly pointed question, are you better off today than you were a year ago. I think the answer is no—not if you're a consumer; not if you're a farmer, and certainly not if you're poor or unemployed."

— Carol Tucker Foreman
Past Assistant Secretary for Food and Commercial Services, USDA

"I think we have a fundamental difference of viewpoint as to what the role of the Federal government is. You see it as one thing, I see it as another. People are certainly better off now than they otherwise would have been had the Reagan Administration not come along."

— Lyng

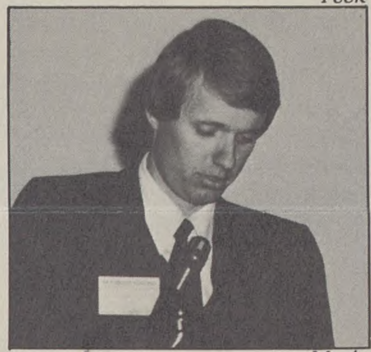
"The burden of a policy that actively supports high unemployment rests disproportionately on the poorest and those least able to defend themselves. Inflation is not the fault of the poor and they shouldn't be asked to try and cure the problem. Yet this Administration is prepared to continue to ask for cuts from the poor.

"When you combine the budget and tax cuts, you find that the almost 63% of households with incomes under $22,900 a year will lose $18 billion in government programs this year. The 6.5% of households with incomes over $47,800 stand to gain $9.2 billion in the year ahead . . . I think its hard to make any kind of defense of these policies as equitable or moral."

— Foreman


Lyng


Peck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National Highway Traffic Safety Administration

An Informed Consumer or A Live One?

In a time of severe government cut-backs, it has been necessary to review and analyze all of NHTSA's programs to determine which among them has been providing significant payoff to the American public and which have not. The question as I see it, is which NHTSA programs are most economical in providing safety and consumer information.

—excerpts from speech by
Raymond Peck
Administrator, NHTSA

"The proposition that information activities are now being undertaken to save lives through seat belt ads and drunk driving study commissions is a gimmick—a diversion—to distract public attention from the destruction of the vehicle safety standards and to temporarily give the agency something to do. The uselessness of their behavior modification programs are illustrated by the fact that they have been tried during past decades by industry and government in the U.S. and abroad and they have been a miserable failure, and by the fact the programs are not even being funded in this Administration.

"But more important than these misleading activities is the determined destruction of the auto safety program. During the past 15 years, 3 programs—built-in auto safety systems, the 55 mph speed limit, and motor cycle helmet laws—have saved 15,000 lives a year and countless injuries. No other public health program has this immediate life saving and injury reducing capability. But the Reagan Administration has opposed all three.

"On safety standards, the most outrageous action was the revocation of the automatic restraint standard which would save 9,000 lives and many thousand of injuries a year when fully implemented. It's okay for the auto industry to regulate the people by refusing to offer air bags for sale; but it's not okay for the government to protect the public welfare."

—Joan Claybrook
Former Administrator, NHTSA

Federal Trade Commission

Economic Science or Political Slight of Hand?

"Consumer groups can learn from the economist . . . To an economist a proposed regulation should be adopted if and only if it will enhance consumer welfare in the long run. How are we to determine this . . . the economist's answer is simply let the consumer decide. A well-functioning market is the best form of consumer protection . . . [it] gives free reign to the enormous diversity of consumer preference. Government interventions that preserve and strengthen market mechanisms tend to protect consumers; those that seek to displace market mechanisms tend to injure consumers."

—Timothy Muris
Director, Bureau of Consumer Protection, FTC


Foreman


Claybrook


Green


Silbergeld

"You have to be very wary of someone who says we have some regulations here that haven't worked so well, and therefore let's go back to letting the marketplace do whatever it chooses to do. The fact is economics are not value free. The fact that regulation will increase a product's shelf cost is the only fact that many economists now need to say 'don't regulate.' But until we learn to take a hard look at these analyses and say wait a minute you haven't even done the analysis right and it's not value free, then we're going to let the kind of assertions that pass for the new economic analysis make the decisions about regulation."

— Mark Silbergeld
Director, Consumer Union, Washington, D.C.

"Chairman Miller of the FTC is in a long line of Reagan appointees who simply don't believe in the mission of their agencies; they don't believe in their agency's history, and they don't believe in their statutory assignment. The FTC should be a consumer cop on the business beat. Their role should be to be skeptical of business abuses instead of, as Chairman Miller has done, to be skeptical of government abuses. If the FTC isn't watching for business abuses who will be?"

—Mark Green
President, Democracy Project

Consumer Product Safety Commission

Voluntary vs. Mandatory

"Congress has directed that voluntary standards are preferable to mandatory standards and that the Commission must work to develop voluntary standards first . . . from now on we will be putting much more effort into trying to persuade industry to take voluntary steps to assure product safety. This is a major change in the way the CPSC does business."

— Nancy Harvey Steorts
Chairman, CPSC

"My real problem with what I've seen at the Commission during the past few months is that there is too much talk about sitting back and waiting for voluntary effort to happen. Too much talk about voluntary effort results in less voluntary effort. The question is whether enough mandatory effort is going to take place at the Commission to constitute an effective incentive for voluntary improvement. To put it another way, what makes for effective, aggressive voluntary efforts? The answer is effective mandatory efforts with respect to those products which pose the greatest risk of potential hazard."

— Mark Silbergeld
Director, Consumers Union
Washington, D.C.

"This Administration has demonstrated a callous disregard for consumer health and safety. After failing to abolish this agency, the Administration supported and obtained major weakening amendments in Congress which will undermine the Commission's ability to save lives and dollars. The CPSC was established because of overwhelming evidence that the public was being subjected to unreasonable and unnecessary injury in the marketplace . . . The situation has not dramatically changed over the past decade."

— Mike Lemov
Attorney, and Author of
Consumer Product Safety Commission: Regulatory Manual

AT&T Settlement—What Does It Mean?

by David Greenberg, Legislative Director

PART II OF A SERIES

The national debate over the future of the telecommunications industry took an unexpected turn on January 8 when the US Department of Justice and AT&T announced a proposed settlement of their seven year old antitrust suit. That consent decree goes far beyond what most observers thought possible: Ma Bell agreed to spin off all 22 of its local operating companies in exchange for unfettered ability to enter new markets and maintain ownership of Western Electric, AT&T Long Lines and Bell Labs.

The unexpected became the bizarre in the ensuing days. First, Antitrust Chief Baxter and AT&T Chairman Brown predicted that this massive divestiture of $80 billion in assets—the very purpose of which is to promote competition—could result in substantial increases in basic local phone rates. Congressman Tim Wirth, in hot pursuit of his proposed rewrite of the 1934 Communicaitons Act, weighed in with a quick prediction that local rates might quadruple as a result of the settlement. Now, in the past week, Baxter and Brown have backed off their statements, proclaiming in congressional hearings that local rates need not increase in real terms. Little wonder that consumers' response to this settlement reflects, overwhelmingly, confusion. This confusion is justified, for the settlement is the beginning of a long, tortuous path to what will hopefully be a competitive communications environment. The agreement itself is really only a preliminary step to the final settlement. A federal judge must still approve the proposed decree. In addition, it now appears likely that Congress will continue to pursue legislation. Participation by consumers in both of these forums is critical if the delicate and complicated remaining issues are to be resolved in consumers' best interests.

While some of the consequences of the settlement are clear—consumers will now purchase long distance phone service separate from local service, they will have a variety of long distance companies to choose from, and they will obtain their telephone equipment from someone other than their local company—many questions remain. Taken together, these questions could mean billions of dollars.

1. Separation and Valuation of Assets

Local companies must transfer employees and equipment that is used "primarily" for long distance services to AT&T. And equipment that is used jointly for local and long distance calls must somehow be divided up. This separation of assets could immediately impact local ratepayers. If expensive, relatively nonproductive assets are left with the operating companies, the local companies will factor those costs into local rates. In addition, the value attached to these divided assets will directly affect rates: If AT&T pays market value to the local companies, rates for basic service will not rise as dramatically as they could if AT&T is allowed to compensate the companies at book value.

2. Telephone Equipment

The simple issue of whether consumers will be able to keep their telephones could also have billion dollar implications. Will AT&T pay your local company for the phones, assume ownership and then re-rent them to you? Or will consumers get credit for the rental fees they pay monthly toward the purchase of the phones.

3. Research

Consumers have by and large underwritten the sophisticated research and development effort at Bell Labs through charges in their local rates. It appears that the consent decree gives the local operating companies no favorable access to the advances in progress at the labs. Accordingly, consumers may in essence pay twice for certain new developments.

In order to address these issues from a consumer point of view, CFA has suggested that the federal district court appoint a consumer expert or panel of consumer representatives to advise the judge on the structure and implementation of the diverstitute plan. In addition, CFA fully supports legisltation introduced by Congressman Ron Mottl

WASHINGTON PERSPECTIVE

(D-OH) to create a National Telecommunications Consumer Board (NTCB) to represent residential telephone consumers before rate-setting and other government bodies. The Board would require no government funds but would instead be financed by voluntary contributions solicited through monthly telephone bills. In this manner, telephone consumers can band together in a democratic organization which will be fully responsive only to their interests.

Despite the confusion surrounding communications, the basic message to telephone consumers is a simple one: Unless the new era of deregulation is accompanied by a renewed commitment to consumer participation, the telecommunications revolution may leave the basic interests of consumers behind.

Consumer Co-op Bank: Alive and Well

The National Cooperative Consumer Bank is alive and well, Co-op President Carol Greenwald told a Consumer Assembly '82 audience, thanks to the support of consumer groups and the tenacity of the Bank's board members who refused to let the Bank die without a fight.

Greenwald said the Reagan Administration's attempt to crush the Co-op Bank is just one example of the new anti-consumer attitude in Washington: "We are witnessing a concerted attack on consumers in this country by the very officials who have sworn to uphold the law and protect consumer interests."

Photo courtesy of Co-op Bank

The Bank's survival was assured when amendments to the budget package were signed into law by the President last December. The legislation transferred control of the Bank from the government to a 15-member Board of Director, 12 of whom will be elected directly by consumer and housing cooperatives.

In her address, Greenwald stressed the unique function that consumer cooperatives can perform by putting into practice some of the ideas that consumer advocates are trying to put into law. "It is very useful," she said, "in the fight for legislation to have living proof that pro-consumer business practices are not antithetical to a profitable business operation." However, Greenwald added, regulation is still needed. "My experience as a banker says that without consumer regulations none of our social goals will be met, because pressures are overwhelmingly in the other direction."

Greenwald concluded with a warning to consumer advocates: "Unless we can prove that a business can put the customer first and still meet business goals, then we may very well loose out in the fight for the minds of Americans.

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