

# CFA news

May/June 1995  
Volume 20, No. 3  
ISSN #0732-8281

## GOP Contract Called 'War On Consumers'

Putting profits before people, the Republican "Contract with America" represents a hidden war on the health and safety of American consumers, Sen. Barbara Boxer (D-CA) warned in a keynote address at CFA's 1995 Consumer Assembly.

"The war on consumers is camouflaged by words like 'deregulation,' 'frivolous lawsuits,' 'common sense,' 'streamlining,' 'reform,' and 'bureaucracy.' It is time to strip away the camouflage and see the truth," she said.

Sen. Boxer singled out for criticism Contract proposals to "reform" the legal system, place a moratorium on new regulations, and overhaul the regulatory process.

The Republican's proposal to cap punitive damage awards in product liability cases, for example, would put consumers "at great risk" by removing "a major incentive to manufacturers to hold their products to the highest standard of safety," she said.

"What kind of punishment is slapping someone who makes a million dollars a year with a one dollar fine? No punishment at all. That's about what \$250,000 means to a multi-billion dollar corporation, yet that's what the punitive cap is, and it's already passed the House," she said.

Sen. Boxer also criticized the Republicans for proposing to give "total immunity from punitive damages to those who gain FDA approval for their product" while simultaneously attempting to weaken the FDA's authority.

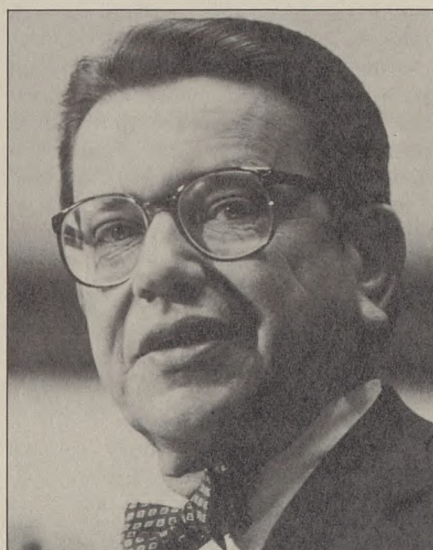
"What a frightening combination that is — FDA approval exempts a company from punishment while the FDA is made impotent by budget cuts, strong-armed tactics, and perhaps even privatization," she said.

In the area of securities fraud lawsuits, the Republicans have given "new meaning to the phrase ignorance is bliss" by proposing to require plaintiffs to prove that defendants knowingly engaged in fraud, Boxer said. Furthermore, she said, the legislation's "loser pays" rules "would restrict access to the courtroom to those who can afford to walk through its doors with a blank check."

### Regulatory 'Reform' Would Benefit Special Interests, Harm Consumers

"Before the Senate even gets to these legal reforms, the House has asked us to take up a sloppy and dangerous deregulation bill that they passed," Sen. Boxer said.

"This so-called regulatory reform is not about . . . making our regulations more effective or having our agencies better



Sen. Paul Simon (D-IL) and Sen. Barbara Boxer (D-CA) critiqued the Republican "Contract with America."



serve the health and safety of our people. It's about bringing down the entire safety infrastructure," she said. "This is about making life a lot easier for a powerful few and forcing the rest of us to live or . . . die by the consequences."

"If there are regulations in need of fine-tuning, let's do it. Let's fix the system, not destroy it," Sen. Boxer said.

"The truth is this," she added. "Not one thing in their contract makes our air healthier, our water cleaner, or our products safer. In fact, if they win this hidden war, our air will be dirtier, our water polluted, our food supply and our toys more dangerous, and our pharmaceuticals and cars riskier."

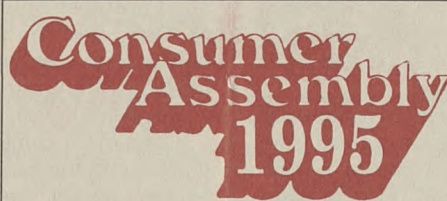
Sen. Boxer called on consumer advocates to help her expose the Contract for what it is — a "mean-spirited, misguided, and misdirected assault on the American consumer."

Those sentiments were echoed by Sen. Paul Simon (D-IL) in another keynote address at the conference.

"Is there too much regulation? In some cases there is. But the way to deal with it is regulation by regulation. These meat-axe approaches don't make sense," he said.

Similarly, he said, that, while changes in the product liability system may be desirable, "the tort reform that we're talking about now is not in the interest of the consumers of this nation."

Sen. Simon has parted with many in his party, however, by supporting one major plank in the Contract — the Balanced Budget Amendment.



The federal government is currently spending \$339 billion annually in interest on the debt, he said, noting that this is 11 times what we spend on educa-

tion, 22 times what we spend on foreign aid, and twice as much as we spend on all poverty programs combined. "That just doesn't make sense," he said.

### GOP Budget Cutting Priorities Misplaced

Simon said, however, that, while he supports the Balanced Budget Amendment, he does not support the bulk of the Republicans' proposals for cutting spending to achieve that goal.

In the \$17 billion rescissions bill, for example, 65 percent of the cuts come from programs to benefit low-income people, despite the fact that these programs make up only 12 percent of non-entitlement federal spending, he said. Meanwhile, defense spending continues to be "a sacred cow," he said.

"When you cut funds to people in need, you save money in the short term, not in the long run," Sen. Simon said.

One reason poor people and children are being targeted for cuts is their inability to win political influence through large campaign contributions, he said. "We as a body are responsive to those who finance our campaigns to much too great a degree. I'm afraid that much of what is happening today in Congress reflects the way we finance our campaigns," Sen. Simon said.

### Contract Would Increase Poverty

Welfare reform and budget-cutting proposals in the Contract, will "jack up poverty rates in frightening ways" if they are enacted, said Cindy Mann, Senior Policy Analyst with the Center on Budget and Policy Priorities.

Speaking in a general session panel discussion of "The Contract with America and the Safety Net for the Poor," Mann said that, in the name of increasing flexibility to states through the use of block grants, the Republican proposals actually risk losing the flexibility that a federal-state partnership has provided.

Shared federal and state financing of entitlement programs has "allowed benefits not to be cut at times when people are most at need and when states are least able to pick up the extra costs," such as during recessions and economic downturns, she said. With block grants, which provide a set amount, that flexibility is lost, she added.

Some programs, such as cash and food assistance for minimal, basic needs, "are essential to retain on entitlement status if you are truly going to have a safety net," she said. "If you remove that entitlement status, the safety net may or may not be there."

Furthermore, capping block grant funding with too low a growth rate will place "an enormous squeeze on states to cut back," she said. This is exacerbated by the Republicans' budget cutting priorities, which target programs that serve the poor, she said.

### Programs To Aid Poor Need Overhaul

Patrick Fagan, Senior Policy Analyst with The Heritage Foundation, countered that "the well-intentioned programs of the War on Poverty" and subsequent programs to help the poor "have failed. And, because they have failed, there is a need for another look, and, I think, a major overhaul."

"Two major things that are going wrong, and that are not being addressed by liberals" in their defense of the current system, are the break-up of the family and the growing long-term dependency by the poor on entitlement programs, Fagan said.

While poverty rates have stayed relatively stable since the mid-60s among intact families, poverty has increased among the growing number of broken families, driving an overall increase in the poverty rate, he said. "There is

(Continued on page 2)

## Will Further Deregulation Benefit Consumers?

Consumers will benefit from further deregulation in the telecommunications, electricity, and natural gas industries, said economist Alfred Kahn in a general session debate that was jointly sponsored with the American Council on Consumer Interests.

CFA Research Director Mark Cooper was less optimistic, arguing that whether consumers benefit will depend on "whether deregulation actually gives us competition or just theories of competition."

Kahn, who is Robert Julius Thorne Professor of Political Economy Emeritus at Cornell University, said that competition is better suited than regulation to the development of new technologies. Consumers also will benefit because, in a competitive market, shareholders, rather than ratepayers, will bear the costs of industry mistakes, he said.

Kahn acknowledged, however, that deregulation of utilities will be "complicated." "There remain elements of natural monopoly" which will continue to require direct regulation "to protect captive customers and to ensure the conditions of competition aren't thwarted," he said.

Deregulation in these areas is made more difficult by the question of what happens to basic rates, which "have been systematically subsidized for years. Those subsidies cannot survive the onset of competition," Kahn said.

"It makes no sense to subsidize access so long as the costs are well within the reach of the vast majority of consumers," he added.

"The risks and rewards of deregulation are a lot more balanced" than most advocates of deregulation would have us believe, and it requires a much more

cautious, systematic approach to deregulation than is generally advocated for consumers to reap those benefits, Cooper countered.

Rather than simply opposing deregulation, however, consumers should work to ensure that it is implemented correctly, he said.

That means, for example, making sure consumers receive the benefits of the local loop in telecommunications, the grid in electricity, and the pipeline in natural gas, since they paid for them through rates, he said.

If the incumbents are allowed to retain the benefits of that "franchise wealth," then "we will simply transfer wealth from residential rate payers to large business customers . . . and to shareholders," he said.

Among the many factors that must be dealt with are allocation of common costs, non-discriminatory access of competitors

to the rights of way, and stranded investments, he said.

"I stress the negatives and downsides for a simple reason," Cooper said. "Nobody else does. Deregulators presume that deregulation is viable. But real competition is hard to come by, and premature deregulation hurts consumers."

"If there is deregulation without competition, the consumer gets the worst of both worlds, neither effective competition, nor effective regulation," he said. "What we don't want to do is trade a regulated monopoly for an unregulated one."

On the general principles that should govern deregulation, "we are very, very close together," Kahn said.

Although every precaution should be taken, he added, "you've got to be willing to take some risks. If you're going to wait for perfect competition . . . you're going to wait a long, long time."

### 'War On Consumers' *Continued from page 1*

something going wrong there. That's the part that has to be tackled."

Contract proposals to move people from welfare to work, to cap the length of time individuals can remain on welfare, and to deny benefits to teenagers who have children are all designed to attack the intertwined problems of long-term dependency and broken families, he said, though he noted that most of these provisions in the Contract had already "been gutted."

Fagan noted that, where states have instituted a work requirement as part of their welfare program, they have seen immediate, dramatic drops in the welfare rolls. This clearly indicates that a significant portion of the people currently on welfare could be working, he said.

"I'm comfortable with entitlements, but I get uncomfortable when rights don't also have responsibilities," Fagan said. "We need to get beyond, 'some are for the poor, and some are against.' We have complex problems, and we have to solve them."

"There is much to be done in improving what we do" to assist the poor in this country, agreed Consumers Union President Rhoda Karpatkin, but the approach taken by the Republicans in the Contract is harmful rather than helpful, she said.

Because a free-market economy will never provide full employment, "there will always be a portion of people in need," and there will always be a need for a safety net that includes entitlement programs, she said.

If you really want to help move people out of poverty, you must first "get as many people working as is possible," Karpatkin said. "When the economy doesn't create the jobs, you need a real jobs program for everyone who is able to work." That, in turn, must be backed up by a "job training program, real honest to goodness day care facilities, and a national health care program," none of which is provided for in the Contract, she said.

"You prevent and end poverty by mitigating its effects through help programs. That's the only war on poverty that can be won," Karpatkin said.

### Contract's Cost-Benefit Proposals Debated

In a general session discussion on "Should Cost-Benefit Tests Be Applied to

Health and Safety Regulations?" which was jointly sponsored with the American Council on Consumer Interests, American Enterprise Institute Resident Scholar Robert W. Hahn made the case for an increased use of cost-benefit analysis in the federal regulatory process, as is proposed in the Contract.

"It is important for Congress, when it passes a law, to consider what the impacts are going to be on the American public," he said. "Cost-benefit analysis is a way of making bureaucrats and legislators more accountable."

While many of the early environmental regulations — such as removing lead from gasoline — would have passed a cost-benefit analysis, Hahn said, "in many cases — not all — we're chasing after smaller and smaller risks at increasing cost."

This diverts resources away from other, possibly more important, priorities, such as education, he said.

Regulations "are not free," Hahn noted. "The bottom line is that . . . somebody in society is going to pay, either in higher prices, lower wages, or lower returns on

their investments."

While cost-benefit analysis is not "a machine that should wholly replace human judgment," the alternative, he said, is to "have bureaucrats and politicians make decisions without explaining the basis of their decisions."

While agreeing that we need "more of a dose of economic logic" in our regulations, Robert Mayer, Professor of Family and Consumer Studies at the University of Utah, said the highly complex and burdensome cost-benefit procedures proposed in the Contract "would not pass a cost-benefit test."

"Costs often come out of one person's pocket, and the benefits go into another person's pocket," he noted. "Cost-benefit analysis can highlight distribution issues, but it can't resolve them."

The Republican proposal is not designed to make regulations more cost-effective, argued Mark Silbergeld, Co-Director of Consumers Union-Washington Office. "What is basically a good idea . . . has gotten in the hands of politicians."

By making the procedures so complex,

and by making the process judicially reviewable at each stage, the Republicans pushing the proposal are hoping "to discourage the agencies from producing many regulations at all — just less, without regard to which regulations don't get written," he said.

Furthermore, cost-benefit analysis is, at best, an inexact science, he said, and often, the benefits, such as health care costs that are avoided, are impossible to measure.

"We tend to ignore the benefits by doing what economists call externalizing them," he said. "I have a problem with not treating those costs as part of the process."

"Specific problems with specific laws and specific groups of regulations that enforce them need to be looked at specifically," Silbergeld added. "Instead, what we're doing is firing a cannon into the side of the ship."

Contract proposals on product liability and securities litigation reform were also discussed in a break-out session panel on "Liability Reform."

## Financial Services Agenda Outlined

A panel on "Consumer Policy Priorities in Financial Services" outlined a full and varied consumer agenda in the areas of insurance, banking, real estate, and securities.

In insurance and real estate, the primary goal is to make the market more competitive, said J. Robert Hunter, Director of Insurance for CFA, and Paul Roark, Senior Attorney with the Federal Trade Commission.

"We need real competition or real regulation — not this quasi-regulation," Hunter said. "You can't have an unregulated cartel."

Hunter outlined the following steps necessary to achieve competition in the insurance industry: repeal of the federal McCarran-Ferguson Act or the state anti-trust exemptions; repeal of state laws that prohibit agents from competing with one another by cutting commissions; repeal of laws that prohibit groups from forming to buy auto or homeowner's insurance; and improvement in consumer informa-

tion, including publication of price and service information and underwriting guidelines.

In real estate, there is the appearance of competition, because of the large number of brokers, but competition is stifled by the existence of a single multiple listing service, Roark said.

To achieve real competition, a competing system to the MLS is needed, he said. Also needed is increased buyer agency to separate representation of buyers and sellers, he said.

In banking, the legislative agenda is largely defensive, said Michelle Meier, Counsel for Government Affairs for Consumers Union.

A whole host of consumer banking laws are under attack in the current Congress, including Truth-in-Lending, Truth-in-Savings, the Community Reinvestment Act, and the Electronic Funds Transfer Act, Meier said.

Consumer advocates need to alert consumers to the fact that laws they have come to rely upon are being targeted for extinction or for significant weakening, she

said. It is also the job of consumer advocates to clarify for policy makers the benefits of these laws in protecting both consumers and the free-market economy and to identify areas where consumer protection laws can be streamlined and modernized, she said.

The most pressing legislative priority in the investor protection area is defending against legislation that would make it all but impossible for defrauded investors to obtain redress, said CFA's Director of Investor Protection Barbara Roper.

In addition, because there will likely be no significant pro-investor legislation in this Congress, advocates have an opportunity to conduct the kind of long overdue consumer analysis of the securities industry that has already been conducted in the real estate, insurance, and banking industries, she said. Based on that analysis, they can prepare a positive agenda to be implemented when the political pendulum swings back in the other direction, she said.

# Cost-Effective Safety Is CPSC's Priority

Republican regulatory reform and budget cutting proposals may slow, but will not stop, the Consumer Product Safety Commission from attaining its goal of reducing deaths and injuries, CPSC Chairman Ann Brown said in a keynote address which was jointly sponsored with the American Council on Consumer Interests.

"We did not have to wait for a so-called revolution to minimize burdensome bureaucracy and maximize accomplishments," she said. Before the Republicans ever took control of Congress, Brown said, she had become "very familiar with striking a balance between regulation that is necessary, and the faster, cheaper alternatives that also protect the public."

Faced with a very limited budget and realizing that the regulatory process is time-consuming and expensive, Brown said she determined from the outset to do as much as possible through voluntary and cooperative initiatives with industry.

She cited as examples voluntary efforts with industry to prevent children from strangling in the loops of window blind cords and on drawstrings on the hoods and necks of children's clothing.

"Instead of taking years to regulate product modifications, CPSC worked with these industries to make life-saving changes in a matter of months," she said.

However, Brown added, "While I prefer to have industry work with us voluntarily, I will not hesitate to go the mandatory route when necessary."

"We have become a streamlined, proactive, highly visible player in consumer product safety," Brown said. "We will continue our efforts at efficient, effective, common sense government."

## Can Markets Regulate Better Than Regulators?

John Stossel, a Correspondent with ABC-TV's 20/20, said that during 25 years as a consumer reporter he had reached the conclusion that markets often resolve problems better than regulators.

Stossel stopped short of saying that the market could resolve "serious problems that affect health and safety." He added, however,



CPSC Chairman Ann Brown said the agency would continue to pursue cost-effective strategies to save lives and prevent injuries.

that even for health and safety regulations, one must ask "whether they really make life safer," or whether, by interfering with the marketplace, they "create distortions" that also impose health and safety costs.

He cited as an example regulations that made football helmets safer but that drove up the cost so high that they put helmets out of the reach of lower income consumers.

Similarly, he noted that, while people are grateful to the Food and Drug Administration for keeping thalidomide out of the American marketplace, they fail to calculate the lives lost when FDA fails to approve or is slow in approving a beneficial drug.

"We don't know who might have been saved," Stossel said. "Meantime, people are dying. Don't we have to think about those people too?"

Suggesting that the FDA, for example, could be an information agency rather than a "police agency" keeping products off the market, Stossel said, "We can allow people to protect themselves. That's more compatible with freedom."

As long as the antitrust laws are enforced and competition exists, markets can work to protect consumers, he said.

Such a system relies on a free flow of accurate information, Stossel noted, criticizing his consumer reporter colleagues for not putting anything into perspective and instead running "breathlessly from scare to scare."

Instead of focusing on "interesting" and "mysterious" ways in which people die, reporters should rate hazards by how many years they take off the average lifetime and focus their attention on those that pose the greatest threat of lost life, he said.

"If you scare people about all the little stuff, then you can't concentrate on the big stuff," he noted.

Stossel added that, on these terms, poverty is one of the most significant threats to health and safety. To the degree that regulations cost jobs, they "may make America a little poorer, and that shortens lives."

## Imperfect Markets Make Regulation Necessary

R. David Pittle, Technical Director of Consumers Union, joined Stossel in criticizing consumer reporters for focusing on the sensational rather than the truly serious hazards, but he rejected Stossel's claim that the market could replace regulation.

"Markets may be quick and efficient, but on problems dealing with health, safety, and the environment, they too often fail to work satisfactorily without an outside boost," Pittle said.

"No one but the most naive ideologue believes that the market in real life always works in perfect fashion," he added. "Perfect markets require perfect information, and we know the market does not supply it. And in too many situations, information alone does not do the job."

"I don't want to leave the impression that every risk can or should be regulated," he added. "I recognize that, just because markets operate imperfectly, it does not follow that regulation solves all market failures. We know that regulation sometimes operates in less than perfect fashion as well."

"We must choose between imperfect markets and imperfect regulation — an incredibly difficult task that is rarely sexy or newsworthy — but the decision is critical if we are to solve the nation's health and safety problems," Pittle said.

"We need journalists with the commitment to help the public and the Congress understand fully the many complicated trade-offs inherent in regulating risks," he concluded.

## Product Safety Priorities

In a workshop on "Consumer Product Safety Priorities," advocates outlined what they view as the top issues on the horizon in the areas of nutrition, food safety, motor vehicle safety, and household safety.

Poor diet and lack of exercise account for between 310,000 and 580,000 deaths in the United States each year, with causes ranging from obesity to colon cancer, said Michael F. Jacobson, Executive Director of the Center for Science in the Public Interest. A concerted effort, similar to the anti-smoking campaign, needs to be launched to better educate Americans about the need to change their diets and to provide them with useful diet information, he said.

Each year, millions of people get sick, and thousands die as a result of food-borne illnesses, said Carol Tucker Foreman, President of Foreman & Heidepriem, Inc. The current food inspection system is outmoded and desperately needs to be updated, she said.

Despite widespread bipartisan support for auto safety issues, auto safety protections are also threatened in the new, anti-regulatory environment, said Judith Lee Stone, Executive Director of Advocates for Highway and Auto Safety.

Recently, for example, NHTSA proposed an information label instead of a stability standard to deal with rollover hazards; side impact rules will not go forward if a regulatory moratorium is enacted; legislation has been introduced to repeal the 21 minimum drinking age; and the provisions promoting passage of mandatory motorcycle helmet use laws are once again under attack, she said.

Among the priorities for CPSC action in the near future, according to CFA General Counsel Mary Ellen Fise, are: completion of the current rule-making to update the Poison Prevention Packaging Act to make packaging easier for adults to open without reducing its child resistance; a study of home electrical system fires, which cost about \$2.2 billion annually; and greater education about the dangers posed by the hundreds of thousands of older cribs that are still in use and that don't meet current safety standards.



**CONSUMER FEDERATION OF AMERICA**  
1424 16th Street, N.W., Washington, D.C. 20036  
(202) 387-6121

- President:** Jean Ann Fox
- Chairman:** Sen. Howard M. Metzenbaum
- Executive Director:** Stephen Brobeck
- Associate Director:** Ann Lower
- General Counsel:** Mary Ellen Fise
- Research Director:** Mark Cooper
- Public Affairs Director:** Jack Gillis
- Health and Safety Coordinator:** Diana Neidle
- Telecommunications Director:** Bradley Stillman
- Senior Projects Director:** Mary Ponder
- Legislative Representative:** Mern Horan
- Conference Manager:** Adele Ellis
- Director of Development:** Jodi Shulimson
- Administrator:** Miguel Carpio
- Executive Assistant:** Lydia Grogan
- Indoor Air Coordinator:** Katherine Hanemann
- Administrative Assistant:** Matthew Gordon
- Assistant to the Chairman:** Regina Ravetti
- Office Assistant:** Milena Carpio
- CFAs Insurance Group**
- Director of Insurance:** J. Robert Hunter
- Life Insurance Actuary:** James H. Hunt
- Insurance Counsel:** Kathleen O'Reilly
- CFAnews Editor:** Barbara Roper

CFAnews is published eight times a year. Annual subscription rate is \$25 per year.

© Copyright 1995 by Consumer Federation of America. CFA should be credited for all material. All Rights Reserved.

Design & Typeset by: Dahlman/Middour Design

# Financial Crimes Need Attention

Financial crime is a serious and increasingly sophisticated problem that requires a coordinated response, agreed a group of panelists speaking on "New Consumer Frauds."

"Street crime is serious, but economic crime is just as serious," said G. W. "Bill" McDonald, Chair of the Enforcement Policy Committee of the North American Securities Administrators Association.

Emphasizing the need for states to work together as a network and for various types of regulators to join forces, McDonald said, "White collar crime is one big enchilada, and we can't afford to compartmentalize it."

Jonathan J. Rusch, Senior Litigation Counsel in the Fraud Section of the U.S. Department of Justice, made a similar point in discussing telemarketing fraud. Telemarketing has expanded over the last few years, and the market is now more conducive to both legitimate and non-legitimate telemarketers, Rusch said.

The problem requires sustained attention and cooperation between agencies at

all levels — federal, state, and local, he said.

Walter Dartland, Executive Director of Consumer Fraud Watch, also advocated a coalition approach — this time between industry, regulators, and consumer advocates — to deal with insurance fraud.

Steven A. Taterka, a Tennessee Assistant Attorney General, discussed a number of auto fraud problems, including auto repair, advertising, sales, leasing, and lemon law frauds.

To address both the problem of wrecks being salvaged and resold and lemons being reassumed and resold as used cars, a national law is needed to require automobile titles to disclose this information, he said.

So-called "lemon laundering" was also discussed in a panel on "New Grassroots Consumer Initiatives." Rosemary Shahan, President of Motor Voters, said her group is working to publicize and eliminate this practice, while fending off industry efforts to weaken the current state lemon law.

Susan Weinstock, Utilities Issues Team-leader for the American Association of

Retired Persons, said telecommunications issues are dominating the utilities issues. In addition to fighting efforts to deregulate local phone companies before effective competition is in place, AARP is also focusing on the recent rise in service quality problems, she said.

John Hildreth, Director of Consumers Union's Southwest Office, discussed that organization's efforts to win passage of single payer health care legislation in New Mexico during the last legislative session.

Although 70 percent of the population favors a single-payer system, a coalition of business and profession groups was able to defeat the proposal through a sophisticated and well-funded grassroots and media campaign, he said.

Deirdre Cummings of Massachusetts Public Interest Research Group said her group has chosen to work on non-legislative strategies in the area of playground safety. Instead of fighting for legislation, PIRG serves as a resource to parents and communities that want to build safe playgrounds, she said.

## New Direction for the Consumer Movement

The context of the consumer movement has changed dramatically over the last half century, and the consumer movement must respond to those changes by taking a new direction, said John Kenneth Galbraith in a keynote address that was jointly sponsored with the American Council on Consumer Interests.

Galbraith, who is Paul M. Warburg Professor of Economics Emeritus at Harvard University, presented the Esther Peterson Consumer Policy Forum lecture on "Esther Peterson and the Consumer Over Time."

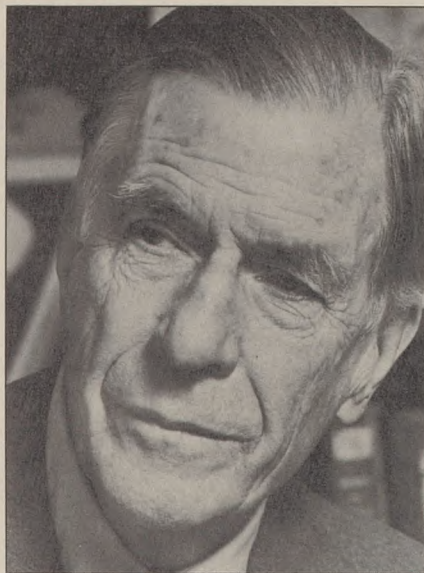
"The situation of the consumer into which Esther Peterson ventured a half century back and more was very different from what we know today," Galbraith said.

"This early world was one of great and greatly uninhibited producer power to which the consumer public was held hostage by a narrow and pressing living standard," he explained.

"If people have little choice as to what they buy — if they are compelled in their purchases by need — then there is an evident opportunity for their exploitation, exploitation both as to price and as to quality or reliability of product," he said. "It was this situation — this maldistribution of power — which brought the consumer movement into being."

### Consumer Movement Helped Balance Producer Power

In addition to balancing producer power with "the organized and informed power



Economist John Kenneth Galbraith called on consumer advocates to make a new commitment to helping the poor.

of the consumer," the movement helped win government action, not least in the area of antitrust enforcement, he said.

"To this was added the consumer cooperative — the obvious design for countering producer power with consumer power. And, further, there was the important, even decisive effort to inform consumers as to their interest and as to the manner in which that interest was invaded, abused," he said.

But much has changed since those early days of the consumer movement, partly

as a result of the efforts of the movement, but also as a result of the increased financial well-being of the population, the increase of internationalization in economic life, and institutional changes, such as the rise of powerful retail firms, all of which have decreased producer power, he said.

With greater affluence comes "a wider range of goods and services, more alternatives and a greater freedom of choice," he said. "Adverse producer power on one product may mean, merely, a freedom to turn to another."

Similarly, adverse producer power today invites competition from a host of foreign countries, which has "had a notable consumer reward," he said.

And powerful retail firms, while they "are not without a tendency to misinform" and thus require consumer attention, act "in no small part as a countervailing power to the producer interest," he said.

### New Conditions Create New Challenges

Another development resulting from the increase in consumer well-being has been "the enormous development of advertising and the advertising industry," he said.

"Advertising comes when people are released from hard compulsion and allowed freedom of choice. The greater that freedom of choice, the greater the persuasive effort and expenditure that follow," he explained.

As a result, truth in advertising is an important priority for the modern day consumer movement, he said, since "the natural result of freedom of choice is freedom to be bilked."

In addition, the consumer movement must continue to "ensure information and restraining government action" in such areas as defective toys, defective automobiles, cigarettes, and medicinal drugs where there are "personally and socially damaging effects to be watched and presented."

"The good society must be alert to such potential for damage and death," he said.

Alluding to current "tort reform" legislation, Galbraith added that there should be no "restraint on legal process to protect from producer error or public misinformation."

Finally, Galbraith said that, while consumer action may have become less important for the affluent, it "remains of immediate urgency for the poor — for those who do not enjoy the broad protection from exploitation that income and choice accord."

"This strongly suggests a new direction which, I now urge, the consumer movement must take," Galbraith said. "That is to lessen the constraint that poverty now enforces on consumption."

"Nothing is now more under attack than the safety nets that protect the poorest of our people — protect, however modestly, their position as consumers. Let the consumer movement speak strongly and effectively for those who are unable to consume," he concluded.

## Consumer Cooperatives Play Important Economic Role

Consumer cooperatives can fill important gaps in the economy, providing goods and services that consumers want and need but that are being neglected by traditional firms, agreed participants in a panel on "The Promise and Challenges of Consumer Cooperatives."

More than 100 million Americans belong to consumer cooperatives, noted Paul Hazen, Vice President of Membership Services of the National Cooperative Business Association. Coops provide a huge variety of goods and services, from housing to car insurance to medical care to Internet access, he said.

Coops are simply a form of ownership with no inherent advantages or disadvantages, said Terry Simonette, President of the National Cooperative Bank Development Corporation. They work when consumers don't have access to the goods or services they want or need.

Outlining a number of rules that coops must follow to be successful, Simonette said, "If you can't do it cheaper or better, don't do it. 'Just as well' is not worth anything."

One of the most important contributions of the coop movement, said James Grahl, Past-General Manager of the Basin Electric Power Cooperative, has been in the electrification of rural America.

In 1935, when President Roosevelt issued the order to electrify the rural communities, the electric industry opposed the effort, he said. Coops sprung up to fill the gap.

In addition to the benefits they brought to rural areas, these non-profit coops created competition that has helped bring down prices in cities served by electric companies, Grahl said. They have also often led the way in worker safety and environmental protection efforts, he said.

An expanding opportunity for coop participation is the area of low income community development through the newly created federal Community Development Financial Institutions Fund, said David C. Rice, Fiscal and Administrative Officer for the fund.

Community development credit unions worked hard to help create this program, which provides loans, grants, training, and equity investments to institutions that promote community development in areas under-served by traditional banks, Rice said. The institutions must provide matching funds, he said.

"There are many ways to bring about economic development in low-income communities. CDFIF is one way," he said.

BULK RATE  
U.S. POSTAGE  
PAID  
WASHINGTON, DC  
PERMIT NO. 8772

CFAnews

Consumer Federation of America  
1424 16th Street, N.W. • Washington, D.C. 20036 • (202) 387-6121

