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TEN WAYS CONGRESS CAN HELP THE U.S. CONSUMER

INTRODUCTION

Congress designated the week of April 23 as "National Consumers Week" to focus attention on issues affecting U.S. consumers. Lawmakers no doubt will hear proposals during the week from "consumer interest" groups urging new regulations that will increase the cost of products and restrict consumer choice. Policy reforms that would directly benefit consumers, on the other hand, likely will receive little attention from these advocates.

If Congress really wants to help American consumers, it should focus on policies that do at least three things. First, true pro-consumer policies should promote the sale of goods to consumers at the lowest possible price. Government mandates that push up prices are inherently anti-consumer. Second, pro-consumer policies should stimulate the maximum choice among brands and varieties of goods, and permit the easy introduction of new goods into the market. And third, pro-consumer policies should allow consumers themselves, rather than government regulations, to determine what goods and services are produced and sold. Each consumer votes with his or her dollars.

Reducing Consumer Power. Contrary to claims of most "consumer interest" groups, more consumers are harmed by government restrictions on the market than by unethical business practices. When a business in a strongly competitive market fails to meet the demands of its customers, it loses money and eventually shuts down. Consumer "protection" by the government, on the other hand, often provides few discernible benefits while adding to the consumer's costs and limiting the availability of goods and services. When the government tries to control the market, inevitably it reduces the market power of the consumer.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

HOW TO INCREASE CONSUMER CHOICE

During National Consumers Week, lawmakers should focus on actions that will promote higher living standards by giving American consumers the maximum possible degree of choice. Among the steps Congress should consider:

1) Remove tariffs and quota restrictions on imports.

Restrictions on importation of foreign goods perhaps are the most anti-consumer policies mandated by the federal government. About one-quarter of all goods imported into the United States are subject to trade restrictions. Tariffs, which are explicit taxes on imported goods, are being replaced by federally imposed quota limits on imports of such products as automobiles, steel, and computer chips. These quotas are merely hidden taxes, however, limiting consumer choice and driving up costs.

The government usually imposes restrictions in reaction to political pressure from particular industries or labor unions seeking protection from foreign competition. Free from such competition, they can charge higher prices, sell lower quality products, and pay less attention to their customer, since consumers are less able to acquire substitute foreign goods.

$1,100 Price Hike. Specific trade restrictions add to the costs of specific consumer products. For example, "voluntary" limits on auto imports from Japan raised the consumer price of each Japanese car by between $940 to $1,100. Moreover, this hidden tax on consumers and foreign cars simply allowed domestic producers to raise prices. According to the Congressional Budget Office, the quotas increased the average domestic car prices by $310 in 1983 and $430 in 1984.[1]

A typical American family of four now pays between $1,500 and $2,000 each year for trade barriers designed to help special interest producer groups at the expense of consumers. The total annual costs imposed on consumers by import restrictions can be considerable. Examples (1986 costs): textiles and apparel, $27 billion; petroleum, $6.9 billion; steel, $6.8 billion; automobiles, $5.8 billion; dairy products, $5.5 billion; meat, $1.8 billion; sugar, $930 million.[2]

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1 Congressional Budget Office, "Has Trade Protectionism Revitalized Domestic Industries?" November 1986, p. 88.
2 Gary Hufbauer, *et al., Trade Protection in the United States: 31 Case Studies*, (Washington,D.C.: Institute for International Economics, 1986.)

Worse still, the burden of trade restrictions tends to be heaviest on the poorest families. Notes Representative Thomas DeLay, the Texas Republican, "For a family making $50,000 a year, protectionism costs about 2.7 percent of their income. But it takes away a whopping 32 percent of the purchasing power of the family that is just at or above the poverty level."[3]

Trade protectionism is the federal government policy that inflicts the most direct and costly harm on U.S. consumers. Eliminating import restrictions thus should be a major task of consumer advocates and legislators who wish to serve the interests of consumers.

2) Repeal the Corporate Average Fuel Economy standards.

The Corporate Average Fuel Economy (CAFE) standards require automakers to raise the overall fuel economy of their fleet of automobiles. To meet the CAFE standards, automakers are forced to increase production of smaller, more fuel efficient models, in spite of strong consumer demand for larger cars.

CAFE standards are a bad bargain for consumers. Not only do they discourage production of larger cars and add to their cost, the standards also have reduced the overall safety of automobiles. The reason for this simply is that smaller cars are less safe than larger cars. According to the Highway Loss Data Institute, a non-profit organization associated with the insurance industry, the average injury rate for small cars (compared with a base average for all cars of 100) is 125.8; for medium-sized cars, the average is 94.2; and for large cars, 68.1. Therefore small cars are almost twice as dangerous as large cars.

Thousands of Lost Lives. Thus a federal program that increases the number of small cars on the road will also increase the number of fatalities. Robert Crandall, senior fellow at the Brookings Institution, estimates that raising the CAFE standard to 27.5 miles per gallon (mpg) from its current 26.5 mpg, as Secretary of Transportation Samuel Skinner is considering, would increase occupant fatalities by some 14 percent to 27 percent.[4] This translates into thousands of lives lost because consumers are forced to drive cars smaller than they otherwise would have chosen.

CAFE standards not only limit supply and raise costs for larger models for consumers. They cause more injuries and deaths on the highways. The CAFE standards should be abolished.

3 Claude E. Barfield and John H. Makin, eds., *Trade Policy and U.S. Competitiveness*, (Washington, D.C.: American Enterprise Institute, 1987), p. 6.
4 Robert Crandall, Testimony before the National Highway Traffic Safety Administration, September 14, 1988.

3) Repeal the Glass-Steagall Act, which separates commercial and investment banking.

Under the Glass-Steagall Act of 1933, banks are divided into commercial banks, which take deposits and make loans, and investment banks, which purchase new issues of stocks and bonds and sell them to investors. The Act prohibits commercial banks from purchasing, trading, or underwriting non-government securities for their own accounts. It also precludes investment banks from accepting deposits.

Obsolete Law. Yet according to the Consumer Bankers Association (CBA), a non-profit organization which represents the retail banking industry, "changed demographics and technological advances have reshaped the marketplace, making obsolete the constraints of current law. Perhaps even more troublesome, the regulatory structure designed to protect and serve the consumers of all types of financial products and services no longer does either."[5] A recent General Accounting Office (GAO) report bears out CBA claims. The GAO notes that repeal of the Glass-Steagall Act would create greater competition in the banking industry, reducing prices charged to businesses and households and increasing the range of available services.[6]

Increased competition among financial institutions would provide consumers with lower cost loans and improved banking services. The Glass-Steagall Act should be repealed.

4) Repeal the McFadden Act, which limits interstate banking.

Most businesses, from grocery store chains to automobile manufacturers, are free to operate outlets or factories anywhere in the U.S. Not so for banks. The McFadden Act of 1927 and the Bank Holding Act of 1956 place severe restrictions on both interstate and intrastate banking. For example, states are permitted by the law to restrict or even ban more than one branch of a particular bank. Further, to operate in another state, a bank, through a holding company, must receive that state's approval. Most states severely restrict or even prohibit interstate banking. The effect of these branching restrictions has been to reduce competition for banking services and thus to deny choice to consumers.

Restrictions on interstate banking were intended to bring stability to the banking system. Instead these barriers actually threaten the soundness of banks, particularly in a region heavily dependent on some single industry, such as farming or energy. For example, two-thirds of the 136 banks that failed in 1986 were located in the Kansas City and Dallas Federal Reserve districts, one a farm area, the other an energy-dependent region. Had these

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5 Testimony by James D. Rhod representing the CBA, before the Commerce, Consumer and Monetary Affairs Subcommittee of the House of Representatives Committee on Government Operations, September 18, 1986.
6 General Accounting Office, "Banking Powers: Issues Related to the Repeal of the Glass-Steagall Act," January 1988.

banks been able to operate branches in other states, businesses in healthier regions of the country no doubt would have offset losses in these depressed economies. The banks might not have collapsed.

The McFadden Act and provisions of the Bank Holding Company Act discourage healthy diversification in banking and deny choice to the consumer. These restrictions should be repealed.

5) Lift the ban on telephone companies' providing cable television service.

Federal government restrictions on cable television for many years resulted in poor service or no service at all for millions of consumers. In recent years, the agency regulating the communications industry, the Federal Communications Commission, (FCC), has loosened its grip on cable, but in many cases local governments have introduced their own restrictions on the market – an exclusive franchise to a single company which becomes the *de facto* monopoly provider of cable to that city's residents.

Cable's monopoly status has had the expected drawbacks: poor quality, high prices, and inadequate consumer choice. City administrators treat cable TV franchises as a rich source of revenue through the sale of franchises, while cable companies enjoy the obvious benefits of a government-enforced monopoly which keeps out competitors.

Last July, the FCC tentatively proposed lifting the current ban on the right of local telephone companies to provide cable television service. Allowing telephone companies to offer such services would open up much-needed competition in cable markets. Congress must approve this change. If it fails to act, however, the FCC can grant individual telephone companies the right to supply specific markets.

6) Fully deregulate oil and natural gas prices.

More than 50 years of federal government controls on oil and natural gas prices removed incentives for exploration and contributed substantially to shortages and high prices in the 1970s. Contrary to the predictions of many so-called consumer interest groups, the partial removal of price controls on energy, begun under Jimmy Carter and continued under Ronald Reagan, did not lead to even higher prices. Quite the contrary. Since 1981, gasoline prices have declined 27.7 percent in real terms. And the cost to consumers for home heating oil has dropped 31.5 percent. Since 1984, the energy portion of the Consumer Price Index has declined by 11.6 percent.

One consumer group, the Citizen/Labor Energy Coalition, predicted in 1983 that a 1985 decontrol of natural gas prices would result in a price increase of 20 percent at the wellhead, and 14 percent for consumers. In fact, the price for natural gas decreased by about 37 percent at the wellhead and about 11 percent for consumers since the 1985 decontrol. This group, like others claiming to support the interests of energy consumers, consistently has

misunderstood how deregulation reduces prices in the long run and thus it has opposed steps that would cut costs to the consumer.

If Congress fully decontrols energy prices, the U.S. consumer ultimately will benefit through increased supplies and reduced rates.

7) Phase out government farm subsidies.

Federal farm programs cost consumers about $12 billion at the checkout line in higher food prices, and about $25.8 billion in taxes to pay for direct subsidies to farmers. According to Clifton Luttrell, an economist formerly with the Federal Reserve Board, the current government farm subsidy programs push food prices 2-3 percent above the underlying market price.[7] This hurts all consumers, but higher food bills hit the poor much harder than the rich because the poor spend a larger percentage of their income on food. Moreover, the higher taxes needed to support farm programs do not typically benefit poorer farmers. In fact, about 82 percent, or $21.32 billion in 1988, goes to wealthy farmers with a net worth of between $393,000 and $2.18 million. The net worth of the average American, by contrast, is approximately $70,000.

The federal government uses two basic mechanisms to manipulate the price of agricultural products to the benefit of some farmers: price supports paid directly to farmers and controls on the supply of food. Because the programs are designed to keep food prices higher than the market would dictate, farmers have an incentive to produce as much of the commodity as possible. The result is huge surpluses. Yet these surpluses do not go to consumers. Rather, they are purchased on behalf of the taxpayer and stored in federal government warehouses, while consumers pay higher prices for the reduced supply of food.

The government program to help wheat farmers, for example, resulted in 250.7 million bushels of federally owned wheat in 1985 alone. The federal government attempted to reduce this surplus by paying wheat farmers not to grow wheat. The total cost of the federal wheat program to taxpayers: about $3.76 billion in 1988 to pay farmers not to grow wheat for the consumer.

The federal government's farm policy increases the food bill of poor Americans and adds to the taxes of all consumers. All farm subsidies and production controls should be eliminated.

8) Repeal the federal government monopoly on first class mail delivery and privatize the U.S. Postal Service.

The United States Postal Service (USPS) is a government-owned monopoly. It is illegal for private companies to deliver first class mail. As could be expected from a monopoly, prices continue to rise and the service received by consumers continues to deteriorate. By contrast, in one of the

7 Chris Warden, "Government Farm Programs Yield Higher Prices," in *Consumers' Research*, November 1987.

areas where the USPS must compete with private carriers, it has cut costs: while the USPS hiked the price of a first class stamp by 14 percent last year, it lowered rates on its express mail service, where it competes with private firms, from 10 percent to 40 percent.

The USPS's own data show that first class mail service is getting slower. In 1969, the average first class letter was delivered in 1.5 days; by late 1987 it took 1.72 days, which is 15 percent slower than two decades ago.

In addition, a Postal Inspection Service audit found properly addressed mail dumped in the trash at 76 percent of the post offices visited. Moveover, mail delivery to the doorstep was abolished in 1979 for new homes, in favor of street mailboxes.

Where private competition in the delivery of packages and express mail has been allowed, efficient companies such as United Parcel Service and Federal Express have sprung up to provide better service to the public. The way to provide better postal services to consumers at a lower price is to eliminate the remaining monopoly restrictions on delivery of mail and, in effect, privatize mail delivery.

9) Restore consumer choice by restricting the power of the Consumer Product Safety Commission to ban products.

The Consumer Product Safety Commission (CPSC) currently has the power to ban products it deems to be hazardous to consumers. But many of the products that are targeted by the CPSC cause injuries due to misuse, not bad design. It does not serve the public to penalize millions of responsible consumers because of the irresponsible actions of a few.

Further, there seems to be little rhyme or reason to what is banned and what is not. The most hazardous products, in terms of rate of injury, are, in descending order: stairs, bicycles, basketball equipment, and non-glass doors and panels. In terms of the severity of injuries, the most dangerous product is gasoline and other fuels, followed by cigarettes and swimming pools. Yet the CPSC has not banned these products.

Hazardous Homemade Devices. Meanwhile, the CPSC currently is considering an action against a product called "Worm Gett'r". This device delivers an electric current to the ground, causing worms to surface so they can be removed for fishing bait. The Commission has found only one person injured by a commercially produced Worm Gett'r, and the injuries were minor. Twenty-eight deaths, however, have resulted from similar homemade probes using such items as broken golf clubs and coat hangers. A ban on the commercial product probably will lead to increased use of such deadly homemade devices.

Information on potentially hazardous products, or hazardous uses of products, should be publicized, so that consumers can decide for themselves whether and to what extent they wish to be exposed to a risk. Many private groups already provide such information. The federal government cannot and

should not try to mandate a hazard-free environment. The CPSC would do better to focus on making consumers aware of risks, not on banning products.

10) Fully deregulate transportation.

Federal government transportation regulations for decades harmed consumers by restricting the availability of services and increasing costs of goods and services. Partial deregulation of the trucking, railroad, and airline industries has saved consumers annually an average of $56 billion in the case of trucking since 1980; $20 billion from railroad deregulation; and $6 billion from airline deregulation since 1978.[8] More can be done, however, to promote further consumer benefits.

Reduced ticket prices resulting from airline deregulation have boosted demand for air travel. This has resulted in congestion and delays at many of the nation's largest airports. Many consumer groups have blamed deregulation for the delays and pressed for reregulation. Yet in fact it is shortages of government-provided air traffic control services and airports that cause the bottlenecks.

Balancing Supply and Demand. Privatizing airports and the air traffic control system would allow each to attract private capital for improvements and to use the pricing mechanism to balance supply and demand. Consumers could then choose to pay a higher price to travel at peak times with less congestion, or a lower price to travel at off-peak times.

Trucking deregulation at the federal level reduced the cost of producing goods and services by an average 2.4 percent each year in the 1980s.[9] More savings could be achieved if states followed suit. Trucking operations entirely within a single state are still subject to the varying degrees of economic regulations imposed on the state level. These intrastate operations comprise over half of total trucking operations, according to the Interstate Commerce Commission (ICC). These state regulations produce the same inefficiencies that federal regulations once produced. Consumer groups and the federal government should thus seek trucking deregulation at the state level.

Fruits of Deregulation. The freight railroad industry was partially deregulated in 1980 with the passage of the Staggers Rail Act. Since 1980, average rail rates have dropped almost 5 percent, according to the Association of American Railroads. Moreover, between 1980 and 1986, railroad operating costs fell from $34.2 billion to $25.2 billion in inflation-adjusted dollars, according to ICC statistics, saving consumers as much as $20 billion annually in rail-related transportation costs, which otherwise would have been pushed on to the consumer.[10]

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8 Jerome Ellig and Dan Witt, *Myths About Transportation Deregulation* (Washington, D.C.: Citizens for a Sound Economy Foundation, 1987.

9 Maynard H. Dixon Jr., "Who Most Influences Consumer Prices?" in *Consumers' Research*, September 1988.

10John W. Merline, "Legislation and the Consumer In 1980," *Consumers' Research*, April 1988.

Several special interest groups, primarily coal companies and electric utilities, recently have lobbied Congress to re-impose many restrictions on railroads, arguing that they are often "captive" customers to a single railroad. Yet most other firms, such as automobile manufacturers, steel companies, breweries, paper companies, food companies and retail chains point out that such reregulation would increase transportation costs for rest of the economy. Consumers, of course, would pick up the tab for any costs stemming from reregulation. Thus Congress should stand firm against efforts to roll back railroad deregulation.

CONCLUSION

In a free enterprise economy, businesses prosper only by satisfying the needs of consumers. Each dollar spent by the consumer is a vote on what should be produced, in what quantities, and at what prices. Through consumer choice and competition, the free market system has made possible unequalled economic growth, and has brought Americans a wealth of goods and services provided in the most efficient manner possible.

The consumer stands to suffer whenever government intervenes in the marketplace – even when such intervention supposedly is on behalf of the consumer. Forcing businesses to divert billions of dollars each year to meet the often arbitrary demands of regulators rarely serves the consumer's best interest. Thus as lawmakers consider ways to help the consumer during National Consumers Week, they should resist the spurious demands from "consumer advocates" to raise consumer prices and restrict choice, and seek instead steps to promote competition among suppliers and freedom of choice for consumers.

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