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Federal budget cuts would hit consumer protection agencies

By Lindsay Wise – 12/6/12

WASHINGTON -- Automatic spending cuts triggered by the so-called fiscal cliff would slash a total of about $69 million from the annual budgets of three federal agencies tasked with protecting consumers.

Compared with the $52 billion in cuts that will hit the Pentagon in 2013 in the absence of a compromise, that amount might seem like a drop in the bucket. But it represents a painful chunk of much smaller budgets at the Consumer Product Safety Commission, the Consumer Financial Protection Bureau and the Federal Trade Commission.

Unless Congress and the president reach a compromise soon, $109 billion in across-the-board cuts to federal spending will kick in on Jan. 2, the first installment of a process known as sequestration.

Consumer advocates warn that sequestration would weaken the already-lean federal watchdog agencies, leaving Americans more exposed to scams, unfair business practices and unsafe products.

“Agencies have learned to deal with flat budgets, but most have already been cut to the bone,” said Ed Mierzwinski, the consumer program director for U.S. PIRG, a nonprofit consumer-advocacy group. “Sequestration cuts on top of flat budgets is a recipe for more fraud, more dangerous products and less consumer protection.”

Critics argue that the agencies are redundant and a waste of taxpayers’ dollars.

“I would shut them down,” said Mark Calabria, the director of financial regulation studies at the libertarian-leaning Cato Institute in Washington. “I just don’t think these agencies are very effective. Certainly we had all these consumer protection laws on the books and that didn't stop the financial crisis from happening."

Officials at all three agencies declined to comment for this article.

The Federal Trade Commission, an agency that's responsible for enforcing antitrust and consumer protection laws, has about 1,000 staff members, including attorneys and economists, and a budget of $300 million for 2013. If sequestration occurs, the FTC would face an estimated $26 million in cuts, according to the Office of Management and Budget.

The agency doesn't have any fat to trim, said Susan Grant, the director of consumer protection at the Consumer Federation of America, an advocacy group in Washington.

If sequestration happens, she said, "it will take longer to investigate and prosecute cases. It will hamper the FTC's ability to keep up with the businesses that they're supposed to be making sure are playing by the rules."

People expect state and federal consumer agencies such as the FTC to protect them from unfair and deceptive acts in the marketplace and they have a right to expect that, Grant said.

"It's just an example of why across-the-board cuts like this are a blunt instrument that really doesn't serve the public well," she said.

The smallest of the three agencies, the Consumer Product Safety Commission, is charged with protecting the public from deaths and injuries by issuing mandatory standards and recalls for thousands of consumer products, from toys and cribs to power tools and household chemicals. The commission has 500 employees and a proposed operating budget of $116.5 million for 2013. It would lose about $9 million to sequestration.

"With CPSC, a cut of this magnitude is devastating," said Rachel Weintraub, the legislative director and senior counsel for the Consumer Federation of America.

The commission’s budget has yet to recover fully from cuts in the 1980s, Weintraub said.

More money started to flow recently with passage of the Consumer Product Safety Improvement Act in 2008 after news reports raised alarms about lead in children’s toys. In addition to allocating more money, the law gave the commission more robust responsibilities.

“It’s just been given this boost of authority, boost of funds, just been empowered to do more to protect consumers, so at this stage it would be particularly problematic for the agency,” Weintraub said.

Calabria, of the Cato Institute, argued that the most important avenue for protecting consumers is competitive markets and litigation, not federal regulations.

“If somebody’s putting lead in children’s toys, that’s going to get litigated,” he said. “It’s not like you have no redress and it’s not like these agencies have a tremendous track record of catching problems.”

The Consumer Financial Protection Bureau is the newest watchdog agency in Washington. It was created in the aftermath of the economic crisis by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which gave the new bureau oversight and regulatory powers over mortgages, credit reporting, debt collection and payday loans, among other consumer financial products and services. It has a budget of $448 million and a staff of 950. Sequestration would cost the bureau about $34 million.

“The CFPB may weather the storm better than others only because it is still ramping up to full size and may be more flexible in its choices on how to take the cut, although obviously some consumer protection will be delayed,” said Mierzwinski, the consumer advocate from U.S. PIRG.

Mierzwinski pointed out that over the past six months, the bureau executed major enforcement actions against Capital One Bank, Discover and American Express that resulted in a total of $536 million in customer refunds and penalty fees, many millions more than its annual budget.