



TOXIC TRADE

Globalization and the Safety of the American Consumer

October 30, 2007

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CAMPAIGN^F**OR** **AMERICA'S FUTURE**
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The world is changing, and in order to make sure that we can continue to have the confidence of our consumers, we will continually review practices and procedures to assure the American consumer.

— George W. Bush, July 18, 2007.¹

“Death by a thousand cuts” originally derives from an outlawed form of Chinese torture; it also aptly describes the numerous cuts to full time employees, structural improvements and programmatic goals that CPSC’s budget has endured.

— Rachel Weintraub, Consumer Federation of America, February 28, 2007²

Halloween candy buckets coated with lead based paint.³ A 9-month old boy suffocated in his crib when his head got stuck in the rail, after numerous complaints about the crib design.⁴ A Chicago grandmother who tested the vinyl bib her grandson had been sucking and found toxic levels of lead.⁵

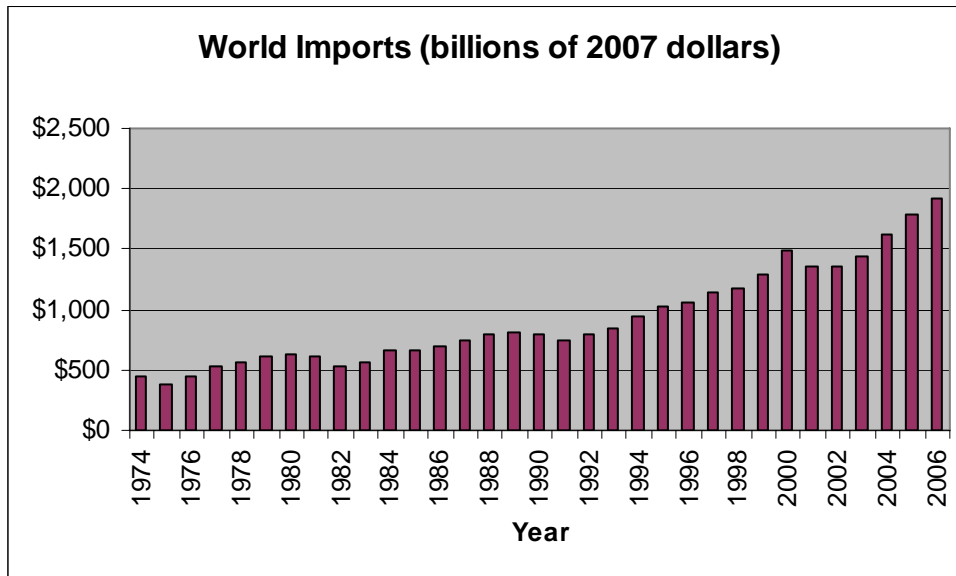
The news stories point toward the problem, but they only scratch the surface. These dangers are not anomalous or unpredictable; they are part of a larger pattern. The economy has gone global. More and more production is being outsourced, and more and more products are being imported from abroad. At the same time, the American government has been cutting back import regulation and inspection. As a result, American consumers are exposed to increasing numbers of products that were neither produced in America nor subject to American safety standards. The results put people at risk.

This report documents two competing trends. On the one hand, global outsourcing of production and importing of goods is rapidly increasing. World imports have increased by 338 percent since 1974, with imports from China alone increasing nearly 3,900 percent just since 1985.⁶ Yet the budget of the Consumer Product Safety Commission, the government agency responsible for monitoring consumer goods in the United States, is less than half the level it was when it started in 1974. We have been disarming our ability to protect ourselves, even as the need to do so has been soaring.

Imports and Globalization

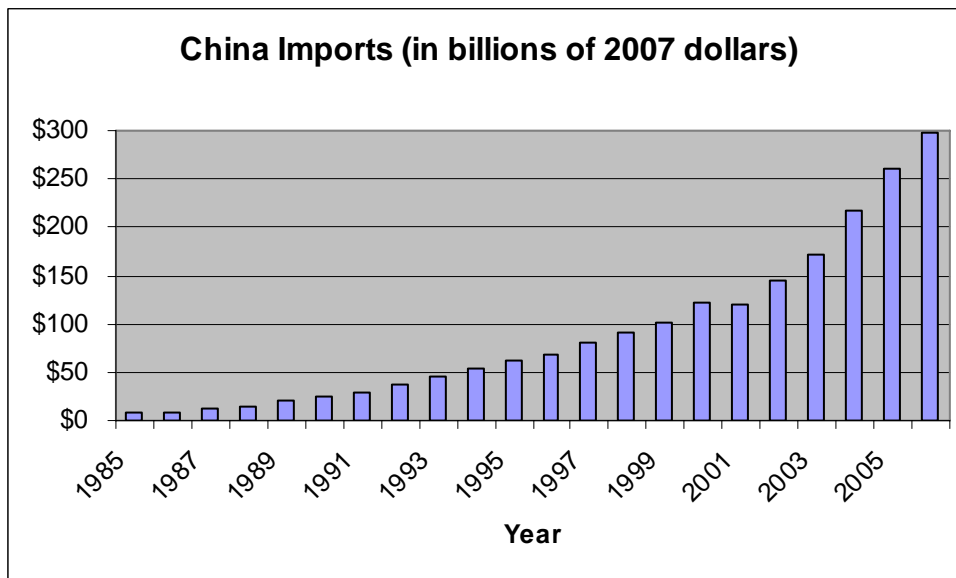
The U.S. economy has always been international, but in recent years global corporations have outsourced production to new orders of magnitude. Nearly \$2 trillion in imported goods enter the United States every year. Since 1974, the first year the Consumer Product Safety Commission went into operation, U.S. imports have quadrupled. Imports from China double approximately every five years. Retail chains like Wal-Mart drive their suppliers to move production to low-wage producers like China and Mexico to insure the lowest possible costs.

Figure 1



Source: United States Census Bureau, Foreign Trade Statistics_

Figure 2



Source: United States Census Bureau, Foreign Trade Statistics

These globally unprecedented levels of importation provide lower prices for consumers, but they also expose American consumers to unprecedented risks. More and more products purchased by Americans in America were neither produced in America nor subject to American safety standards.

The Consumer Product Safety Commission

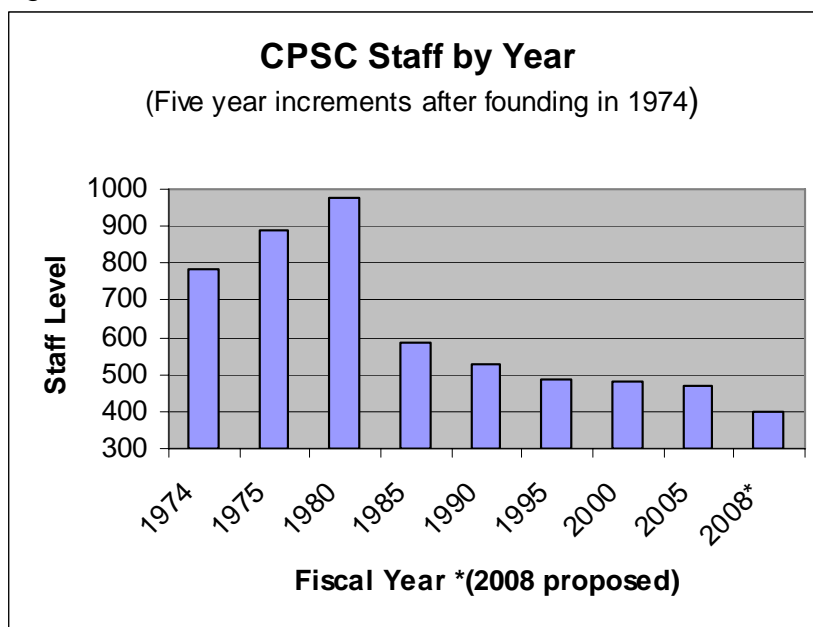
The mission of the Consumer Product Safety Commission (CPSC) is “to protect the public against unreasonable risks of injury associated with consumer products.”⁷ It was created in 1972 in response to concern about unregulated and unsafe products, and charged with protecting the public from hazards associated with more than 15,000 different consumer products. Its enabling legislation gives it authority to set safety standards, require labeling, order recalls, ban products, collect death and injury data, inform the public, and contribute to the voluntary process of setting standards. Since its creation, Americans have come to depend on the CPSC and other regulatory authorities to ensure the safety and quality of products they buy and food they eat.⁸

CPSC budgets and staff

Due to budgets and staff constraints, the CPSC has been unable to keep up with the demands of the modern global marketplace. In 1974, the first year of operation, the CPSC had a staff of 786 fulltime employees and a budget of \$34.7 million, equivalent to \$146.6 million in today’s dollars.⁹ It grew to a high of 978 employees in 1980.

But President Ronald Reagan and the conservatives who surged into power in the last quarter century had different ideas about consumer protection and regulatory authority. In some years they affirmatively cut back the budget of the CPSC; in other years they kept it fixed and let inflation slowly chip it away. In 2007, the CPSC budget is down to \$62.3 million and the number of full-time employees has dropped to 420. It has less than half the staff to supervise an astronomically higher number of imports. President Bush’s 2008 budget request cuts the CPSC staff to 401, the lowest number since the agency’s creation.

Figure 3



Source: Testimony of Rachel Weintraub before the House Committee on Energy and Commerce, May 15, 2007.

Figure 4

Year	CPSC Staff Level	% change since outset (1974)
1974	786	N/A
1975	890	+ 13.2 %
1980	978	+ 24.4 %
1985	587	- 25.3 %
1990	526	- 33.1%
1995	487	- 38.0 %
2000	480	- 38.9 %
2005	471	- 40.1 %

Source: Testimony of Rachel Weintraub before the House Committee on Energy and Commerce, May 15, 2007.

As a result of budget cuts, the CPSC has closed more than 40 field offices and cut its port inspection staff to 15 people nationwide.¹⁰ It has dropped child drowning from its strategic goals.¹¹ It has not modernized its testing labs since 1975.¹² The agency's toy-testing department consists of one man who drops toys on the floor in his office to see if they break.¹³

Figure 5



U.S. Consumer Product Safety Commission
Toy Testing Laboratory¹⁴

CPSC's dubious leadership

President Bush signaled his opinion about the importance of the Consumer Product Safety Commission with his first appointment to head it: Harold D. Stratton, a conservative Republican and a Bush campaign volunteer. Formerly, as attorney general of New Mexico, Stratton had objected when attorneys general in other states brought consumer protection cases. He said such actions were attempts “to impose their own anti-business, pro-government regulation views.”¹⁵ Stratton subsequently co-founded a nonprofit group, the Rio Grande Foundation, named after the river between the U.S. and Mexico, dedicated to promoting “individual freedom, limited government, and economic opportunity.”¹⁶

Stratton continued this crusade in his position as CPSC chair. In 2002, he told the National Association of Manufacturers that he was determined to “break the barrier of fear”¹⁷ by assuring industry leaders that he would make it more difficult for products to be recalled. Among other things, he would shift from mandatory safety standards to voluntary compliance.

Stratton appointed John G. Mullan as the CPSC’s general counsel and then director of the Office of Compliance and Field Operations, with oversight of all investigations and enforcement actions. Mullan came from Kirkland & Ellis, a Chicago-based law firm whose lobbying clients included the National Association of Manufacturers. Mullan himself represented General Motors against claims that side-impact collisions of their cars resulted in gas-tank explosions. He helped represent Polaris, a maker of all-terrain vehicles, against CPSC accusations that it had failed to report safety defects in two vehicle models that had resulted in hundreds of complaints and at least 25 injuries.¹⁸

One of CPSC’s engineers described it as “having someone you fought against what you are trying to do then come to your side.”¹⁹ The leadership of the agency was committed to weakening the agency’s ability to operate.

Stratton stepped down from the post of CPSC chairman in 2006 and Bush nominated Michael E. Baroody to take his place. Baroody, son of the founder of the conservative American Enterprise Institute, William J. Baroody,²⁰ was a longtime lobbyist for the National Association of Manufacturers. Baroody earned his living lobbying against the CPSC and he was scheduled to receive \$150,000 from the Association of Manufacturers upon leaving his post to become CPSC chair. He eventually withdrew his nomination after Democratic opposition revealed his deep ties and financial connections to manufacturers.²¹

The CPSC is currently headed by Nancy A. Nord, who also has a checkered past with regard to commerce and corporate advocacy, having spent more time working for business than consumers. In years past, Nord was a lobbyist for Eastman Kodak, the executive director of the American Corporate Counsel Association and the Director of Consumer Affairs for the U.S. Chamber of Commerce.²²

Given her background, it is unsurprising that Nord does not recognize the challenges facing her agency or the American consumer. Despite the rising volume of imports and the rash of resulting problems, Nord told the *New York Times* in September 2007, “The commission is currently doing more to protect consumers than it has at any prior time in its history.”²³

Dangerous toys

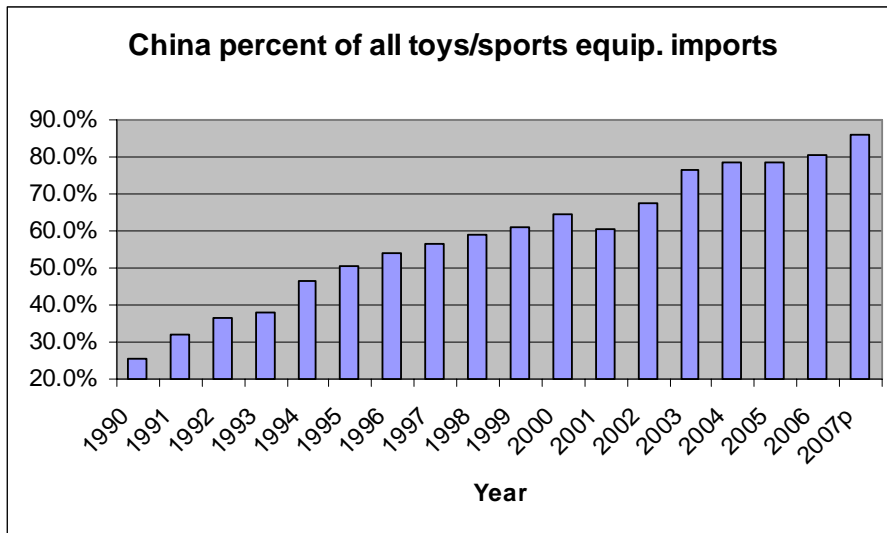
Children’s toys present a vivid problem and a simple place to start. Only recently, with the news stories of deaths and recalls, the now Democratic-controlled Congress is beginning to examine the toy industry and the problems in the Consumer Product Safety Commission.

In some cases, the problem is understaffing at the CPSC. Nine-month-old Liam Johns slipped through a gap in his Simplicity Crib and, with his head stuck between the mattress and rail, strangled to death in a hanging position.²⁴ That was not the first or only problem with the Simplicity Crib. The *Chicago Tribune* reported that it took nearly three years for the CPSC to recall the crib, despite 55 complaints and the deaths of seven infants.²⁵

“We get so many cases,” a CPSC investigator said. “We could spend more time, but we are under the gun. We have to move on.”²⁶

In other cases, the understaffing and the increasing imports create a toxic combination. Lead-based paint in toys from China is a case in point. The Toy Industry Association claims that 80 percent of the toys Americans buy are Chinese imports; this year Chinese imports cost American consumers 40 cents of every dollar they spend on toys.²⁷ Figure 6 shows China’s growth from providing a quarter of toys and sports equipment in the U.S. in 1990, to more than 80 percent today.

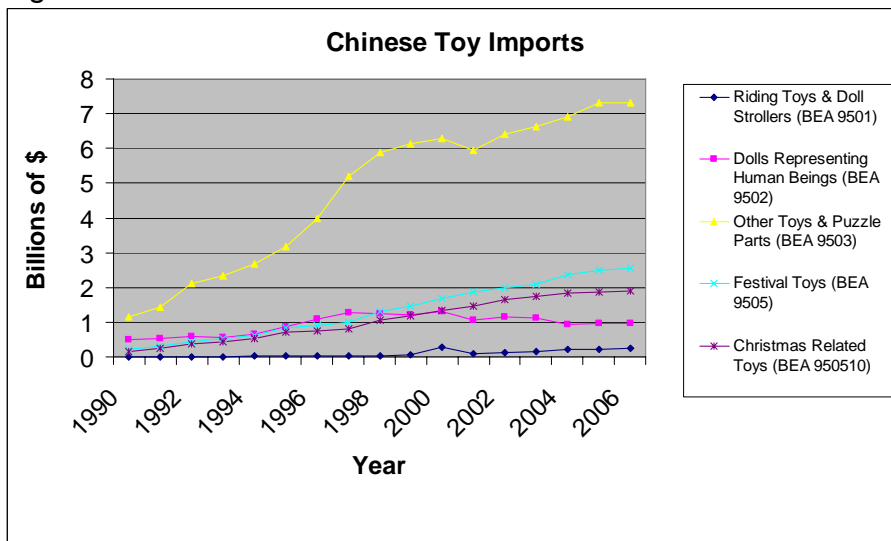
Figure 6



Source: Dept. of Commerce, Bureau of the Census and Bureau of Economic Analysis.²⁸

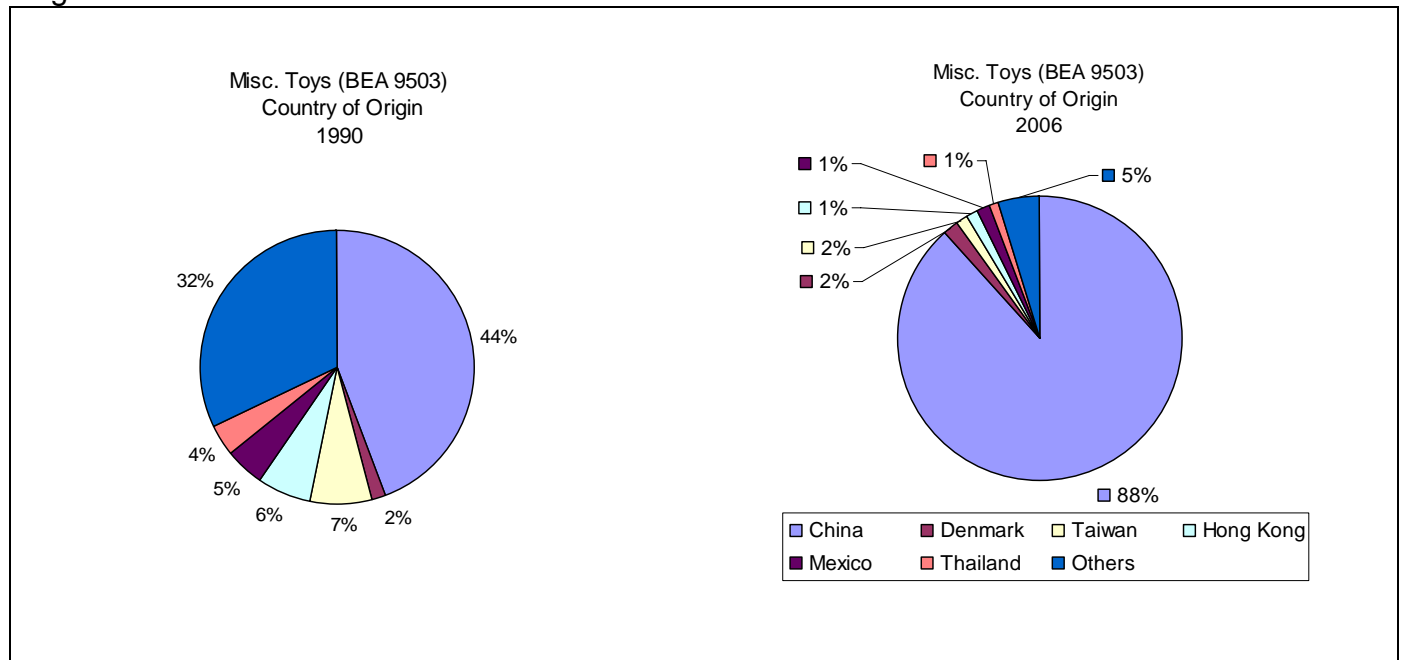
A tighter focus on specific product categories also reveals the size of the challenge. As Figure 7 shows, toys and puzzle parts, products originating in China traded for \$1.2 billion in 1990 but \$7.4 billion in 2006. Figure 8 shows how China displaced other countries over the same time period.

Figure 7



Source: Foreign Trade On-Line²⁹

Figure 8



Source: Foreign Trade On-Line³⁰

Yet the safety of Chinese imports is uncertain. The CPSC reports that more than half of its product recalls are of products originating in China.³¹ Jean Halloran, Director of Food Policy Initiatives at Consumers Union stated, “Over the summer, more than 20 million toys manufactured in China were recalled because of lead paint and other hazards, despite the fact that lead paint was banned on toys in the U.S. 30 years ago.”³²

This summer, Mattel issued three separate recalls for toys manufactured in China that contained hazardous lead paint and dangerous magnets. Disney recalled thousands of Baby Einstein blocks; smaller companies have recalled everything from children’s jewelry, key chains and notebooks to water bottles and flashlights. The biggest heartbreak, at least from a child’s point of view, was the double recall of Thomas the Tank Engine toys. The RC2 Corporation recalled more than a million Thomas the Tank Engines when it discovered unsafe levels of lead in the paint.³³ As a token of apology, it sent customers a “bonus gift” to keep their loyalty. But some bonus gifts turned out to be tainted, too.

Lead in paint has been banned in the U.S. for toys since 1978, the same year it was banned for use in house paint. Lead can enter children’s bloodstream when they chew on the toys or suck on their bibs, or simply by putting their hands in their mouths or eating cookies after playing with their train tracks. Even low levels of lead can interfere with the development of children’s brains, leading to learning disabilities or behavior abnormalities.

Federal law sets the maximum acceptable level of lead at 600 parts per million. However:

- Twenty-two Halloween toys purchased at stores in Ashland, Ohio were tested for lead in the summer of 2007. Three of them contained hazardous levels. A skull-shaped candy

bucket contained 2,700 parts per million, a witch candy bucket had 21,000 parts per million, and a Frankenstein cup – since recalled – contained 39,000 parts per million.³⁴

- At the Indiana Black Expo Children’s Health Fair in Indianapolis in August 2007, a community group coordinated a booth to screen children’s jewelry. Of the 396 metal items screened, 62 percent had lead content above the federal maximum. Of the 85 plastic items tested, 33 percent had lead content above the federal maximum. The Indiana Pacers cheerleaders were passing out *Mardi Gras* beads containing 1,400 parts per million of lead, more than twice the federal standard.³⁵

At this moment, the news media is reporting lead levels and the CPSC is recalling a record number of products. Figure 9 shows the recalls just in the first half of October 2007, and just for lead violations. But when the attention fades, the enforcement activity may revert to the level it was when Liam Johns died in his crib. The CPSC budget and staff levels create real-world limits.

Figure 9

<u>Recalls for lead violations</u> <u>October 1-17, 2007</u> ³⁶
— 55,000 Skull Pails Filled With Halloween Candy Mix
— 350,000 bookmarks and journals
— 5,400 Tabletop Puppet Theaters
— 2,400 Breyer 2006 Stirrup Christmas Ornaments
— 19,000 Deluxe Wood Art Sets
— 49,000 Disney Deluxe Winnie-the-Pooh 23-Piece Play Sets
— 7,800 Princess Magnetic Travel Art Set Lap Desks
— 10,000 Bendable Dinosaur Toys
— 2,500 Collectible “Jeff Gordon” Mini Helmets
— 2,400 Kidnastics Balance Beams
— 1.6 million Cub Scouts Totem Badges
— 11,200 Alpine Design Aluminum Water Bottles
— 192,000 key chains
— 15,000 Children’s Toy Decorating Sets
— 63,000 Frankenstein Tumblers
— 79,000 “Pirates of the Caribbean” Medallion Squeeze Lights
— 35,000 Baby Einstein Discover & Play Color Blocks
— 10,000 Wooden Pull-Along Alphabet & Math Blocks Wagons

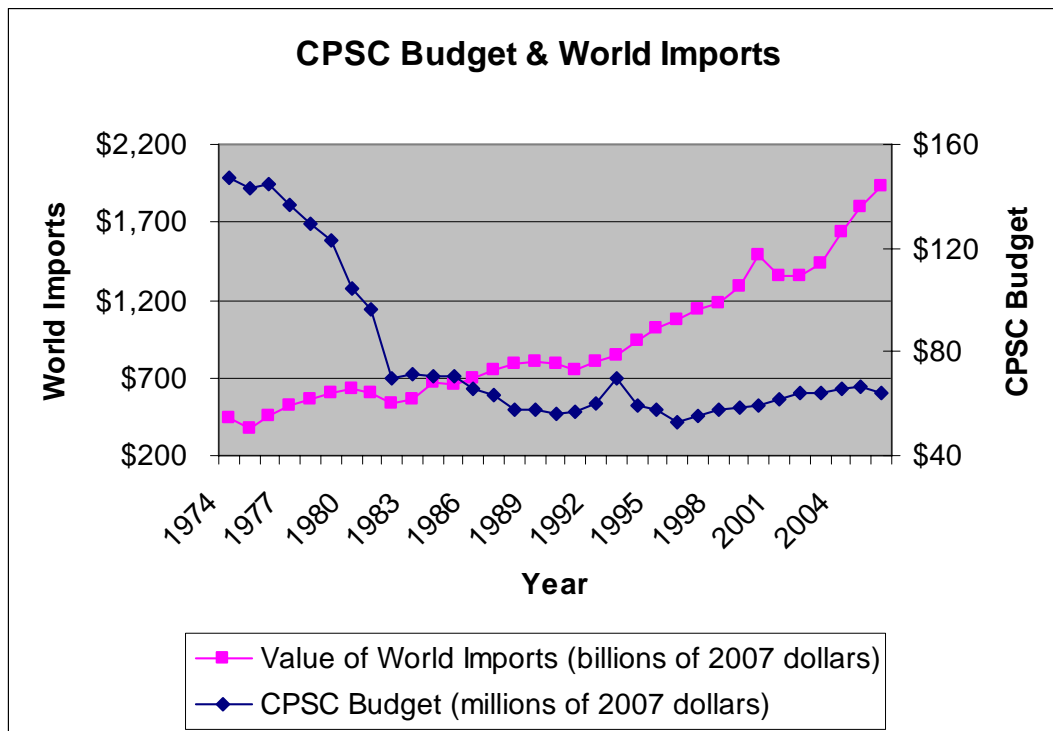
The Path Ahead

America participates in a global economy. This could not be reversed even if we wanted to do so. But trade accords currently discount consumer, worker and environmental protections. International enforcement and monitoring depends on private corporations and their suppliers. The very reason a domestic consumer protection agency was created was because companies, facing fierce competition, simply could not be trusted to police themselves. Now global outsourcing is putting people at risk. America needs to respond.

The CPSC and other federal agencies

The starting point for response is the Consumer Product Safety Commission. It plays a critical role in safeguarding American consumers, especially from the growing numbers of products manufactured overseas. But the CPSC needs a budget and staff proportional to the challenge. Instead of building up, the CPSC has been systematically cut back. Figures 10 and 11 show how CPSC capacity has diminished relative to global trade.

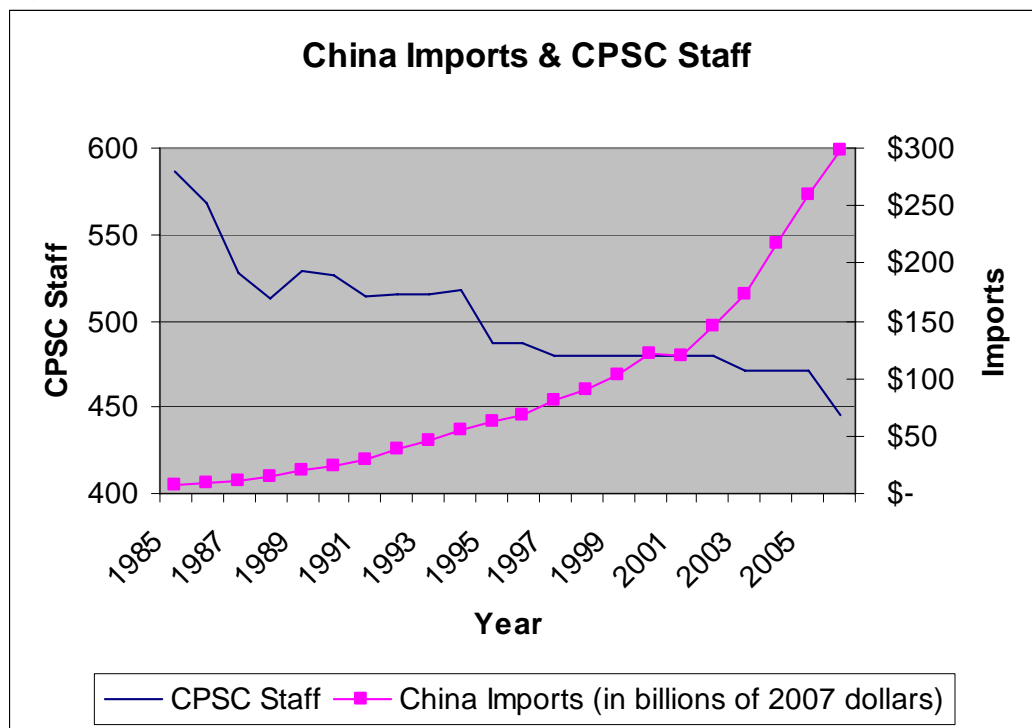
Figure 10



Sources: World Imports: United States Census Bureau, Foreign Trade Statistics

CPSC Budget: Testimony of Rachel Weintraub before House Committee on Energy and Commerce, May 15, 2007.

Figure 11



Sources: China Imports: United States Census Bureau, Foreign Trade Statistics.

CPSC staff: Testimony of Rachel Weintraub before the House Committee on Energy and Commerce, May 15, 2007.

A first step towards solving the problem is giving the CPSC the budget and staff it needs to do its job. Fifteen port inspectors are not enough to protect a continent-sized country.

At the same time, the CPSC may need additional authority. Senator Mark Pryor (D-Ark.) and Rep. Rosa DeLauro (D-Conn.) have introduced legislation intended to increase the CPSC's power to carry out its mission.³⁷ Provisions include:

- Increasing the maximum civil penalties from \$250,000 to \$100 million, so penalties are an actual deterrent, not just a “cost of doing business.”³⁸
- Creating tracking labels for children's products to facilitate recalls.
- Terminating licenses of repeat importers of defective and hazardous products.
- “Whistleblower” protection for employees who provide information of safety hazards.
- Tighter standards for lead paint in children's products.

This report focuses on toys and the CPSC, but similar problems are likely to be found in other agencies that are supposed to safeguard Americans. Fruits and vegetables are imported from countries that may use fertilizers or pesticides differently from America; pharmaceutical products manufactured overseas are used by U.S patients. Agencies like the Food and Drug Administration and the Animal and Plant Health Inspection Service may require similar attention.

Senators Sherrod Brown (D-Ohio) and Mark Pryor are already moving in this direction. Their new Food and Product Responsibility Act requires that distributors of food and consumer products demonstrate financial capacity to cover risks associated with recalls and product safety.³⁹

Information lacking

An additional deficit is simply information. It is unclear exactly how many toys are imported from China, and how the level changes year by year.⁴⁰ The Toy Industry Association states 80 percent of all toys sold in the United States are imported from China. However, the source of the data is unclear and the association has not responded to inquiries by the Campaign for America's Future. Similar questions doubtless arise in the context of fruits, vegetables, pharmaceuticals and myriad other products brought into the U.S.

The federal government is the natural keeper of such information. A congressional committee investigation or a full audit by the Government Accountability Office of regulatory agencies would help lawmakers and the public see the impact of globalization on the ability of these agencies to fulfill their missions and how their capacity should be strengthened. We need to examine where goods are coming from, what the historical trends are, and how our consumer protection apparatus has responded.

On an ongoing basis, the Commerce Department or the U.S. Census Bureau's Foreign Trade Statistics department needs to track this information by categories that correspond to consumer patterns and make it available to the public in a low-cost, meaningful way.

Corporate accountability

It is not news that corporate actors try to cut costs. However, where the corporate incentive is contrary to the interests of individual consumers – and individual consumers do not have knowledge or power to protect themselves – intervention is needed. Companies such as Wal-Mart need to be held responsible for the products they sell, no matter where they are made. The U.S. government needs to set minimal standards for products being sold on its soil.

Trade agreements

America needs to make sure that globalization is working to its advantage. Trade with countries with lower labor standards, lower environmental standards, and less stringent safety and regulatory regimes present special challenges. The standards that American consumers demand and expect should not be lost amid the challenges of a global economy. Additional attention is needed before signing the next generation of NAFTA-style trade agreements.

Figure 12

Recent Major U.S. Trade Accords	
Year Ratified	Countries
1993	North American Free Trade Agreement (NAFTA)
2000	China permanent normal trade relations
2001	Jordan Free Trade Agreement
2003	Singapore Free Trade Agreement
2003	Cambodia Free Trade Agreement
2004	Morocco Free Trade Agreement
2005	Central American Free Trade Agreement (CAFTA)
2005	Bahrain Free Trade Agreement
2006	Oman Free Trade Agreement
2007 pending	Peru and Panama Free Trade Agreements

Conclusion

At this point, when it comes to imported products, Americans are basically on their own. Concerned parents can test their own children’s toys or bibs. Or they can hope that the companies are more responsible in the wake of the scandals than they have been before. But they can’t rely on what they need – active and efficient government regulation and inspection that can protect our children and insure that our safety standards are met. It is past time for that to change.

ENDNOTES

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⁵ Marilyn Furer, speaking with the United Steelworkers Association, <http://www.protect-our-kids.org/>

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¹⁴ Photo from Senate Hearing on Protecting Children from Lead-Tainted Imports, Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, September 19, 2007. Photo via Ezra Klein: Tomorrow’s Media Conspiracy Today <http://ezraklein.typepad.com/blog/government/index.html> (accessed on October 23, 2007).

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²⁴ Possley, Maurice “Missteps delayed recall of deadly cribs,” *Chicago Tribune*, September 24, 2007.

²⁵ Possley, Maurice “Missteps delayed recall of deadly cribs,” *Chicago Tribune*, September 24, 2007.

²⁶ Possley, Maurice “Missteps delayed recall of deadly cribs,” *Chicago Tribune*, September 24, 2007.

²⁷ Dept. of Commerce, Bureau of the Census and Bureau of Economic Analysis. The 2007 projections are made by Charles McMillion of MBG Information Services based on year-to-August 2007 data. Note that the broad BEA “toys/sporting equipment” category includes video games and other fast growing categories.

²⁸ Dept. of Commerce, Bureau of the Census and Bureau of Economic Analysis. The 2007 projections are made by Charles McMillion of MBG Information Services based on year-to-August 2007 data. Note that the broad BEA “toys/sporting equipment” category includes video games and other fast growing categories.

²⁹ With the assistance of Charles McMillion of MBG Information Services.

³⁰ With the assistance of Charles McMillion of MBG Information Services.

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⁴⁰ This report focuses on the *value* of toys, which is more readily available. The number and distribution of toys themselves is more elusive.