THE CONSUMER LOOKS AT COMPETITION

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When consumers of different regions of the United States representing various points of view congregate to consider the operation and results of competition, there are those who defend it staunchly and those who criticize it sharply. An in between are those who think the issue is not all black or white, but a muddy grey, making the issues difficult to clarify. Opinions wax and wane, but traditionally, competition has been a landmark of American capitalism.

If the consumer is to evaluate the effectiveness of competition over the last few years, he must formulate standards of appraisal. Such standards would certainly include changes in price, in the quantity and quality of the product or service, and in the number of choices the consumer may expect to have. If the consumer is to have reasonable freedom of choice, he should be free to prefer the old or the new, and the extent of change should be determined by the nature of the choices he makes. It is axiomatic that the extent of freedom of choice is tempered by the availability of the goods desired.

By any measure we choose to take, the American consumer has become progressively better off in the last few years than ever before. But even if the consumer is better off now than ever before, this is not to admit that these consequences are altogether the result of competition, or that competition itself is not defective in certain aspects. Relative to the price level, it may be possible to show that in many instances enterprises have reduced prices, improved products, expanded productive capacity, and reduced profits. However, it would be difficult to convince the consumer that what has been effected in these respects is all that might have been accomplished.

Competition in the Automobile Industry

Let us now consider the automobile market where the consumer spends a large slice of his income and which is characterized by fewness of numbers. Some four years ago when Charles E. Wilson made the statement that "what is good for General Motors is good for the country" there were those who agreed and those who disagreed. Subsequent events have made a more careful analysis of this statement possible. There is general agreement that where a few big companies produce most of an industry's product short-run price competition seldom exists.[1] When the 1957 models were first put on the market, Ford came forthewith a set of quoted prices. A few days later General Motors made a similar announcement with regard to Chevrolet, and Ford quickly revised its price schedules to conform. Chrysler's prices on the Plymouth were somewhat higher due to the changes in design and their profit position. In the O'Mahoney Committee Hearings one witness recalled that it has been estimated that the manufacturer's profits are approximately one hundred dollars per car. At first glance some consumers would suggest that prices be reduced. Careful reflection indicates, however, that this reduction would undoubtedly eliminate certain firms in the industry, thereby leaving the consumer with fewer choices.

Hindsight appears to indicate that the automobile industry did not necessarily act in the best interest of the country in 1955. They oversold the market and this was followed by some unemployment and a reduction in sales and profits in 1956.

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[1] Big Business and the Policy of Competition, Corwin C. Edwards, The Press of Western Reserve University, Cleveland, 1956, pp. 77-78.

Final tabulation showed that in 1956 General Motors captured some 52.2 per cent of the market, Ford 28.8 per cent, and Chrysler 15 per cent. General Motors gained two per cent over the previous year. Total sales of General Motors were down 13 per cent and profits were off 29 per cent. Ford reported 17 per cent dip in sales and a 46 per cent slide in profits. Comparable figures for Chrysler were 23 and 80.[2] Needless to say Studebaker-Packard and American Motors suffered losses. Sales during 1957 are not encouraging and the present trend is against General Motors

When price competition exists in the automobile industry, it appears to exist among the dealers. The dealers, being forced to handle a certain number of the manufacturer's cars, have to offer the consumer higher trade-ins and sell new cars to second-hand dealers. The latter practices, the president of General Motors and others have termed "bootlegging and cutthroat competition." Current practice calls for "packing" the price, i.e., marking up the quoted price so as to offer greater trade-in values, less cash down, and eventually raiding the consumer's pocketbook through carefully studied psychological principles.

Competition and the Oil Industry

The car industry is closely connected with the petroleum industry. Since 1911, the oil companies have been deeply and continously in violation of the Sherman Act.[3] Standard Oil and General Motors own the patent on Ethyl gasoline. On January 3, Humble Oil Company set off a nation wide increase in gasoline and oil prices. Investigating senators contend this is costing consumers more than a billion dollars a year. The fedederal government seems to have helped this situation along by sponsoring a 15-company Middle East Emergency Committee for the Suez crisis. The members of the committee had common interests in that several of them were officials in partially owned subsidiaries of the larger companies Various oil officials have testified that the increase in price was necessary because of rising costs and the necessity of finding greater oil reserves. The oil industry already has a special 27½ per cent depletion allowance from gross earnings and the government sets a quota for annual output. And with the change in the Suez situation, oil industry officials suggest a tariff to prevent oil imports into the United States.

In the greater St. Louis area, gasoline prices showed a tendency to be more competitive among the various filling stations. Last fall, because of large inventories prices were reduced by as much as six cents per gallon. When the Suez crisis developed they rose even higher than they were before the price-war, then fell again slightly. In March they had fallen again by as much as six cents per gallon, and just as suddenly, they all announced a price increase on the same day. On April 1, the war started again.

Many Factors Influence Competition

The automobile industry has had far reaching influences on competition in other ways. The consumer samples more and more markets. He has a wider knowledge of prices and products thus affording him wider choices. The inaccessibility of downtown stores has caused a migration to outlying areas with improved facilities for parking convenience in shopping under one roof. Trucks have increased the radius of delivery.

Even if the market area has been widened in some respects, it appears that other factors tend to reduce the consumer's ability to make rational choices.

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[2]St. Louis Dispatch, Tuesday, February 26, 1957, p. 7c.
[3]Edwards, Corwin, Op. city. pp. 77-78.

Product differentiation, improved technology, and advertising tend to give the producer advantages in selling. Product differentiation, for instance, occurs in a multiplicity of brands of aspirin at various prices which all come out of the same barrel. Supermarkets must stock an increased number of brands of breakfast foods with little discernible difference in quality. Improved technology results in different, even better products with many claims as to their usefulness. Even if the consumer had access to the technical information about the product, he probably would not understand it, nor has he formulated criteria by which to evaluate it. The continuous and rapid change in the design of various products as well as new products require so much time and energy to make comparisons the consumer is put in a relatively more and favorable position. Much of our advertising is not designed to give facts but to appeal to the emotions. The handling of credit has much the same appeal. A certain amount down and the rest in monthly payments gives few clues as to the total cost of the goods.

A further observation on technological improvement indicates that although it is the usual method of competition amongst many industries where there are few firms, this type of competition does not always appear to be desirable from a consumer's viewpoint. Unnecessary proliferation of choices with little change in performance or quality does not necessarily improve consumer welfare. Very rapid change causes accelerated obsolescence and waste. Built-in obsolescence reduces quality and increases replacement costs.

If competition has worked to bring more favorable prices to the consumer in certain areas, it has not been so successful in preventing general price rises. Prior to the last few months, the Consumer Price Index was fairly stable for about three years. This was accomplished by the fact that, even while many other prices were rising, agricultural prices were falling. This trend was reversed when the prices of agricultural products were supported to a greater extent by the Department of Agriculture. Many consumers feel that competition is ineffective when there are general price rises. Perhaps the effect is disguised and the extent of price increases depends upon the strength of demand. However, it does appear that in those industries strongly characterized by oligopolistic tendencies, including those with strong unions, that price rises are fairly great. This is certainly true in the building of houses. The consumer is further baffled by the fact that some prices rise a great deal more than others in inflation. During such periods only the sharpest kind of competition will protect the consumer. And with consumers competing with each other to spend their rising incomes this does not appear likely to happen.

Competition During Inflation

As incomes continue to rise, American households are spending their money as the affluent always have - on services and consumer durables. Consumer competition makes producer competition less effective in the way of quality and prices, but more susceptible to the granting of easier credit terms and a wider use of advertising, as well as new products. A typical shopper may find that when she wants a clerk, they are all busy. When she is "just looking" there are several clerks to help. When purchases are made from a floor sample, the delivered product has to be returned frequently because of defects. Delivery usually requires more time than the clerk promises. The clerk has to sell so many articles that he does not know how to use, he does not always give the consumer good advice.

Because consumers are gullible and at times irrational, competition fails to operate as a good protective device in certain markets. This is especially true where only one article will be sold and the market changes rapidly. The hawkers of inferior goods and services, the merchants who want an exorbitant profit continually foist in the consumer a continuing flow of schemes and rackets.

Though these schemes account for only a small per cent of all business, coupled with the "lemons" that unavoidably appear in the market, they may provide a sizable reduction in any individual consumer's real income.

Summary

Certain large forces working on the economy in conjunction with competition react to the consumer's advantage. However, competition at times works in devious ways not always to the consumer's benefit. The consumer is convinced that in certain areas the producer does not want price competition, although in those areas where it does exist, consumers use it to great benefit. Seductive advertising, "easy credit product differentiation not related to consumer welfare, and a lack of knowledge make it difficult for the consumer to make a rational choice. The results of improved technology may be offset to some extent by built-inobsolescence. Then there are those areas where big business and big unions tend to reduce competition. In some ways the government adds to these tendencies, and to some extent, the consumers diligently fan the fires of rivalry in spending much of their incomes on new products and services and keeping up with the Joneses.