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# Monthly Review

## *Greater Competitive Thrust*

"The main concern of economics is . . . with human beings who are impelled, for good and evil, to change and progress." So wrote Alfred Marshall, the famous English economist, more than forty years ago.

Many forces impel human beings along the courses they follow, perhaps without being clearly recognized. One economic force that currently seems to be felt with increasing thrust, as is appropriate in this day of guided missiles and moon projects, is competition. Ten years from now hindsight will tell us more about today's increased competition, but even now enough features are discernible to help us explain its development, recognize its symptoms, judge whether or not it's here to stay, and plan accordingly.

A word meaning different things to different specialists, competition is used here to refer to the contest for business in the market place, *i.e.*, what the businessman usually thinks of as competition. We can perceive increases or decreases in the competitive struggle for business by noting changes in the ease of buying or selling goods and services. To sellers, lack of competition is likely to mean that they have little or no difficulty in selling goods at prevailing or higher prices inasmuch as their productive facilities are probably being used to their limit. To buyers, this is likely to mean difficulty in obtaining the things wanted, limited selection of goods, few price alternatives, poor quality, or indifferent salesmanship. With increased competition, sellers, perhaps finding some of their facilities idle, must intensify their efforts to obtain business. Buyers will enjoy the likely effect of being able to obtain easily the things they want, of having a wide selection from which to choose, of paying less as a result of price concessions, or of obtaining goods and services of higher quality.

A shift toward increased competition, it now appears, is what has been taking place in the postwar years. We see in this shift a reflection of fundamental changes in economic relationships that have been working themselves out over this period. In terms of that tried-and-true economic law of supply and demand, a greatly increased ability to supply goods and services is interacting with a demand that is less urgent now than in the early postwar years. Although this situation has evolved mainly from domestic changes, it also reflects the postwar rebuilding of economies abroad.

### **A Gradual Change**

The economy of this country has always been a competitive one. Relatively speaking, however, business has become more competitive as the economic environment has changed over the past four to six years or so.

The change has not been an abrupt one. Rather, it has taken place gradually as fundamental relationships between demands for goods and the ability of business to supply them have been altered. The change has occurred at different times for different businesses in different localities.

In the automobile industry, for example, we can, perhaps, pinpoint

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a rather definite change that took place in 1955. Previously, automobile producers had, for the most part, been confronted with the problem of boosting output to meet a demand that seemed to them to be insatiable, even though prices were rising. Things changed markedly in 1955. True, it was the year in which more sales were made than ever before, but this was accomplished only by prodigious selling efforts. Price discounting became widespread, credit terms were eased drastically to stimulate buying, and a major change in styling occurred. The days of so-called "wheeling and dealing" had indeed been ushered in. Severe competition has been characteristic of the automobile market ever since. Increasingly so, buyers have had no difficulty in obtaining a car to their liking from a wide variety of makes and models.

### Why?

The reason for the generally increased degree of competition now facing American businessmen is fundamentally very simple: Their ability to supply just about every kind of product has increased enormously, and at the same time, the public's most urgent demands for goods and services at current prices have been satisfied. Now, in most lines, American businessmen are able to produce much more than is actually being sold at prevailing prices.

Looking first for evidence of the easier supply situation, we find it in the charted figures on productive resources. Neither our labor force nor our industrial capacity (represented by factories and mines) is being fully utilized; hence, we could be producing much more than we are producing. Although the level of business activity is substantially higher now than at the low point of the recession ending in February 1961, labor continues to be in easy supply, as shown by the failure of the unemployment rate to drop more than it has. The rate persisted at nearly 7 percent of the labor force through most of last year, in spite of general business expansion. It has dropped some since last October, but in July, the unemployed still accounted for 5.3 percent of the total labor force. There are shortages of people with professional,

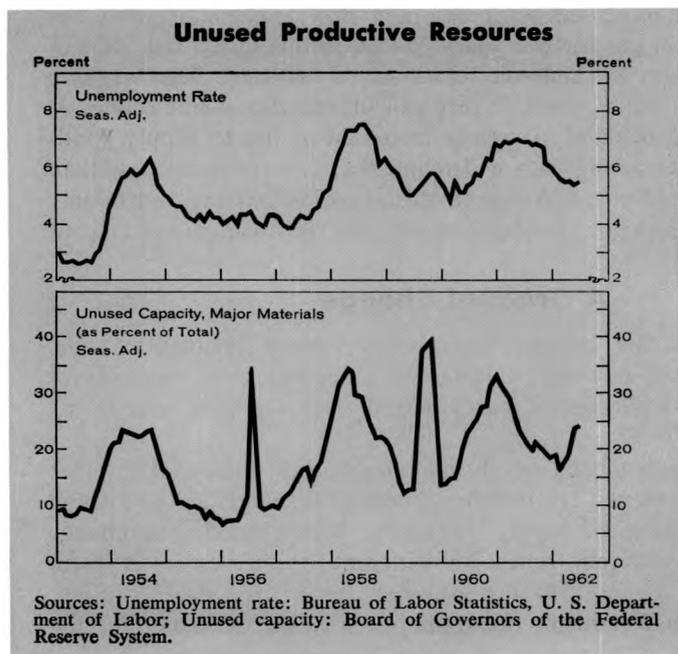
technical, and skilled training, but the generally high unemployment rate does indicate that the total labor force is underutilized. Looking at our ability to produce a number of major, basic materials, such as steel, textiles, cement, and chemicals, you will find that approximately 24 percent of productive capacity is still unused, despite the higher level of business. Over the past six or seven years, both unemployment and unused productive capacity have shown a general upward trend.

With the easing of the supply situation, businessmen have been able to obtain more rapid delivery of finished goods and materials, a development that has, in turn, reduced the need to build inventories. As is usually the case when sales expand, inventories have increased during the past seventeen months, but they have not increased as rapidly as previous postwar experience would have led one to expect.

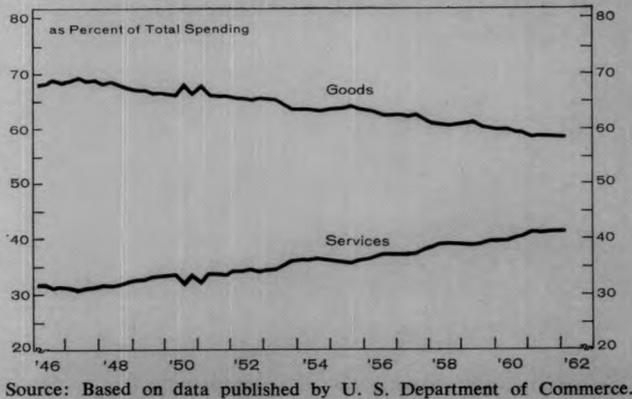
To find evidence of easing demand during a period when spending of most types has actually been increasing is difficult. It may even seem paradoxical to think it possible. To speak of an easing demand is not, however, necessarily to say that the amount of goods purchased is declining. Rather, the reference is to a change in the character of demand. Reflecting this change, consumers, though possibly buying more goods than previously, feel less compulsion to buy and are, as a group, more responsive to price changes in determining the quantities of goods they purchase.

In relating consumption expenditures to personal disposable income, we can see evidence of an easing of demand in the contrast between developments in the early postwar years and those of more recent years. In the early years, consumers spent unusually large proportions of their income in satisfying pent-up demands for many goods that had been unavailable during the war. It was not until about 1952 that the proportion of income spent on consumer goods and services settled down to a relatively stable level. Since then, the range of fluctuation has been between about 92 and 94 percent of consumers' income. The dollar amount spent for durable goods, such as automobiles, appliances, television sets, and furniture, has shown very little uptrend since 1955. The contrast this provides with an earlier strong uptrend suggests that there has been in recent years much less of a stimulus to business from such consumer spending than previously was the case. Undoubtedly, the large volume of purchases of durable goods through 1955 dulled consumers' appetites for more of the same.

Still, since about 1952 the consumer has continued to increase his total spending pretty much in line with his gains in income, as is indicated by the relative stability of the percentage of income devoted to spending. As the total amount of consumer spending has increased, however, it has been allocated in different ways than formerly. Generally speaking, consumers have been allocating a larger part for the purchase of services and a smaller part for the purchase of goods. Insofar as the satisfaction of demands for some goods leads consumers to spend in order to satisfy less urgent wants, this shift in the spending pattern also gives evidence of a gradual easing of demand over the years.



### Shifting Consumption Patterns



The shift from goods to services has been occurring since World War II. Back in 1948, spending for goods took about sixty-eight cents out of every dollar spent by the consumer, whereas in the first quarter of this year, goods took only fifty-nine cents out of every dollar. In contrast, spending for services increased in relative importance from thirty-two cents out of every dollar in 1948 to forty-one cents in the first quarter of this year. This includes such spending as that for telephone, gas, and electric services, medical care, and repair and financial services.

The shifting of consumer demands has been even more complex than these general figures suggest. Sometimes the demand for some services simply grows faster than the demand for certain goods. Expenditures for medical services, for example, have increased rapidly along with gains in income, whereas expenditures for food, more closely related to population gains, have increased more slowly.

Sometimes, services substitute for goods. For example, the gas and electric services now used for heating and refrigeration substitute for the coal and ice formerly purchased by individuals for those purposes.

Sometimes goods substitute for services. Thus, entertainment in the home provided by television sets, radios, and record players has been substituted, to a considerable extent, for entertainment in theaters, paid for as a service. Frequently, the purchase of goods has also caused increases in service expenditures, thus bringing about complementary gains in both goods and services. The rise in the number of automobiles on the road and of appliances in our homes, for example, has been followed by increased expenditures for repair services. Also, the use of credit in making purchases has brought increases in consumer expenditures for financial services.

In the business sector, demands for new productive facilities have also eased in the past five or six years. Not since 1957 has business spending for new plant and equipment shown a general upward trend, whereas in the earlier years of the postwar period such an uptrend was evident. Undoubtedly, the satisfaction of urgent consumer demands and the relative shift away from spending for goods has been partly responsible. Also, as existing productive capacity has tended, over the years, to be used less and less fully, there has been less and less incentive for businessmen to spend increasing amounts on productive capacity.

Spending by Federal, state, and local governments as a group is a different matter, for it has resumed an upward movement since about mid-1956. Earlier in the 1950's, Federal spending for military purposes first expanded sharply because of the Korean War and then declined in late 1953 and in 1954. Defense spending subsequently increased to about the volume reached in mid-1953. Spending by state and local governments has, however, shown a persistent, strong uptrend. With recently increased Federal spending for national defense added to this strong uptrend, total government spending has provided a major addition to overall demands during about the last five years.

While greater supply and less urgent private demands on the domestic scene have been primarily responsible for increased competition, developments on the international scene have also been responsible. Early in the period after World War II, this country had a virtual monopoly in supplying goods to the world market because productive capacity in much of the industrial world had been devastated by the war. As this industrial capacity was rebuilt, foreign economies became better able both to supply goods for themselves and, eventually, to compete for sales in the world market. Now American businessmen find themselves competing more vigorously both here and abroad with foreign producers. In cases where newly installed industrial productive facilities abroad are more modern than their counterparts in this country, the competitive position of foreign producers is enhanced.

Even during this period of increasing world-wide competition, however, purchases by foreigners have provided an enormous stimulus to some manufacturers in this country, as is shown by our sharply expanded exports. Amounting to a record total of over \$20 million last year, total exports from the United States were nearly 45 percent greater than they were a decade earlier.

### The Symptoms

We have seen a reflection of all these forces—the symptoms of increased competition—in the relative stability of the wholesale price index since early 1958. The effects of these forces have also been seen in greater efforts to provide high-quality services. The proliferation of models of many consumer goods is also a symptom of increased competition. Witness the variety of automobile models now available to satisfy the desires, even the whims, of American consumers, and the many-colored shapes and sizes of household appliances and television sets now on the market.

Ignoring all the statistics that, at their best, give only an imprecise indication of increased competition, one waggish businessman expressed the situation rather effectively when he said, "I no longer find it necessary to beat off customers with a club." Further evidence of increased competition is apparent in the greater emphasis that manufacturers are now giving to modernizing their productive facilities to cut costs.

All this reflects a change from the situation of the early postwar years, when many manufacturers could expand output with relatively little fear of being unable to sell at steadily increasing prices. There is no certainty now that

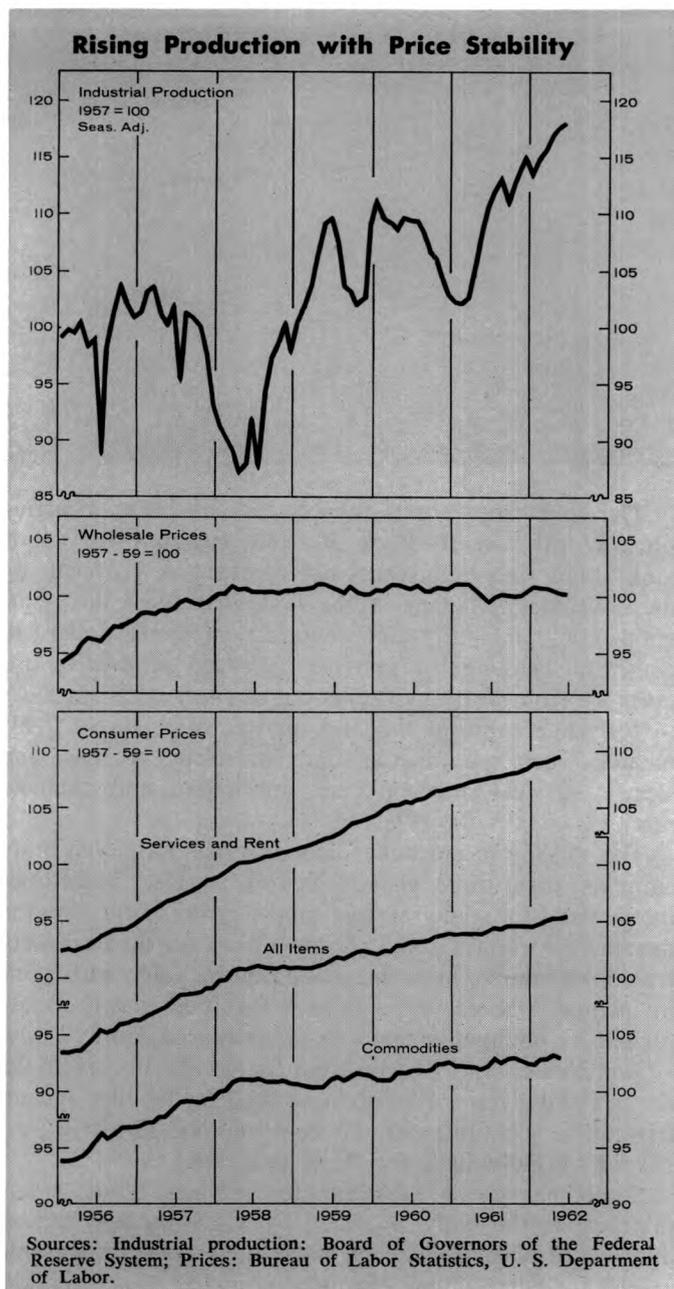
output can be sold without greater sales effort, which frequently involves price competition.

The question may well be asked, "Is all this increased competition good or bad?" Certainly it means that life is more difficult for the businessman. To maintain or expand profits, he must be constantly alert to discern changes in demand for goods and services, while at the same time seeking to expand the use of productive facilities and trying to reduce costs. The effect has been felt in labor markets, where, generally speaking, recent wage gains have been smaller than those of earlier postwar years. Individuals as consumers, however, frequently discover that increased competition means they can find better goods more readily than before and often at better prices. Whatever the point of view, most observers would probably agree that competition is now more effectively providing economic discipline than was the case a few years ago. One way it does this is by providing a strong stimulus to more efficient production.

### Will It Last?

Whether or not increased competition is a phenomenon of indefinite duration remains to be seen. However, since it has become most apparent—in the past four or five years—it has not been transitory and related only to recession. This is evident from the chart showing industrial production and prices, that is if we can assume that the price stability since early 1958 reflects the more competitive situation facing businessmen today. Since that time, this country has experienced two periods of sharp expansion in industrial production. In neither one did wholesale prices show any appreciable rise. In the most recent experience—that beginning in February 1961—expansion has been about as large as any previous postwar expansion, but wholesale prices are now actually lower than they were a year ago.

The evidence is less clear-cut when we look at consumer prices, but even here the upward trend of the average index of prices for all items has slowed considerably. This is especially true for commodities, which have shown little price change in the recent period of business expansion and, over the past four years, have shown a price rise of about 2 percent. Most of the upward pressure on the consumer price index for all items during this time has reflected a persistent uptrend in prices of services and rent. A highly competitive situation is, of course, normally expected in a time of recession, but it is significant that in recent years, business has continued to be highly competitive even as economic activity has recovered from periods of recession.



It is impossible, of course, to determine the extent to which the long-run changes that have brought about this situation influence current business decisions. Undoubtedly because of this, most observers are now having unusual difficulty in judging what course economic activity is likely to take in the next few months.

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## Revisions in Measures of Department Store Trade

The department store sales and stocks indexes published monthly by this Bank have been revised extensively from 1947 forward. Revisions include adjustment to the Census benchmark on the basis of 1958 data, recomputation of weights used in constructing indexes for the Sixth District

and for the individual six states, a shift in the base period from the average of 1947-49 to the 1957-59 average, and a recalculation of seasonal adjustment factors.

The indexes measure sales and stocks at retail stores that fall within the definition of department stores. Such