

(b) *Product design.*—While the automobile industry in the days of Henry Ford I was an arena of price competition—with companies reaching out for “the other 95 percent of the market” by competitive price reductions, the rise of General Motors ushered in a diversion of the industry’s competitive energies into nonprice rivalry. Whereas Henry Ford told his customers that they could choose any color automobile as long as it was black, the industry by 1960 was offering more than 300 different passenger models and the manager of General Motors’ Chevrolet Division boasted that his factories were turning out a custom-made car for almost every buyer. Chevrolet, he said, offers the buyers so many combinations and permutations of body styles, color, trim, and equipment options that (without counting accessories) Chevrolet could have produced its entire 1960 output of 1,850,000 passenger cars without making any two of them exactly alike. Price cutting to tap new layers of domestic or foreign demand had become an anachronism, only to be replaced by advertising outlays, annual model changes, and the horsepower race. The automobile, no longer a mere vehicle for transportation, was made a complex and luxurious amalgam of superengines, tailfins, quadruple headlights, and a cornucopia of chrome. Inevitably, its cost of production and price increased steadily and alarmingly.

For the Big Three, according to the Kefauver committee, depreciation and obsolescence costs rose from \$183.2 million in 1950 to \$679.8 million in 1957; selling and administrative expenses from roughly \$450 million to \$1,200 million; and the annual cost of special tools from \$182.3 million to \$762.0 million. (It should be noted that production volume in 1950 and 1957 was 7 million cars which makes these comparisons especially relevant.) At Ford, the dollar cost of major model changeovers increased more than 6½ times between 1948 and 1957, and at an increasing rate: in 1957 these costs were more than 3 times as high as in 1953. Since sales increased at a much slower rate, the ratio of styling costs to sales (and production costs) increased significantly—doubling between 1948 and 1957. In economic terms, the effect of this nonprice rivalry was to raise overhead costs and exert an upward pressure on price; this in turn, given the elastic demand for automobiles, tended to depress volume and raise unit fixed costs even further. The consequences, as we shall see presently, were far from gratifying.

(c) *Export policy.*—How should American automobile companies supply their overseas markets? Should they utilize and expand their domestic facilities or rely on their foreign subsidiaries? Should General Motors supply its overseas markets from Detroit, Flint, and Lansing, or from the Opel factory in Germany, the Vauxhall factory in Great Britain, or the Holden factory in Australia? Should Ford turn to River Rouge or to Dagenham, England, and Cologne, Germany? The choice that is made has an obvious impact on the volume of private investment at home, on employment, on purchasing power, on economic growth—and even on Government tax receipts.

Shortly after World War II, according to press reports, General Motors was contemplating the marketing of a new small car to be produced at a new plant built somewhere in the United States. This was the Holden, and its production facility was eventually located in Australia. This decision apparently became a policy trend in the industry. In 1958, J. Wilner Sundelson, manager of facilities and operations planning, Ford International Division, openly said: “* * * in our planning, we have taken the view that vehicle exports from the United States, which are playing a declining role in Europe, will virtually vanish * * *. Given the geographic penalty of the U.S. exporters in the European market * * * it will readily be understood why we do not anticipate selling many U.S.-made cars in 1970 in the Common Market. Not only vehicles and vehicle components but parts and accessories will be exported from the United States in limited quantities.” In 1961, Frederic G. Donner, chairman of the board of General Motors, echoed these sentiments: “* * * we will build cars and trucks in the United States for the home market and for those markets that want American-type cars, and we will continue our longtime policy of building cars abroad for sale in our overseas markets.” No wonder that American automobile exports between 1950 and 1959 declined from 120,000 to 104,000 while General Motors’ Opel exports from Germany increased from 25,000 to 169,000, the German Ford exports rose from 8,000 to 65,000, and Chrysler’s Simca exports from France rose from 7,000 to 121,000. No wonder that the percentage share of American automobile exports declined radically not only in Europe and the world at large but also (and significantly) in the Latin American market at our back door.