EDITORIAL

VILLAGE ADVERTISER April 12, 1984

Whatever became of supply and demand?

Whatever became of the law of supply and demand? Unlike the law of gravity (what goes up must come down) which works consistently unless an object escapes the earth's gravitational pull, and unlike Murphy's Law (if something can go wrong, it will) which is practically foolproof, the law of supply and demand is easily circumvented.

Supply consists of everything farms produce and factories turn out and all services offered for sale. Demand consists of the quantity of goods and services needed in the marketplace at acceptable prices. The "law" says quantities and prices fluctuate from day-to-day so that proper amounts of goods and services will always be available at reasonable prices. If the "law" operates, the economy remains close to being in balance at all times. Momentary over-production causes prices to drop; people buy. Should there not be quite enough to go around, prices rise; people do not buy. Balance is thus maintained.

Sometime during the last hundred years, the "law" failed utterly in America. But not because the law is no good... for the law to work, free competition must be allowed to work, too.

When free competition was commonplace, many businessers competed with each other; when business was good, competition encouraged increased production. When business was bad, competition forced prices down. The "law" operated beautifully. Then came some people with the brilliant idea of eliminating competition. Some became famous...and wealthy...doing it.

In 1870 John D. Rockefeller started consolidating oil companies into Standard Oil. By 1900, he had virtually eliminated competition in the oil industry. How did he do it? By forcing railroads to carry his oil for a lower price than they charged other companies. If one rail line didn't agree, Rockefeller shipped on competing lines. Soon Standard was selling oil more cheaply than anyone else. One by one competing oil companies were acquired at low prices. By 1904 Standard Oil controlled 86% of America's oil market and Rockefeller charged whatever he pleased for oil.

Andrew Carnegie eliminated competition in the steel industry using similar techniques. Other industries underwent the same experiences. Dividing the rubber market were Goodyear, Firestone, Goodrich, and U.S. Rubber. General Electric and Westinghouse captured the electrical industry. Betwen 1903 and 1926 the 181 companies building automobiles dwindled to 44. And today? Four.

In each major American industry, according to statistics supplied by the U.S. Department of Commerce Census of Manufacturers, only four companies dominate more than half their markets. Whether aluminum rolling, computers, steel, laundry equipment, tires, aircraft, cigarettes, locomotives, steam engines and turbines, metal cans, typewriters or telephones, only four companies control more than 50% of production in each line. In 1950 there were 440 American beer companies; today we have fewer than 50, and four... Bud, Schlitz, Pabst, and Miller... hold 66% of the market. Although some industries are still responsive to supply and demand (notably clothing, electronics, construction and retailing), competition has largely disappeared in manufacturing. Our economy is so dominated by huge manufacturing corporations that 70% of all profits go to only 200 big companies.

Does it matter?

When corporations over-produce today, prices do not come down. With so few companies involved, prices are maintained at artificially high levels until people become accustomed to them. And eventually consumers tire of waiting and begin to buy, even when they know they are being whipsawed. Nor is our government above playing the game of "Break the Law." When Japanese cars were selling in America as fast as they could be built and shipped into the country, our government raised tariffs to drive up prices of Japanese cars to levels American car manufacturers were asking. The argument? Detroit could not compete with the Japanese because American wages were too high. What happened to the "law?"

According to the law, when demand falls, prices come down. Workers will be laid off or paid less. Lay-offs and paycuts are painful and a hardship; but under the law, falling prices soon restore balance, generate new demand, and wage-earners go back to work or request restoration of wages. Workers, in attempts to protect themselves from lay-offs or falling wage cycles, play "Break the Law" by interfering with one of its essentials. Union contracts, although they may for a time protect wage-earners, contribute to artificially high prices.

If the "law" is to be effective, free competition must operate on every level of the economy. When, in a recession, we see in some industries that prices and wages continue to rise, we must conclude the "law is being broken."

When we ask, "Whatever became of the law of supply and demand?" we ask a question resembling, "Which came first, the hen or the egg?" If we permit the current economic trends toward more mergers to continue, we shall soon find the pendulum swinging back to the same economic conditions experienced years ago when Carnegie and Rockefeller tightened screws on Americans' pockets. Any remaining small businesses will be forced into bankruptcy, leaving American consumers at the mercy of a greedy few who will make millions for themselves at the expense of the general public.