

REMARKS OF
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This is obviously an unsettling time in Washington. A new--or rather a bristly, but old-fashioned--broom is going to be sweeping clean. Many of those who continue to have faith in the responsibility and capacity of government to address social and economic problems may now be required to stand aside and let those who advocate the free play of private institutions have their day.

But, curiously, it may also be a time for the affirmation of certain values and bedrock principles which are shared by conservative and liberal alike. And perhaps most preeminent among these is a commitment to competition policy--the functioning of a truly competitive market system.

In many areas, regulation and competition represent alternative strategies for curing marketplace failures. Regulation attempts to cure market defects through direct government controls. As an alternative, competition policy seeks to cure market defects indirectly by restoring competitive conditions and by assuring that the consumer has the power and the choice and the essential information to serve as the private regulator of the marketplace through their purchase decisions.

Those of us who have spent a good part of the last two decades concerned about the fairness and responsiveness of the market have grown increasingly to respect the power of competitive incentives operating in a free and open and honest marketplace to generate the highest quality products at the lowest competitive price -- prime consumer goals.

Those of us concerned about the vitality of American business and its capacity to meet the challenges from abroad, have also come to reaffirm our faith in vigorous competition -- competition which allows the successful and innovative to survive and prosper. In short, a commitment to a strong and aggressive competition policy remains a sound economic policy.

Nowhere are our current economic ills more acute than in the American automobile industry. The roots of this predicament have been traced to many sources, among them fierce price competition from imports. But another significant factor, in my judgment, has to be consumer perceptions about quality.

American cars once had a reputation for being the classiest, fastest, most innovative vehicles on the world's roads. Now that image has been undermined. In a recent survey of American consumers, when asked "which country manufactures the most reliable subcompact automobile?", 36 percent of the sample named West Germany, 33 percent named Japan, and only 21.5 percent named the U.S.

It is not difficult to trace the sources of these perceptions. Two years ago, one U.S automaker had to recall more cars than it built. Last April, a U.S. car company admitted it was closing one of its assembly plants specifically because of the plant's poor quality record. Another automaker found that its own models manufactured abroad had a lower rate of defects than its U.S. manufactured models. A major auto leasing company discovered that repair and maintenance costs were lower on its foreign cars than its U.S. cars.

The good news is that things are changing -- and dramatically! Quality control by U.S. automakers is improving. Manufacturers have embarked on multibillion dollar programs to modernize plants and equipment. Autoworkers are being given more responsibility for quality. High-level executives are being given special roles to ensure quality.

But reputations are hard to build and negative reputations are even harder to change. The question is: can U.S. automakers earn back consumers' loyalty? They can if they can get the facts out about improved quality. Let me explain.

Economists have increasingly recognized the critical importance of sound information in allowing the competitive marketplace to function as it should. In recent years, an entire branch of economics has emerged to study the "economics of information." Economists tell us that one very good way to determine whether a market is working well in providing consumer satisfaction is to see how easy it is for the consumer to get information about product or service attributes in that market. If consumers can get good information, the marketplace is likely to be producing high consumer satisfaction. Where consumers have more trouble getting information, consumer dissatisfaction is likely to result.

Often consumers can get the information they need relatively easily and cheaply. For well under a dollar, I can take the Pepsi challenge and decide if I like the taste. When I go to the store to purchase clothes or furniture, I can figure out whether I like the style simply by looking at the shirt or the couch. I can get a good idea about the fit and finish of a new car by looking at it, and I can find out how it drives by taking a test run.

There are other product attributes, by contrast, which are more difficult to learn about before purchase. And these tend to be attributes about which consumers dissatisfaction and complaints are highest. How durable and reliable will an automobile be over its lifetime? How much will it cost to maintain? How safe is it?

Clearly, it will be virtually impossible for consumers on their own to obtain reliable, comparative information about the performance of different makes and models of cars. That's where the government can help, and why I believe NHTSA is performing a signal public service to consumers in working to make such information more available. We at the Federal Trade Commission will continue to cooperate in these efforts.

Efforts at providing comparative performance information--whether they be these efforts in the areas of information about automobiles or whether they be other efforts, undertaken by the Federal Trade Commission, by other government agencies, or by the private sector--all are responsive to what the American people are telling us as regulators and as businessmen: They want to make as many decisions as possible for

themselves. They want to be armed with the information they need to help themselves and to protect themselves. I believe we will be seeing more use of information rather than direct regulation in the 80's, as we attempt to respond to the simultaneous desires by the American people to defend themselves against abuses, while being more wary of the heavy hand of direct government controls.

But the enhanced flow of automobile performance information should also serve to help ease the severe competitive stress the domestic auto industry today faces. I believe in the sincerity -- and the determination -- of the new efforts by both management and labor to stress quality, safety and reliability in American-made cars. The problem is that there may be a fatal time lag between actual improvement in product quality and the changed perception of product quality on the part of American consumers.

Left to normal workings, market shares tend to change gradually. Affirmative word-of-mouth takes time to spread, personal experience with an infrequent purchase will be even slower. Neither Detroit nor the country can afford to wait ten years for American cars to regain their reputation.

But there is a way to short-circuit that process. The development of a coherent system for producing reliable comparative performance information can provide an accelerated means of getting out the message of improved product quality.

My crystal ball does not reveal precisely how government, consumers and the automobile industry will work together to develop a mutually satisfactory system for insuring the flow of the essential information to consumers. But if my premises are correct, -- that consumers increasingly want and will demand such information, and that the American automobile industry is in the process of achieving a great leap forward both in product design and quality control -- there now exist mutual incentives, as there have not always been, for government and industry and consumers to join in a common effort.

There are several possibilities. Perhaps we can work together to produce standardized measures of safety and reliability that will be useful in comparative advertising, like the tar and nicotine measures which the FTC pioneered. Perhaps new cars could be tested against such standard measures in an independent testing institute, jointly funded by government and industry. Such an institute would supplement but not replace private non-profit efforts like Consumer's Union and the Institute for Highway Safety. As a result of such a program, U.S. automakers could base their quality assurances on reliable data -- which consumers could trust.

Whatever the form of cooperative effort takes, it does seem to me that this is time of radical transition in the structure and competitive context of the automobile industry. Ideally, such a cooperative effort gives promise both of benefit to consumers and of just rewards to manufacturers.