Berichte / Notes and Reports

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New Product Price Controls in France

Zusammenfassung

Preiskontrollen für neue Produkte in Frankreich. Preiskontrollen für bereits eingeführte Produkte führen häufig dazu, daß Produkte mit niedrigen Gewinnspannen aus dem Markt genommen werden und später mit höheren Spannen unter einem neuen Namen wieder eingeführt werden. Daraus ergibt sich die Notwendigkeit, Preiskontrollen auch für neu eingeführte Produkte durchzuführen. Der Beitrag beschreibt die Entwicklung solcher Preiskontrollen für neue Produkte im Rahmen des umfassenden französischen Preiskontrollsystems. Er versucht, die tatsächliche Wirksamkeit dieser Kontrollen abzuschätzen und zu erklären.

Die Wirksamkeit ist offenbar sehr gering. Dafür werden zwei Erklärungen geboten. Zum einen sind für die Preiskontrollen komplizierte Produktbeurteilungen durch die ausführenden Behörden erforderlich ohne daß es dafür ausreichende Handlungsanweisungen gäbe. Zum anderen haben die Unternehmen zahlreiche Möglichkeiten, die Preiskontrollen zu umgehen.

Abstract

Price controls on existing products frequently incite firms to drop low-margin products and to re-introduce them later with a higher margin under a new name. This creates the need for price regulations dealing specifically with new products. The article describes the development of new product price controls in the context of the overall French price control system. An effort is made to assess and to explain the actual effectiveness of the new product price controls.

Two major explanations for its apparent lack of effectiveness are advanced. First, the regulation demands complex judgements by the implementing bureaucrats, without providing sufficient operational guidance. Secondly, firms dispose of a variety of strategies to circumvent the regulations.

The new product activity of firms is constrained by a great number of regulations. These regulations can be classified into three groups, depending upon the main objective which governments pursue through it, namely:

1. product safety
2. a desire to try to distinguish between socially acceptable and socially non-acceptable (meaningful and less meaningful) products and to prevent the latter from being marketed
3. a concern for the price level in the economy.

This article will deal exclusively with the regulation of new product activity for the purpose of influencing the price level in the economy. The specific case of French new product price controls will be analyzed, and an assessment of the actual regulatory effects, as well as of their determinants will be made.

NEW PRODUCT REGULATIONS AND THE PRICE LEVEL

New product regulations for the purpose of keeping the price level down are based on two basic modes of economic regulation: those which attempt to modify
the market structure under which firms operate, and those which aim directly at the firms' market conduct.

The market structure type of regulation relies upon industrial organisation theories postulating a direct link between market structure and market conduct (e.g., Bain, 1968; Scherer, 1970). It comprises all regulations purporting to redress or maintain fair competition.

New product activity has recently come under attack from agencies watching out for violations of fair competition, e.g., the Federal Trade Commission, and the Antitrust Division of the U.S. Department of Justice. The relationship between new products and fair competition is established via the concepts of product differentiation and barriers to entry, two important elements of market structure. It is argued that product differentiation is used in concentrated industries in order to foreclose entry by new competitors. The launching of several brands by the same company, accompanied by heavy advertising to differentiate these brands in the consumer's mind, also serves as a means of exercising control over the distribution outlets. New products thus serve to maintain industry concentration, leading to poor performance, and in particular to higher than necessary price levels. Needless to say, not all economists agree on the necessity of the links between market structure and market conduct, and on the antecedents and effects of product differentiation (see Root, 1972, for a review of the different opinions).

In France, considerations of fair competition establishment and maintenance are of minor importance. "Competition" is almost a dirty word, and free-association tests with French politicians would produce high-frequency associations with "savage" (images of disorganised jungle fights), and hardly any with "fair." Markets characterized by a large number of small and medium-sized firms are regarded as anarchical, hopelessly retarded, and difficult to control. The French bureaucrat's ideal economic organisation consists of industries dominated by one or two large firms, bigness being synonymous with progress, prestige, efficiency, and ease of control. Thus, contrary to doctrines of most other Western countries, mergers have been encouraged and in many cases even subsidized.

Rather than relying on impersonal market forces, French bureaucrats prefer to control firm conduct directly. As concerns the influence on the price level in the economy, this implies a systematic recourse to price controls. Because price controls have intuitively obvious effects, they are frequently introduced under great popular acclaim and initial consumer satisfaction. Judicious choice of products and industries having maximal visibility toward the consumer but little political power maximizes the political benefits – and minimizes the risks – of price controls.

The recent (November 1977) price control on croissants, produced mainly by small, family-owned and -operated bakeries, is a case in point. But events subsequent to this regulation are also very instructive, as they provide a good illustration of the problems inherent in price controls. The general public's initial reaction to the price control was favourable. The measure followed the announcement of an unexpectedly high increase in the consumer price index, for which the grocery retailers were blamed. The bakers' reactions were much less favourable. They went on a short strike, resulting in some inconvenience to the consumers. Following this, many bakers eliminated the price-controlled croissants from their range of products. At almost the same time, however, newly shaped products with a croissant taste started