the disparity between poor and wealthy districts will be aggravated even further.

Does the governor believe it will help Pennsylvania's economy to cut education programs and lay off teachers? PSEA believes this is the time to invest in public education, rather than retreat from our commitment to it. We call on the governor to show imaginative leadership in helping Pennsylvania invest in its future.

Regarding the proposed freeze on state aid for basic education (one newspaper-said,) "We think that this absolute freeze is too harsh." A Harrisburg daily paper also criticized the funding proposal for basic

staff, punish deprived school districts which have declining tax bases and increasing unemployment. Last year both the governor and the legislature recognized the need to help these poor school districts by including an equity subsidy.

What hope do the children in these poor districts have if the way to balance the budget becomes the elimination of vital education programs? We ask the governor and the legislators to reconsider this position and to restore the funding promised these deprived school districts last year.

Annette Palutis
President
Pa. State Education Association

vision and theatre audiences.

Philadelphia

Guest Opinion

Downsizing Alone Will Not Save General Motors

By B.A. Ellis, Jr.

Financial analysts on Wall Street have hailed the downsizing of General Motors, the former giant automaker. They speculate that a smaller GM will be more profitable.

Their euphoria, however, is unfounded and troublesome, since a smaller GM will lead to higher automobile offer prices. And higher prices will lead to lower demand for GM automobiles.

Downsizing is expected to eliminate approximately 74,000 jobs and close 21 of GM's facilities within the next three years. However, it is unlikely to produce a leaner and more profitable GM. Contrary to Wall Street's prediction, a smaller GM will not improve its image nor its long term profitability.

As the former giant automaker reduces output and foreign suppliers maintain their voluntary quota, which is in their best interest, the supply of new automobiles in the U.S. will decrease. And, as the economy improves, demand and prices for new automobiles will rise. Rising prices in the automobile industry, however, will erode the purchasing power of the American consumer.

As a result, automakers whose products are perceived as inferior, will find it difficult to move inventories and analysts will again recommend further downsizing to enhance the inferior producer's stock and credit ratings. Continued restructuring, solely for such short term gains, will prove to be an atrophic and dangerous game.

GM's problem, and that of the American automobile industry, is lack of customers. Potential customers perceive workmanship and aesthetics of American made cars as inferior, and are unwilling to purchase at the current high prices.

Therefore, sufficiently low prices on the part of GM and other American automakers will, indeed, lure back consumers. Not because buyers believe that quality and looks have improved, but simply on the basis of price. Billions of dollars paid out in rebates by the American automobile industry, in order to move inventories, is evidence of the willingness of buyers to buy American automobiles when they are priced right.

Given a reasonable price differential between inferior and superior products, consumers will be willing to purchase the inferior product, if the price difference can potentially compensate for the perceived purchase risk.

Straightaway one can see that in order for GM to regain market share, the retail prices of its automobiles must be lowered. The consumer valuation of GM cars is less than GM's valuation and, consumer valuation will not change because GM downsizes. Downsizing does not improve product quality nor the American worker's morale.

Products perceived as inferior cannot command the same prices as products that are perceived superior. The valid perception in a competitive market, in terms of exchange, is that of the consumer, not the manufacturer.

Hence, whenever market research indicates that a given product is viewed as inferior, whether it is or not, to be sold it must be priced as an inferior product.

Once potential customers have been lured, through proper pricing techniques, to purchase the perceived inferior product, then it is up to the manufacturer of that product to add something of value that the average consumer did not expect. That so[illegible] could be, greater reliability, better energy consumption, roominess, better interior, better point of sale and after sale services, better warranties, etc.

Asian manufacturers' initial interest have been that of capturing a solid customer base, market share. That is, you cannot have customer loyalty if you don't have customers.

Having established a customer base through low prices, they begin to add value to their products. And, as value is added, they simultaneously increase prices, extracting as much from the consumer as the consumer can bear.

They are aware, however, that as the consumer surplus is being extracted, less of that product will be purchased. Therefore, they introduce similar less expensive models and, the cycle of adding value and price rises begins anew.

A typical example is the Mazda RX7, introduced in the mid-70's with an offer of approximately $6,000. The late 70's $10,000 and late 80's as high as $24,000.

At this point, a sporty MX6 is introduced with a low offer price of approximately $10,500, following by the super sporty Mazda Miata priced at about $13,000 and in 1992 another sport car, the MX3, is introduced at $12,300 and the price of the RX7 climbs to the mid-30's.

Two effects are occurring here, consumer surplus extraction and something akin to monopolistic pricing. The former is represented by a large percentage rise in the price of the Mazda RX7, approximately 400 percent, over a 15 year period; and the latter by the fact that at virtually any price range customers can obtain a sport car from Mazda. Honda, Toyota, Mitsubishi and Hyundai utilize similar techniques.

GM strategy for regaining market share and profitability should follow the Asian model. First, GM must immediately implement a general price reduction and publicize the retail price to prevent unscrupulous dealers from arbitrarily raising prices. This, however, should not be accomplished by implementing temporary price rebates.

Secondly, once GM has regained customers through lower prices, it must ensure that the quality and looks of all future models are improved, at par or superior to foreign competitors, and it should establish a five year/60,000 miles, bumper to bumper, no questions asked, warranty. Furthermore, it must provide potential customers with a greater price range of choices for a given type of automobile.

Certainly, many will argue that GM's current cost structure rules out a general reduction in prices. However, at current offer prices customers are reluctant to purchase, at higher offer prices reluctance will be even greater. Therefore, the only available price movement is downward.

Aside from luring customers back, GM must vehemently work on ways to expeditiously improve efficiencies. This, however, is easier said than done. Nevertheless, there are available models of efficient automobile manufacturing, plants, the Japanese. And, GM's management should understand that imitation, in many instances, is as good as innovation.

It is time for GM to cease its illusory leadership and become a true follower. A follower competing for market share. A market not limited to the U.S. and Canada, but one that includes Latin America. Here again, reasonable pricing will enhance reentry.

B.A. Ellis, Jr. is an occasional contributor to the Tribune.