COMMENTS REGARDING ECOMPETITION
SUBMITTED BY THE NATIONAL AUTOMOBILE DEALERS ASSOCATION

1. **Purpose and Summary**:

This brief is submitted by Professor Brian Shaffer for inclusion in the public record on behalf of the National Automobile Dealers Association, in response to the October 2002 Federal Trade Commission's "Workshop on Possible Anticompetitive Efforts to Restrict Competition on the Internet." It assesses the validity of estimates of economic and consumer harm from current state-level market regulations and business practices in the retailing of new motor vehicles.

It concludes that there is no valid statistical evidence of harm to consumers that would support the estimates provided by FTC workshop participants on the record on October 8 & 9, or as cited in published papers [2]. The retail sales of new motor vehicles is a very competitive industry, and state franchise laws cannot prevent an informed consumer from using the Internet to search for optimal vehicle availability, quality, customer service, and price information [5]. Forecasted savings of "tens of billions" by the Consumer Federation of America [2], or "thousands of dollars" per car (submitted testimony of Atkinson [6]) are simply not supported by credible or current statistical data.

2. **Qualifications**:

I hold a PhD in Business & Public Policy from the University of California, Berkeley, and have served on the faculty of Logistics, Business & Public Policy at the University of Maryland since 1995, teaching courses in managerial economics and public policy, with publications in peer reviewed journals in business & public policy, law & economics, and management. My PhD dissertation, as well as several journal articles, addresses regulatory issues in the automobile industry.

In the summer of 2001, I was retained by the NADA to review and assess claims of consumer harm from existing state franchise laws in the context of the "New Economy." My report is referenced below [5], is available on the NADA website, and provides full documentation and references to relevant economic studies.

3. **Suggested Claims of Economic Harm to Consumers:**

The Consumer Federation of America study asserts the following:

> Empirical studies and regulatory reviews of territorial restraints on distribution have consistently found that they result in higher prices to consumers. While these studies are somewhat dated, all having been conducted in the 1980s, the results are uniform.... Generally, relying on comparisons between areas with and without restrictions, the result is a markup of about 6-8 percent in markets where restrictions are in force. At today's prices of $25,000, that would yield potential cost savings to consumers in the range of $1500 to $2000 per vehicle in areas with restriction [2, p. 20].

Given that unit vehicle sales have averaged 15.1 million over the past ten years [4], the per vehicle savings can be extrapolated to $22.6 and $30.2 Billion dollars per year, which apparently justifies projections of "tens of billions."

Obviously, that is a lot of money. But are these estimates realistic, or supported by relevant data? The answer is no. The CFA "estimate," as quoted above, is not supported by any original or contemporary data, and it is not supported by the empirical studies referenced.

My assessment of the same empirical studies cited in support of the CFA report is that (1) the data was collected on car sales transactions from a long time ago (i.e. pre-1980), and that they do not support anywhere near the generalized figure asserted by the CFA. In the interest of brevity, I will not elaborate, but strongly urge interested parties to access my report [5, pp. 2-4] for full details in support of the following conclusion:

Existing empirical data cited by the CFA, even on its own terms, would support an average price impact of 2.2% as a percentage of sales.

Further validation of that estimate comes from panelists at the FTC workshop. Professor Fiona Morton's publication cited a figure of 2% as what consumers have already saved due to the impact of the Internet on new car sales [3]. Professor Robert Gertner's statement submitted for the workshop again cites a hypothetical figure of 2% as a potential cost savings for consumers, "if the Internet were to reduce the cost of a new car" [6].

4. **Does it matter?**

The aggregate savings appear very large, mainly because the subject industry is the largest retail sector in the U.S. economy. Year 2001 sales of both import and domestic models exceeds 400 Billion Dollars. So, of course, 2% is a lot in the sense of simple projections. But, it appears that such savings are already being realized.

Furthermore, criticisms of the current market structure seem to assume that a transition to a different system would lead to all benefits and no costs. But a proper assessment of regulatory reform should include a balanced consideration of the implications for the economy and public welfare.

A recent article in the *Washington* Post cites economist Lawrence J. White, of New York University asserting that:

> While the country doesn't want to return to the days when there was one phone company and the government decided what the airfare would be from New York to Cincinnati, it is unwilling to buy into the more recent notion that markets, left to themselves, will take care of everything [7].

In closing, the economic benefits of the current franchise dealer structure should not be trivialized. These benefits are widely distributed in all regions of the United States, and include very significant employment, sales tax revenues, physical inventory of new motor vehicles, the delivery of warranty service, and product recall and safety administration [1] [4].

5. **References**:

[1] **Contribution of the Automotive Industry to the U.S. Economy in 1998: The Nation and Its Fifty States**. March 2001. Prepared for the Alliance of Automobile Manufacturers and the Association of International Automobile Manufacturers. Joint authors are the Center for Automotive Research, Environmental Research Institute; The Institute of Labor and Industrial Relations; and the Office for the Study of Automotive Transportation (all at the University of Michigan).

[2] Cooper, Mark. **A Roadblock on the Information Superhighway: Anticompetitive Restrictions on Automotive Markets**, Washington, DC: Consumer Federation of America, February 2001.

[3] Morton, Fiona, M. & Florian Zettelmeyer. Internet Car Retailing. **Journal of Industrial Economics**, Vol. 49, 2001.

[4] **NADA Data**. National Automobile Dealers Association, 2002 (www.nada.org).

[5] Shaffer, Brian. **Franchise Laws and Internet Auto Sales**. Prepared for the National Automobile Dealers Association, McLean, VA, September 2001 (www.nada.org).

[6] U.S. Federal Trade Commission (FTC). **Public Workshop on Possible Anticompetitive Efforts to Restrict Competition on the Internet**. October 8–10, 2002. See website for written testimony submitted by panelists (www.ftc.gov).

[7] Regulation versus Competition: No Winner Yet. **Washington Post**, Nov. 2, 2002, A14.

11/12/02