



**PHOENIX** FOR ADVANCED  
C E N T E R LEGAL & ECONOMIC  
PUBLIC POLICY STUDIES  
www.phoenix-center.org

5335 Wisconsin Avenue, NW  
Suite 440  
Washington, D.C. 20015-0234  
Tel: +1 (202) 274-0235  
Fax: +1 (202) 318-4909  
[www.phoenix-center.org](http://www.phoenix-center.org)

## Press Release

Contact: Lawrence J. Spiwak  
Phone: +1 (202) 274-0235

FOR IMMEDIATE RELEASE  
Tuesday – July 12, 2016

### NEW PHOENIX CENTER ECONOMIC ANALYSIS SHOWS THAT STATE AUTO FRANCHISE LAWS PLAY AN IMPORTANT ROLE FOR CONSUMERS

#### *State Auto Franchise Laws are not Protectionist; Produce Lower Prices for Consumers*

WASHINGTON, D.C. – Over the last several years, state laws requiring independent retail auto dealerships have increasingly come under attack. This heightened focus on state auto franchise requirements has prompted the Federal Trade Commission to inquire whether these decades-old laws still benefit consumers. According to a new economic analysis released today by Phoenix Center Senior Fellow Professor T. Randolph Beard and Phoenix Center Chief Economist Dr. George S. Ford, the answer to this question remains “yes.”

First, the Phoenix Center’s economists demonstrate that state auto franchise laws do not limit competition. By most expert accounts, there are more than enough dealerships to ensure competition on pricing and servicing, especially for the traditionally domestically branded cars. It is also readily acknowledged that new automobiles are sold at scant profit margins, which belies claims of market power.

Next, Drs. Beard and Ford demonstrate that state auto franchise laws may be very beneficial to consumers. As the authors explain, these laws not only encourage competition that demonstrably lowers prices for consumers, but state auto franchise laws also alter the way consumers buy cars and service in a positive way. Instead of consumers engaging in one-off transactions with powerful manufacturers, dealerships are in a continual relationship with manufacturers and choose to bundle sales and service in a manner preferred by consumers – but not by manufacturers. (Manufacturers seek to maximize their profits, and profits are higher when the bargains for a new car and service are arranged differently than what the dealer and consumer prefer.) As a result of this intermediary function played by independent auto dealers, retail car prices are lower for consumers under state auto franchising laws.

“When selling an automobile-service bundle, our analysis indicates that franchised auto dealers have a better incentive with respect to consumer desires than car manufacturers,” said study co-author and Phoenix Center Chief Economist Dr. George S. Ford. “As such, it is not unreasonable for state legislatures to choose a market design that best serves their constituents in the form of local auto franchise laws.”

“Franchise laws do not limit competition or lead to higher prices,” said study co-author and Phoenix Center Senior Fellow Professor T. Randolph Beard. “In fact, all the evidence suggests that there is intense competition leading to very low margins on new car sales.”

A full copy of the paper, PHOENIX CENTER POLICY PERSPECTIVE NO. 16-06, *State Automobile Franchise Laws: Public or Private Interests?* may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective16-06Final.pdf>.

*The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of the digital age.*