The Daily Dish

FTC to the Rescue?

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The Federal Trade Commission (FTC) published a proposed rule with new standards for automobile dealerships. This is notable for two reasons: the rule itself and the fact that an agency primarily known for its enforcement actions published such a significant rule at all.

As Dan Goldbeck explains, the FTC expects the rule to produce $31 billion in benefits and impose $1.4 billion in costs. Only one other FTC rule (of the 28 FTC rules in AAF's RegRodeo since 2005) has exceeded the $100 million threshold, and that came in at a mere $252 million. Clearly, this is the most economically significant FTC rulemaking currently on record.

It is also wildly off the mark.

As Goldbeck puts it: "The key parts of the proposed rule's potential new regulatory standards include: 'Requiring dealers, whether acting directly or indirectly, to refrain from misrepresentations, provide for material disclosures at key points in the transaction, refrain from the sale of deceptive or unfair add-on products, and require retention of dealers' advertisements and consumer transaction documents.' Enshrining these provisions into relevant regulatory code would allow FTC to utilize its authority under Section 19 of the FTC Act to bring legal action against 'any person, partnership, or corporation,' in the automobile dealer industry, that 'violates any rule under [the FTC Act] respecting unfair or deceptive acts or practices.'"

In the eyes of the FTC, all of this enhanced clarity would save the auto buyer a lot of time, and essentially all of the supposed $31 billion in the present value of benefits are the monetary value of time saved. But the estimate is completely implausible: "In this breakdown of the time spent at a dealer, the only item that this rulemaking would materially affect would be the 32 minutes spent 'Negotiating a Price and Trade-In Offer'; all other aspects of this estimated 'visit' are rote aspects of the process that largely fall outside the scope of the new requirements. While these increased disclosures may have some ancillary savings to the pre-visit time or time spent at another dealership, it is difficult to see how one can expect 3 hours of savings when the primary aspect of the car-buying process that the proposal seeks to address is roughly half an hour. If one applies 30 minutes saved (instead of the original 3 hours) to FTC's benefits formulation, it yields only $689 million in annual benefits, or $5.2 billion in present value under a 7 percent discount rate."

There are other details to the critique, but it is hard to defend the benefits calculated by the FTC. It has both done something dramatic, and done it dramatically wrong.