

# UW Whitewater: Study: 'Sales Below Cost' Laws Led to Lower Gas Prices in 13 States

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Bucking the conventional wisdom that "sales below cost" bans inflate gas prices, a new University of Wisconsin-Whitewater study concludes that retail gas prices actually declined in the 13 states that imposed such laws over the past two decades.

UW-Whitewater economist Mark Skidmore and colleagues found that, on average, gas prices are about one cent lower five years after a sales-below-cost law is in place. The study also indicates that after five years, those same states have 4.5 percent to 7.4 percent more total midsize to large gasoline retailers — those with five or more employees — than they would absent the law.

The study likely will further the controversy over minimum markup and sales below cost legislation related to gasoline. States with below cost laws are under intensive lobbying and court challenges aiming for their repeal. Arkansas, Georgia and Montana have terminated such laws.

Supporters contend that sales-below-cost laws prevent large, financially diverse retailers from using below-cost sales to purge the market of smaller independent retailers, only to raise prices later in a less competitive environment. Opponents of such laws, including the Federal Trade Commission, argue that they inhibit competitive pricing strategies that benefit consumers and protect weaker firms from market forces.

"We have a study that contradicts the conventional economic view that these sorts of interventions are not a good idea," Skidmore said. "In states that adopt the law, we find that more retailers are able to stay in the game. The laws are serving to retain a competitive environment, which is one route to keeping prices down." Why would there be such a disparity between this study and previous findings? Skidmore said this study is the only one that examines gas prices over a significant period of time — in this case, 20 years — rather than taking a statistical snapshot of urban gas prices. The study examined long-term trends in wholesale gas prices in all 50 states from 1983-2002, as reported in the government-published *Petroleum Marketing Monthly*.

"We know that in the last 20 years, 11 states have either adopted or repealed an SBC law," Skidmore said. "We compared those states in transition with those that either always or never had a law to paint a more clear picture of how these laws impact prices over time."

This study also differs in comparing gas prices statewide rather than just metropolitan areas. And it looks at a cohort of neighbor states to create more relevant comparisons.

"The urban-rural issue is of key importance here because prices in smaller cities may be most affected by a reduction in market concentration," he said. "In smaller towns, eliminating just one retail outlet can significantly alter the competitive environment."

The study also counters the assumption that sales-below-cost laws protect the smallest and most inefficient retailers. Outlets with four or fewer employees gained little from the newly-imposed laws, Skidmore said. And with or without the laws, the number of gas outlets has been declining nationally.

Co-authors of the study include James Peltier, professor of marketing at UW-Whitewater; and James Alm, professor in the Andrew Young School of Policy Studies, Georgia State University. The study has been accepted for publication in the Journal of Urban Economics. The original research was done for the Wisconsin Petroleum Marketers Association and the Wisconsin Attorney General's Office.

States that have gasoline sales below cost laws include: Alabama, Colorado, Florida, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, North Carolina, South Carolina, Tennessee, Utah and Wisconsin. Maryland and Minnesota are the only two states to have enacted laws since 2000, while Wisconsin has had a law in place since 1939.

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