Used Car Economics

Kevin Williamson's Welcome to the Paradise of the Real was written over two years ago and I still refer it to readers.Sneaky Inflation is equal to that piece in bringing sound economic thought to bear on current issues with an engaging style. Both pieces are in National Review.

An excerpt from Sneaky Inflation:

> *The interaction between competition and innovation has two parts: Competition is a spur to innovation that produces gains in productivity, and it also is the mechanism by which those gains are passed along to consumers rather than kept by producers in the form of higher profits. Contrary to what you might assume, there is a fair amount of innovation in non-competitive sectors, though a great deal of it consists of simply adapting advances in more competitive sectors to less competitive ones, for example the spread of information technology to university offices. Because higher education is not very competitive (it is dominated by government schools that will lose little if any revenue if a dissatisfied student — which is to say, a customer — decides to go elsewhere), you would expect to see gains in productivity consumed by university administration (in the form of higher salaries, bigger staffs, and larger budgets) rather than passed on to students in the form of lower tuition or to taxpayers in the form of lower subsidies.*
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> *The pattern repeats itself with housing, albeit in a more complicated, Rube Goldbergian fashion: The federal government has for decades been ensuring "liquidity" in the mortgage business by buying up securitized mortgages through government-sponsored enterprises such as Fannie Mae and Freddie Mac, indirectly subsidizing mortgage lenders to keep down interest rates, and using a splendid variety of carrots and sticks to keep credit standards as wobbly as Hillary*

> *Rodham Clinton on a 77-degree day. That's the oldest used-car-dealer trick in the book: Don't let the customer think about the total cost of the purchase, but keep the mark focused on the monthly payment. I once knew a used-car dealer who estimated that he'd made more than $50,000 on one ten-year-old 280Z he'd sold to a dozen different bums and repossessed a dozen times. That's a fine way to run a used-car dealership, but perhaps not the world's largest national economy.*
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> *Notice: While highly regulated industries such as health care and those with a very large government footprint such as education have seen prices skyrocket, the price of a computer has declined by an average of 18 percent a year since 1990, while the price of a television has dropped by 12 percent a year.*
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> *But that's just technological innovation, right? We say that as though technological innovation were a force of nature, as though it were something that just happened. But that isn't the case. Without robust competition — meaning real consumer choice, something that is largely absent from education and health care — there is less incentive for innovation, and still less incentive to pass along any savings to consumers.*

An excellent article. I strongly recommend reading in full.