Shopkeepers in ancient Babylon used splashy discount promotions to clear excess inventory. For reinventing this wheel, General Motors is now being hailed as a marketing genius for a new millennium. What gives?

You can't fault the numbers produced by its "employee discounts for everyone" promotion, begun in June and now extended into August. June sales were up 47% compared to a year ago; the goal of cleaning up a million-vehicle backlog was evidently met. Dealers are now complaining about a shortage of merchandise.

Yet, and peculiarly, the average selling price of a car was almost identical to the price before the promotion. The "Law of One Price" prevails in the car market after all -- i.e., the market price for a car is the market price for a car, however you gussy it up. GM's "employee discount" merely substituted for various rebates and other "incentives" that GM had previously used to rationalize the gap between the sticker price and the selling price.

But, lo, a mystery presents itself: What accounted for the big increase in volume if not a big drop in prices?

Answer: GM's inspired gimmick may not have meant better deals on new cars, but it did mean a radically altered buying process. All but eliminated was haggling, which surveys show is reviled by most consumers. As such, the promotion was a real-world test of a claim by economists Devavrat Purohit of Duke University and Harris Sondak of the University of Utah, who predicted that ending haggling would create sizeable gains for consumers and car makers alike.

Think about it this way: GM sold 47% more cars without major price cuts simply by eliminating haggling. Had GM not been driven by a need to move surplus metal, it might have reaped the gains through higher prices rather than larger volume. How much higher? We suspect even now academic economists are busy producing simulations to answer that question, and perhaps we'll soon know if their estimates approach the $883 per car that Messrs. Purohit and Sondak discerned based on a questionnaire method.

"Price discrimination" -- or charging a different price to different customers based on their willingness to pay -- is a common practice in business. But the car racket is one of the few where customers have the sensation of being discriminated against individually, based on a salesman's testing of their gullibility. Anxiety, shame and feelings of resentment trail a buyer home, thanks to the suspicion that he might have paid more than necessary.

Not being stupid, Detroit's auto moguls have long understood that haggling is hated by customers and means less money for manufacturers. Mark LaNeve, North American sales chief for GM, is touting his "employee discount" promotion as a halfway house to "value pricing," his strategy of lower sticker prices and less haggling in the 2006 model year.

His rivals are headed in the same direction. "We have to do what's right for the customer, and the customer spoke pretty loudly in the month of June that they like a simple, clear and consistent message when it comes to pricing," a Ford spokesman said recently.

Now let's spend the rest of the column explaining why the deck is stacked against Detroit's latest commitment to introduce Wal-Mart style everyday low prices to the car biz.
Auto people talk about haggling as if it's a quaint folkway that lingers on unaccountably from horse-trading days. The real cause, in fact, lies with Detroit's decision long ago to distribute its products through independent business operators, i.e. car dealers.

Because the value of each transaction is so large, it's worth a dealer's while to spend time trying to separate each customer from the maximum he's willing to pay -- what one dealer calls "headhunting." Even today, despite their happy faces for the media, many dealers grumble because the "employee discount" promotion deprives them of an opportunity to score a high-margin sale to a customer who, for whatever reason, is willing to pay the sticker price.

Car makers stuck themselves with an arrangement that handed control of pricing to someone else, namely independent dealers. Technology briefly offered a window to capture back this power, but a dozen states rushed out laws blocking auto makers from dealing directly with the public by, say, selling over the Internet. George W. Bush signed one of the most stringent in Texas just before becoming president.

As long as dealers remain in the loop, haggle-free pricing runs smack into their incentive to separate out those customers willing to pay an above-market asking price. Under a 1958 federal law that created the "sticker," auto makers are required to state a "suggested retail price." Detroit might, perhaps, get closer to its goal by publishing the invoice price that the dealer pays for the car -- though dealers would undoubtedly resist that too.

But here's another reason that fixed pricing is unlikely to succeed -- Detroit's own cost structure.

With its labor costs fixed because of employment guarantees and large pension and retiree health costs, Detroit can't adjust supply to meet demand -- so it must rely on price adjustments alone. A heavy fixed-cost burden leaves a car company motivated to churn out cars even at a loss as long as the selling price will cover at least a portion of a labor bill that must be paid whether or not cars are produced at all.

Sticker prices that accurately reflect this reality would show most cars doomed to lose money from the moment they left the lot. Yet notice that dozens of models -- from the Chevy Corvette to the Ford Mustang to the humble Dodge Neon SRT -- were carefully exempted from the employee discount offer. These cars command a market price that reflects the sticker price, and covers the cost of building them. Why? Because they are desirable cars, which is Detroit's only salvation if it can't create more flexibility in its labor overhead.