

## **The Price of Everything – Eduardo Porter**

Reviewed by

**Prof. C.P. Ravindranathan**

Xavier Institute of Management & Entrepreneurship

Prices under different types of market structure are the humdrum stuff of business economics, but the scope for theorizing on prices extends far beyond such conventional approaches. Description of prices as “the unacknowledged legislator of human behaviour” comes close to capturing the plenitude of application that prices have in human affairs. The author of this book, Eduardo Porter, certainly thinks so. His thesis is that costs and benefits, measured not only in money, cash or credit, but also set in love, toil or time rule human decision-making.

In nine chapters, Porter surveys how prices affect human behaviour in ways that create markets, evolve norms for issues such as compensation and medical care, set the score on pursuit of happiness, determine empowerment of women, reflect cultural preferences and provide space for religion as well as concern for future generations. And finally the author considers what happens when prices are allowed to be set by unfettered markets, as was shown by the recent global economic crisis and, in that context, what are the possibilities and limitations for governmental intervention to prevent such disasters in future.

Oscar Wilde famously defined a cynic as one who knew the price of everything and the value of nothing, thereby probably inspiring the title for this book. Defining relative price as the relative value of exchanged things, Porter makes the point that prices have their rightful place as indicators of human preferences and guides of mankind. “Every choice we make is shaped by the prices of the options laid out before us – what we assess to be their relative costs, measured up against their benefits”.

But there are any number of variables in the business of pricing and consumer behaviour, much as producers' space in a free market is constrained by competition. Competition, however, can be curbed by patents or local monopolies; there are proven tactics employed by producers to keep competition at bay; there are unacknowledged motivations that enter the value assessments of the consumer, as also search costs and information deficit and significant differences in consumer behaviour in terms of age, income and the way individuals value time and money. Against this complex background, the author's conclusion is that, despite the assumption among economists that men and women are rational beings who are able to accurately evaluate costs and benefits, people often make decisions about prices and values that, on careful consideration, are inconsistent or short-sighted. That we are simply "inveigled by prices", says Porter, is shown by the way Steve Jobs revolutionized the music industry by persuading us to pay \$0.99 for a song or Dave Gold earlier made a fortune through his 99 Cents Only chain of stores.

An area where pricing is done in any number of controversial ways is life itself. In an ideal sense, life is priceless, but in the world of government and company budgets it is as much amenable to cost benefit analysis as anything else. Hence the notions of economic and non-economic loss in calculating death benefits. On the other hand, rules on product standards and workplace safety bear out the government's assumption that lives saved from physical morbidity or death by its regulations are worth the costs imposed on producers, consumers and taxpayers. But that way also lies misallocation of resources, as for example when the US government chose to spend \$300b on strengthening the homeland security system in the aftermath of 9/11. Price tags like that might appear all too high in as much as there are other pressing needs in a country or in the rest of the world. Any explicit suggestion of rationing is anathema to the US healthcare system so that the US policy of allocating healthcare by the patients' ability to pay rather than an analysis of the costs and benefits of treatment makes the American distribution of health and life "as inequitable as one can get in the industrial world", says the author.

Bhutan's much-touted idea of "gross national happiness" receives some measure of attention from Porter as he inquires into the question whether having a

big GDP is not better than a small one, or rather, whether having a big GDP does not bring happiness within the grasp of people who have it. His own answer, after discussing a variety of views on the economic content of happiness is firstly to read the Bhutanese experience differently by looking at its seamy side like female infanticide and secondly to aver that Bhutan's growing richer in recent years, has had much to contribute to its happiness. On the other hand, the happiness gained by Americans through their biggest GDP can be said to be consumed by the unhappiness of having to work for it not only with longer hours of work than the French and others, but also to the exclusion of many nice things like leisure. Americans, in other words, may be paying too high a price for their chosen version of happiness. But for the clincher on the price of happiness, Porter turns to the heroine of a famous Mexican telenovela. "I know the rich also weep; but the poor weep more".

Discussing 'the price of women' down the ages, Porter argues that the raw Darwinian market place valued women as sellers of reproductive service. But development at length has changed the terms of the transaction, giving women another function, as producers in the market, thus increasing their value both in the household and society. It all adds up to a diverting narrative, especially at the present moment when women in employment has become the majority of the workforce in the US, after having already become the majority of university graduates in OECD countries – facts having a great bearing on the 'price of women' that the author fails to mention, or where he refers to them, does so with a difference in emphasis. But when it comes to developing countries like India his argument is that age-old marital patterns, dowry and all, have resisted change. In China, however, there would now be a different pricing for women in view of the estimate that the one-child policy and the resulting killing of female children will have led to a ratio of 135 men of marriage age for every 100 potential brides by 2020.

Predictably, the correlation between China's offer of a competitively priced workforce and the tripling of the country's GDP over the last decade is part of the book's argument. The same goes for the offshorable jobs in the US owing to IT, estimated at a quarter of the total jobs in the US. There are also radical changes

in the price of work in the US, the top layer consisting of lawyers, engineers and bankers having seen a substantial rise in their wages; the workers at the bottom, like janitors and nursing staffers, have also benefitted from marginal improvement in pay, but workers in the middle have suffered. Foremore among the beneficiaries are those in the financial sector. “For the good of the rest of the economy”, says the author “bankers should earn less”.

With computers and the internet having made it easy to copy and share information around the world, a lot of music, books and movies have migrated out of the bounds of pricing. Porter himself thinks differently. For his conclusion is that what the IT has done is to transfer the money from the producers of information to the owners of the technologies that deliver it to their audience. Whatever the information economy looks like ten years from now, information itself cannot be free.

The price in politics – of a vote and of political power – is the trickiest of all. Both in Sao Tome and Principe, an admittedly corrupt African country and the US, votes and political power are purchased – it is just that the American voters demand a higher price (so that Obama had to spend a record \$730 million mostly in campaign ads to win the presidency), while what is open corruption in the former appears in the form of its rich cousin, lobbying, in the US. Beyond politics, Porter considers the broad issue of culture that reconfigures the price system in countries, from tipping to tighter labour market regulations.

Dealing with the price of religious faith, Porter makes the counterintuitive point that the most successful religions at building enthusiastic flocks are usually the most extreme in their beliefs, like evangelical Christians in the US or radical Islamists in the middle east. Here a strange price strategy works: raising prices to keep your customers. The Catholic Church, by softening the rules to accommodate modernity, has led many true believers to decamp for the simple reason that it failed to recognize that a religion, like a club, should set rigorous rules and demand sacrifices to segregate members from outside, argues Porter. But he also believes

that God will bounce back for all that, since economic horizons are shrinking and the need for a supernatural narrative would be increasingly felt.

Cost benefit analysis of global warming leads Porter to argue variously, with the support of several authorities, that along with the extinction of species, soil depletion and all other signs of imperilled global sustainability underscore the inability of the global economy to put a price on the endowments of nature, specifically, the need for tripling the price of petrol in the US. On the other hand, the notion that we must curb carbon emissions, faces diverse opposition including voters in rich countries, government in developing countries and oil majors, apart from essentially our inability to relate to pain in the distant future. The various calculations on combating climate change have come up with different price tags, all high and bearing little correspondence to the willingness of countries to share the burden. Porter says that the ultimate justification about saving the environment is for all of us to accept that it is as inherently valuable as humanity itself.

Porter's final argument in the book addresses the question of what happens when prices fail, much as prices do a good job of both shaping human behaviour and being shaped by it, providing the most important signals in an economy, guiding people's decisions on where to invest their resources to get the best returns they can. But prices do go wrong and decisions are distorted; that was the story of the housing boom and crash in the US between 2000 and 2006 and 2006 and early 2009. Similar financial excesses had occurred before, from the South Seas Company saga to the fall of the Nasdaq in 2002. The long-standing American approach, shared by the present Chairman of US Federal Reserve, Ben Bernanke, has been that bubbles should be dealt with only after the fact – which has much to commend it. But the Cartesian logic involved in it ignores the profound human suffering that is also part of the story. Porter's own conclusion is clear: "We should never again accept unchallenged the notion that prices set by unfettered markets must inevitably be right. Sometimes they are. Sometimes they are not".

A well-composed ode to prices, this book could, because of its focus on a meta narrative, invite the charge of applying a single Procrustean measure to such a variety of sublunary forces and events. There can also be valid criticism of the way Porter has viewed some fundamental human endeavours as explicable in terms of purely cost benefit considerations, for example, religion and women's quest for their role in society [the irony embedded in the theories, however, is delectable]. But on the other hand, there is no question that this is a stimulating enquiry into an area that merits comprehensive treatment. Porter brings into the exercise a cartload of erudition, as evidenced by his copious references and notes at the end of the book.

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