EDUARDO PORTER

THE PRICE OF EVERYTHING

SOLVING THE MYSTERY OF WHY WE PAY WHAT WE DO

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Published by the Penguin Group
Penguin Group (USA) Inc., 375 Hudson Street, New York, New York 10014, U.S.A.
Penguin Group (Canada), 90 Eglinton Avenue East, Suite 700, Toronto,
Ontario, Canada M4P2Y3 (a division of Pearson Penguin Canada Inc.)
Penguin Books Ltd, 80 Strand, London WC2R 0RL, England
Penguin Ireland, 25 St. Stephen's Green, Dublin 2, Ireland (a division of Penguin Books Ltd)
Penguin Books Australia Ltd, 250 Camberwell Road, Camberwell,
Victoria 3124, Australia (a division of Pearson Australia Group Pty Ltd)
Penguin Books India Pvt Ltd, 11 Community Centre, Panchsheel Park, New Delhi-110 017, India
Penguin Group (NZ), 67 Apollo Drive, Rosedale, North Shore 0632,
New Zealand (a division of Pearson New Zealand Ltd)
Penguin Books (South Africa) (Pty) Ltd, 24 Sturdee Avenue,
Rosebank, Johannesburg 2196, South Africa

Penguin Books Ltd, Registered Offices:
80 Strand, London WC2R 0RL, England

First published in 2011 by Portfolio/Penguin,
a member of Penguin Group (USA) Inc.

Library of Congress Cataloging-in-Publication Data

Porter, Eduardo.
The price of everything : solving the mystery of why we pay what we do / Eduardo Porter
p. cm.
Includes bibliographical references and index.
eISBN : 978-1-101-44451-1
1. Value. 2. Values. I. Title.
HG223.P67 2011
338.5'21—dc22
2010028526

http://us.penguingroup.com

For Gisele and Mateo

INTRODUCTION

Prices Are Everywhere

ANYBODY WHO HAS visited a garbage dump in the developing world knows that value is an ambiguous concept. To most people in the developed world, household waste is worthless, of course. That's why we throw it away. Apparently, Norwegians are willing to pay about $114 a ton for somebody else to sort their recyclables from the general garbage. A survey of families in the Carter community of Tennessee several years ago found they were willing to pay $363 a year, in today's money, to avoid having a landfill nearby.

But slightly beyond our immediate experience, waste becomes a valuable commodity. In Kamboinsé, outside Ouagadougou, Burkina Faso, farmers pay municipal trash haulers to dump unsorted solid waste on their sorghum and millet fields as fertilizer—bits of plastic included. The going rate in 2003 was 400 francs per ton. In New Delhi, a study in 2002 found that waste pickers earned two rupees per kilo of plastic soda bottles and seven rupees per kilo of hard plastic shampoo bottles. A child working on foot on Delhi's dumps could make twenty to thirty rupees per day.

Waste, in fact, confronts us with the same value proposition as anything else. The price we put on —what we will trade to have it, or have it go away—is a function of its attendant benefits or costs. A bagful of two-rupee plastic bottles is more valuable to an Indian child who hasn't eaten today than to me, a well-fed journalist in New York. What she must do to get it—spend a day scavenging among th detritus of India's capital, putting her life and health at risk—is, to her, not too high a price to pay because life is pretty much the only thing she has. She has little choice but to risk it for food, clothin shelter, and whatever else she needs. I, by contrast, have many things. I have a reasonable income. If there's one thing I have too little of, it is free time. The five cents I could get for an empty plastic bottle at the supermarket's recycling kiosk are not worth the trouble of redeeming it.

The purpose of this comparison is not to underscore that the rich have more opportunities than the poor. It is that the poor choose among their options the same way the rich do, assessing the prices of their alternatives. The relative costs and benefits of the paths open to them determine the behavior of the poorest Indian girl and the richest American man. These values are shaped by the opportunities they have and the constraints they face. The price we put on things—what we will trade for our lives or our refuse—says a lot about who we are.

The price of garbage provides a guide to civilization. Pollution is cheapest in poor countries. Their citizens are more readily willing to accept filth in exchange for economic growth. Yet the relative price of pollution rises as people become richer. Eventually it becomes expensive enough that it can alter the path of development. China is a dirty place. Yet underlying its dismal air and foul water is a choice that balances the costs of pollution in bad health, poisonous rivers, and so forth against the co of cutting back production or retooling plants to control their effluvia. It is a different choice from that of Switzerland, where preserving environmental assets—clean air, trees, wild animals—is ~~considered more valuable than providing manufacturing jobs to unemployed farmers. Twice as many~~ Swiss as Chinese are members of environmental organizations. More than a third of the Swiss population believes environmental pollution is the most important problem facing the nation; only 10 percent of Chinese feel the same.

But as China grows, the price of building one more coal-fired power plant, measured in terms of it contribution to acid rain, global warming, and the rest will one day exceed the value the Chinese plac on the extra output. As it keeps growing, it will likely evolve out of the most noxious industries, like steel and chemicals, into less polluting sectors, like medical and financial services. It may even one day buy its steel and chemicals from poorer countries with a higher tolerance of foul water and air. In other words, it will behave more like Switzerland or the United States. One study concluded that emissions of sulfur dioxide peak when a country’s income per person reaches around $8,900 to $10,500. In the United States, sulfur-dioxide emissions soared until the passage in 1970 of the Clean Air Act. Since then, emissions have fallen by half.

HEREIN LIES THE central claim of this book: 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. Sometimes the trade-offs are transparent and straightforward—such as when we pick the beer on sale over our favorite brand. But the Indian scavenger girl may not be aware of the nature of her transaction. Knowing where to look for the prices steering our lives—and understanding the influence of our actions on the prices arrayed before us—will not only help us better assess our decisions. The prices we face as individuals and societies—how they move us, how they change as w follow one path or another—provide a powerful vantage point upon the unfolding of history.

Nearly two decades ago, when he was chief economist of the World Bank, Lawrence Summers, President Barack Obama’s former top economic adviser, signed his name to a memo suggesting it would make sense for rich countries to export their garbage to poor ones. Because wages are lower in poor countries, he said, they would suffer a lesser loss if workers got sick or died. “I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that,” it said. Moreover, pollution mattered less in a poor country with other problems: “The concern over an agent that causes a one in a million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under 5 mortality is 200 per thousand.”

Leaked a few months before the 1992 United Nations Earth Summit in Rio de Janeiro, the memo confirmed to critics that the World Bank believed poor countries were dumps. The reasoning “is perfectly logical but totally insane,” wrote the late José Lutzenberger, then Brazil’s environment minister, in a letter to Summers. Furious, Vice President Al Gore torpedoed Summers’s chance to become chairman of then-president Bill Clinton’s Council of Economic Advisers. Summers apologized, explaining the memo as an attempt to offer “sardonic counterpoint” to sharpen analytical thinking about the trash trade.

Lutzenberger had a point. Wages are not the only benchmark of people’s value. The price of dealin with garbage in impoverished countries is often zero not because their citizens care nothing about pollution, but because their governments don’t enforce pollution-related laws. But Summers had a powerful point too: in poorer countries, an untainted environment is less valuable than other things that are more abundant in richer nations—schools, for instance. Many developing nations would serv their interests best by trading trash for the chance to build an extra one.

THE PRICE OF CROSSING BORDERS

Most of us think of prices in the context of shopping expeditions. In the marketplace, prices ration what we consume, guiding how we allocate resources among our many wants. They prompt us to set priorities within the limits of our budgets. Just as prices steer our purchasing patterns, they steer the decisions of the companies that make what we buy, enabling them to meet our demand with their supply. That’s how markets organize a capitalist economy.

But prices are all over the place, not only attached to things we buy in a store. At every crossroads, prices nudge us to take one course of action or another. In a way, this is obvious: every decision amounts to a choice among options to which we assign different values. But identifying these prices allows us to understand more fully our decisions. They can be measured in money, cash, or credit. Bu costs and benefits can also be set in love, toil, or time. Our most important currency is, in fact, opportunity. The cost of taking any action or embracing any path consists of the alternatives that wer available to us at the time. The price of a five-dollar slice of pizza is all the other things we could hav done with the five dollars. The price of marriage includes all the things we would have done had we remained single. One day we succumb to the allure of love and companionship. Years later we wonde what happened to the freedom we traded away at the altar. Economists call this the “opportunity cost By evaluating opportunity costs, we organize our lives.

Just to be born, the scavenger girl in Delhi had to overcome Indian parents’ entrenched bias agains girls—which has led to widespread abortions of female fetuses. The Indian census of 2001 recorded 927 girls aged six or less per 1,000 boys. This compares to 1,026 girls per thousand boys in Brazil an 1,029 in the United States. The bias is due to a deeply unfavorable cost-benefit analysis: while boys are meant to take over the family property and care for their parents in old age, daughters must be married off, which requires an onerous dowry. To redress the balance of incentives, regional governments across India have been experimenting with antipoverty programs aimed at increasing parents’ appetite for girls. In 2008, Delhi launched a program to deposit 10,000 rupees into the account of newly born girls in poor families—making subsequent deposits as they progress in school The objective is to build a cushion of resources for them to marry or pursue higher education. A soci insurance program launched in 2006 in Haryana pays parents who only have daughters 500 rupees a month between the age of forty-five and the age of sixty, when it is replaced by the general public pension.

I REMEMBER A conversation I had a few years ago with an illegal immigrant in Stockton, California. I worked at the *Wall Street Journal* writing about the Hispanic population of the United States. The immigrant was educating me about the relative merits of having his two young children smuggled from Mexico *por el monte*—a grueling hike across the desert—or *por la línea,* across a ~~regular checkpoint using forged documents. The choice was hard. He couldn't have made more~~ than $8 or $9 an hour, picking asparagus, cherries, and everything else that grew in California's San Joaquin Valley. He would have to pay about $1,500 each for a "coyote" to guide his kids across the desert. Yet he figured that getting a smuggler with fake documents to bring them across a border checkpoint would put him back about $5,000 per child. The conversation laid in stark relief the type o bare-knuckle cost-benefit analyses that steer people's lives.

Over the last decade and a half, the Border Patrol's budget has grown roughly fivefold. Average coyote fees increased accordingly, to about $2,600 in 2008. Yet the price that rose most sharply is measured in the odds of dying on the way, as a border crossing that used to take less than a day arour San Diego became a three- to four-day trek through the Arizona desert, evading thieves and the Bord Patrol, lugging jugs of water. In 1994, 24 migrants died trying to cross the border. By 2008, the death toll was 725. The calculation of the immigrant I spoke to was straightforward enough. To bring his children into the United States through a checkpoint, he would have to work longer to earn the price o passage. But it would lower the risk that his children would perish along the way.

The debate among Americans about illegal immigration is itself a discussion about prices. Critics charge that illegal immigrants lower the price of natives' labor by offering to do the job for less. The argue that immigrants impose a burden on natives when they consume public services, like education for their children and emergency medical care.

These arguments are weaker than they seem. Most illegal immigrants work on the books using fals IDs, and have taxes withheld from their paychecks like any other worker. They can't draw benefits from most government programs. And there is scant evidence that immigrants lower the wages of American workers. Some industries only exist because of cheap immigrant labor—California's agricultural industry comes to mind. Absent the immigrants, the farm jobs would disappear too, alon with an array of jobs from the fields to the packing plant. We would import the asparagus and the strawberries instead.

Illegal immigrants do affect prices in the United States. One study calculated that the surge in immigration experienced between 1980 and 2000 reduced the average price of services such as housekeeping or gardening by more than 9 percent, mainly by undercutting wages. Still, it had a negligible impact on natives' wages because poor illegal immigrants compete in the job market with other poor illegal immigrants.

Immigration policy has always been determined by who bears its costs and who draws its benefits. Illegal immigrants are tolerated by the political system because their cheap labor is useful for agribusiness and other industries. It provides affordable nannies to middle-class Americans. This suggests that despite presidential lip service to the need to reform immigration law, nothing much is likely to be done. Creating a legal path for illegal immigrants to work in the United States would be politically risky and could provide a big incentive for more illegal flows. By contrast, cutting illegal immigration entirely would be prohibitively costly. The status quo is too comfortable to bear tinkerin like that.

The ebb and flow of immigration will continue to be determined by potential immigrants' measuring the prospect of a minimum-wage job—perhaps a first step up the ladder of prosperity—against the costs imposed by the harsh border. The price may occasionally be too high. As joblessnes soared following the financial crisis of 2008, many potential immigrants decided to stay at home. Th Department of Homeland Security estimates the illegal immigrant population dropped by 1 million from its peak in 2007 to 10.8 million in 2009. But this will prove to be no more than a blip in the broad historical trend.

PRICES RULE

Considering the capacity of prices to shape people's choices, it is rather surprising that governments do not use them more often to steer the behavior of the governed. For instance, public-health campaigns might be a nice way to educate people about the risks of certain behaviors, such as smoking and drug abuse. But they are nowhere near as effective as prices when it comes to making people stop. Four decades after President Richard Nixon launched his "War on Drugs," drug abuse remains stubbornly popular. Between 1988 and 2009, the share of twelfth graders who admitted having done drugs in the last month increased from 16 to 23 percent. The share of teens who had smoked a cigarette in the same period fell from 28 to 20 percent.

This is a paradox. Though it is illegal for minors to purchase cigarettes, adults can readily get then Drugs, by contrast, are illegal for everybody. Being caught with even a smidgen of cocaine in the stat of Illinois can lead to one to three years in jail. Yet the difference is less paradoxical considering hov the price of these vices has evolved. A battery of city, state, and federal taxes has roughly doubled th price of a pack of cigarettes since 1990, to about $5.20 on average. On July 1, 2010, the minimum price of a pack of cigarettes in New York City rose $1.60 to $10.80—of which $7.50 are taxes. By contrast, the retail price of a gram of cocaine on New York's streets cost $101 in 2007, about 27 percent less than in 1991. The price of heroin collapsed 41 percent to $320 a gram. Falling prices reflect the failure of policies to stop the supply of illegal drugs into the American market. But it also suggests a potential solution: at a sufficiently high price, teens would cut back. Compared with a failed drug war, legalizing, regulating, and taxing drugs might be the more effective route to curtail abuse.

Consider what we could achieve by tinkering with the price of gas. In the United States, cheap gas allowed people to move to bigger homes farther from work, school, and shopping. Just in the last decade or so, Americans' median commute to work rose from nine to eleven miles. The typical home grew from 1,750 to 1,807 square feet.

Europe rarely sprawled so. Its cities were constrained by history. They were built hundreds of year ago, when moving long distances was costly in time and effort. During the French Revolution, it took King Louis XVI twenty-one hours to flee 150 miles from Paris to Varennes. Modern sprawl was contained by gas taxes. Europeans pay two to three times as much as Americans for gas. That's partly why Houston in Texas has roughly the same population as the German port city of Hamburg but 2,50 fewer people per square mile.

For all the differences between the configuration of American and Western European cities, they are both strikingly different from development in the Soviet bloc, where market prices played little o no role in allocating land. Seventy years of communist allocation by bureaucratic fiat produced an urban scene pockmarked by old factories decaying on prime locations downtown while residential housing becomes denser farther from the center, through rings of Stalin-era, Khrushchev-era, and Brezhnev-era apartments.

A study by World Bank urban planning and housing finance experts after the collapse of the Sovie Union found that 31.5 percent of the built-up area in Moscow was occupied by industries, compared t 6 percent in Seoul and 5 percent in Hong Kong and Paris. In Paris, where people pay a premium price to live near downtown's amenities, the population density peaks some three kilometers from the center of town. In Moscow it peaked fifteen kilometers away.

Prices make sense of many disparate dynamics over the span of human history. Advances in transportation technology that reduced the cost of distance enabled the first great wave of economic globalization in the nineteenth century. The obesity pandemic was bound to happen when bodies designed to survive in an environment of scarce food by gorging themselves whenever they could found themselves awash in cheap and abundant calories brought by modern technology.

There are few better ways to understand the power of prices than to visit the places where they are not allowed to do their jobs. During a trip to Santiago de Cuba a few years ago I was driven around town by a bedraggled woman who, to my surprise, turned out to be a pediatrician at the city's main hospital. She had a witchlike quality—knotty and thin as a reed. Two of her front teeth were missing. She told me they fell out during a bout of malnutrition that swept through the island after the Soviet collapse in 1991 cut off Cuba's economic lifeline. The doctor owned a beat-up Lada. She was very smart. But otherwise her life seemed no different from that of any street urchin, living off the black market at the limit of endurance, peddling a ride or a box of cigars that fell off the back of a truck. Sh charged ten dollars for driving me around town all day. I couldn't help wondering how the collective decisions that shaped Cuba's possibilities at the time could make it so a pediatrician found this to be worthwhile deal.

WHEN PRICES MISFIRE

As with anything powerful, prices must be handled with care. Tinkering can produce unintended consequences. Concerned about low birthrates, in May 2004 the Australian government announced it would pay a "baby bonus" of three thousand Australian dollars to children born after July 1. The response was immediate. Expectant mothers near their due dates delayed planned cesarean sections and did anything in their power to hold their babies back. Births declined throughout June. And on July 1, Australia experienced more births than on any single date in the previous three decades.

Taxing families based on the number of windows in their homes must have seemed like a good ide when King William III introduced the window tax in England in 1696. Homes with up to ten window paid two shillings. Properties with ten to twenty windows paid four shillings and those with more tha twenty paid eight.

The tax was logical. Windows being easy to count, it was easy to levy. It was fairish: richer people were likely to have bigger houses with more windows, and thus pay more. And it got around people's intense hostility to an income tax. But the king didn't count on people's reaction. They blocked up windows in their homes in order to pay less. Today, blocked-out windows in Edinburgh are known as Pitt's Pictures, after William Pitt, who brought the tax to Scotland in 1784.

Seemingly modest actions can reverberate throughout society by altering, if only slightly, people's evaluations of costs and benefits. Such is the case of the 55 mph speed limit imposed across the ~~United States in 1974 as a way to conserve gasoline in the wake of the first oil crisis, when Arab~~ countries proclaimed an oil embargo in response to the United States' decision to resupply the Israeli military after the Yom Kippur War.

Conserving gas was a reasonable objective at the time. The strategy, however, was fatally flawed because it ignored the value of drivers' time. At the new legal limit, a seventy-mile trip would take about one hour and sixteen minutes—sixteen minutes more than at 70 mph. Considering that the wages of production workers in 1974 averaged around $4.30 an hour, those sixteen minutes to commute to and from work would cost a typical worker about $1.15.

In 1974, a gallon of leaded gas cost fifty-three cents. To break even, an average driver would need to save 2.17 gallons per trip. For this to happen would have required a big leap in fuel economy: a 22 percent increase in the fuel efficiency of a Chevy Suburban, for example, or a doubling of the fuel efficiency of a Honda Civic. Of course, lowering the speed limit did not achieve this improvement. S drivers ignored the new rule.

In 1984, drivers on interstate highways in New York were found to flout the 55 mph limit 83 percent of the time. They dished out $50 to $300 to buy CB radios to warn one another about cops nearby. Between 1966 and 1973 there were about 800,000 CB licenses issued by the Federal Communications Commission. By 1977 there were 12.25 million CBs on the road. Cops then reacted to the reaction, installing radar. Drivers reacted with radar detectors. Some states passed laws makin radar detectors illegal. I doubt the United States Congress expected this chain of events when it passe the 1974 Emergency Highway Energy Conservation Act. By 1987 it increased the maximum limit to 65 mph and in 1995 it repealed the federal speed limit altogether.

WHERE WILL PRICES TAKE US?

Archimedes of Syracuse, the great mathematician from the third century BC, said that to move the earth he needed only a lever, a fulcrum, and a firm place to stand. Moving people requires a price. Th marriage rate has fallen not because of changing fashions but because of its rising price, measured in terms of the sacrifice it entails. We have fewer children because they are costlier. Economists sugges that the Catholic Church has been losing adherents not because people stopped believing in God but because membership became too cheap compared with evangelical Christianity, which demands a bigger investment in its churches from members and thus inspire more loyalty.

The Price of Everything will take us to the store, where we will discover how price tags operate on our psychology, subtly inviting us to buy. But we will endeavor beyond quotidian commercial transactions, to investigate how other prices affect the way people live. In many cultures, husbands pay for multiple brides to amass as many as possible and increase their reproductive success. In others, parents abort female fetuses to avoid the cost they would incur to marry off their daughters. Many behaviors that we ascribe to "cultural change" arise, in fact, as we adapt our budgets to changing prices. We will ponder why employers pay for workers rather than enslave them. We will discuss why it is that as we become progressively richer, the commodity that increases most in value is our scarce free time. And we will find that despite clinging to the notion that life is priceless, we often put a rather low price on our lives.

And we will find that prices can steer us the wrong way too. We still don't know how much we will have to pay, as a civilization, for the economic distortions caused by the upward spiral in the price of American homes between 2000 and 2006. A century down the road, the cheap gasoline of the 1900s might come to be seen as the cause of incalculable environmental damage. Prices can be dangerous too.

CHAPTER ONE

The Price of Things

OF THE VARIOUS things I don’t fully understand about my life, one is why I pay what I do for a cup of coffee. I’m a fairly heavy drinker—I took it up when I first quit smoking, to fill the space left behind by my previous addiction. It has since become my main source of sustenance : my breakfast, my lunch, and quencher of urges in between.

Several possibilities cross my path as I commute between home and work every day. There’s the Dunkin’ Donuts across the street from work, which offers a cappuccino for $3.02, and the Illy in-house café on the fourteenth floor, one floor above my office, which proffers cappuccinos for $3.50. The Dean & DeLuca store that opened in the lobby sells a slow yet rich cappuccino for $3.27.

Over the past couple of years I have gravitated somewhat randomly from coffee purveyor to coffee purveyor. While this may appear unremarkable, I find my fickle taste intriguing. My choice of coffee should be a function of the value I get for my money. But the equation is not obvious. Should I even notice the small price differences, trivial amounts when compared with my disposable income? Wha else, besides the quality of the brew, enters my calculation? My switch from Dunkin’ to Illy probably had less to do with price, or flavor, than with Illy’s sleek brushed steel, a definite step up from Dunki Donuts’ orange-and-pink, saturated fat aesthetic. Illy also offered meaningful social interactions in th chance encounters with long-lost colleagues from other floors.

Most intriguing of all, there is an undeniable emotional angle to my preferences, which can trump on occasion every other consideration. The best coffee I’ve had in a long time comes from the tiny pi shop on the corner, half a block from my house. It used to sell a superb cappuccino for the unbelievable price of $2.75. I would stop by for a cup as often as I could. Then, a year or two ago, it abruptly raised the price to $3.50. This made me so furious I decided never to drink coffee there agai

I’m not sure what infuriated me so. The friendly barista offered explanations: they were switching to a premium coffee that cost a dollar an ounce; the new cups were bigger; they were using double shots—more than half an ounce of coffee per cup. Maybe I was disappointed at seeing a bargain vanish. Maybe it was a sense of betrayal that the young, laid-back, indie-rock-loving people at the pi shop on the corner could strategize about prices as ruthlessly as Starbucks. I would grumble that rent wages, and profit make up a bigger share of the price of a cup of coffee than the cost of the coffee tha goes into it. Still, my anger made no sense. Their coffee did not cost much more than coffee I bought elsewhere. And it tasted much better. There was something irrational about my boycott. Fortunately, forgave them. So I’m drinking great coffee again.

• • •

BUYING GOODS AND services makes up a large part of modern life. There's food, clothes, movie ~~tickets, summer vacations, utility bills and mortgage insurance premiums, gas, iTunes downloads~~, an hair-cuts. The marketplace is where prices acquire their most straightforward definition, determined by a voluntary transaction between a buyer and a seller who expect to benefit from the trade. Yet despite the routine nature of the standard mercantile transaction, consumers' interactions with prices are fairly complex. This chapter is about this economic interaction, the tango between buyers and sellers as they strive for a deal.

Economists tend to assume people know what they are doing when they open their wallets. They ca assess the benefit they will derive from whatever it is they are buying and figure out whether it's worth their money. It's hard to overstate the importance of this assumption. It is one of the bedrock principles upon which classical economics was built over the last 250 years. It is often true, and has yielded deep and far-reaching conclusions about human behavior.

But as a general principle, the assumption is misleading in a subtle yet important way. Markets ma be the most effective institution known to humanity to determine the value of goods and services to the people who consume them. Still, the price-setting process is by no means a transparent and straightforward interaction between rational, all-knowing calculators of costs and benefits. That's because market transactions do not necessarily provide people with what they want; they provide people with what they think they want. These two things are not the same. Consumers often have but the most tenuous grasp of why they pay what they do for a given object of their desire. Sometimes they don't know why the object is desirable at all. Moved by any number of unacknowledged biases, they are easy prey to manipulative devices deployed by those who want to sell them things.

Prices help us understand these cognitive lacunae. They provide a road map of people's psychological quirks, of their fears, their unacknowledged constraints. Prices—how they are set, how people react to them—can tell us who people really are.

Most of us have heard of the placebo effect—in which a pill with no therapeutic properties relieve a real ailment by making us believe that we are being cured, setting in motion some inner psychological process. A few years ago, psychologist Dan Ariely from the Massachusetts Institute of Technology and some colleagues performed an experiment that uncovered an interesting variant. The told a bunch of students they were getting a new type of painkiller but gave them a placebo instead. Then the researchers made up the placebo's price. Subjects who were told that the pill cost $2.50 reported much deeper pain reduction than those who were told it was bought on the cheap, at the bulk price of $0.10.

Consider lap dancing. Lust is a reasonable explanation for the popularity of the service, about as close as one can legally get to paying for sex outside the state of Nevada. Yet apparently there are hidden gradations of desire that modulate our willingness to pay. In an exploration of the "gentlemen's club" scene, psychologists from the University of New Mexico found that lap dancers who were not on the pill made much more money in the most fertile phase of their menstrual cycle.

Dancers can't charge explicitly for their services because that would run afoul of laws against solicitation. Instead, they rely on "tips," usually enforced by large, muscled bouncers. In Albuquerque's clubs, according to the study, the average tip for a three-minute dance is about fourtee dollars.

Perhaps dancers smell more enticing when they are at the peak of their fertility. Maybe they grind their hips more enthusiastically or whisper more alluring nothings. The fact is that dancers who are not on the pill made $354 a night when they were at their most fertile, about $90 more than in the ten days before menstruation and about $170 more than during menstruation.

Dancers on the pill made less money than those who were not, and their earnings were much less ~~sensitive to the menstrual cycle. But perhaps the most interesting finding is that neither dancers~~ nor their patrons have a clue of the effect of the menstrual cycle on their pay. It all happens below the radar.

THE TASTES IN shopping of my six-year-old are driven by the fictitious character on the label, oblivious to price, flavor, texture, or even the purpose of the desired item. At his behest, I've bought Dr. Seuss shampoo, Spider-Man toothbrushes, and Cinderella toothpaste. He alternates between Dora the Explorer and SpongeBob yogurt. His tastes are not unique. A study by the people who make *Sesame Street* found that young children who are offered a choice between chocolate and broccoli are more than twice as likely to choose the vegetable when it has an Elmo sticker.

Grown-ups are expected to know better. Yet we indulge in more extreme follies, paying often-stratospheric prices for things of debatable value. People will travel across town to save $20 off a $100 sweater but not to save $20 off a $1,000 computer, an odd choice considering that both actions are priced equally: $20 for a trip across town. And, unlike my six-year-old son, who couldn't care les what toothpaste costs, I may be more willing to buy something if it is expensive than if it is cheap.

Buying wine is an exercise that combines flavor, smell, and other physical attributes with an array of difficult-to-measure qualities—from how well it projects our self-image to whether it brings forth pleasant memories of a European vacation. Americans will pay more for a French wine than an Argentine wine of similar quality, the same grape varietal, and the same age. Simply stamping "Product of Italy" on the label can raise the price of a bottle by more than 50 percent.

Economists will tell you that, other things being equal, people will always prefer the cheaper option. But drinkers like a bottle of wine more if they are told it cost ninety dollars a bottle than if they are told it cost ten. Belief that the wine is more expensive turns on the neurons in the medial orbitofrontal cortex, an area of the brain associated with pleasure feelings.

Wine without a price tag doesn't have this effect. In 2008, American food and wine critics teamed up with a statistician from Yale and a couple of Swedish economists to study the results of thousands of blind tastings of wines ranging from $1.65 to $150 a bottle. They found that when they can't see th price tag, people prefer cheaper wine to pricier bottles. Experts' tastes did move in the proper direction: they favored finer, more expensive wines. But the bias was almost imperceptible. A wine that cost ten times more than another was ranked by experts only seven points higher on a scale of on to one hundred.

Sometimes people pay stratospheric prices for humdrum items because doing so proves that they can. As the price of oil soared to around $150 a barrel in the summer of 2008, Saeed Khouri, a twenty five-year-old businessman from Abu Dhabi, made it into *Guinness World Records* for having bought the most expensive license plate ever. Khouri paid $14 million for the "1" tag in a national license plate auction that drew Rolls and Bentley owners from around the kingdom. The number one is, to be sure, a nice digit to have stamped on a piece of plastic attached to the front and back of a car. But it i hard to argue that the number alone merits a premium of $13,999,905 over the standard fee for a regular license plate.

This behavior is surprisingly common, however. Paying high prices for pointless trinkets is just an expensive way to show off. In his famous *Theory of the Leisure Class,* the nineteenth-century American social theorist Thorstein Veblen argued that the rich engaged in what he dubbed “conspicuous consumption” to signal their power and superiority to those around them. In the 1970s, the ~~French sociologist Pierre Bourdieu wrote that aesthetic choices served as social markers for~~ those in power to signal their superiority and set themselves apart from inferior groups. Anybody can buy stocks. Oligarchs, emirs, and hedge-fund managers can pay $106.5 million for Picasso’s *Nu au Plateau de Sculpteur*, which sold in only eight minutes and six seconds at an auction in New York in May of 2010. Had Mr. Khouri paid ninety-five dollars for a license plate, he could have been anybod

Over the last three decades, evolutionary biologists and psychologists picked up on Veblen’s and Bourdieu’s ideas and gave them a twist. The point of spending huge sums on useless baubles is not merely to project an abstract notion of power. It serves to signal one’s fitness to potential mates. Wasteful spending on pointless luxury is not to be frowned upon; it is an essential tool to help our genes survive into the next generation. Sexual selection puts an enormous value on costly, inane displays of resources. What else is the peacock’s tail but a marker of fitness aimed at the peahens on the mating market? It is a statement that the bird is fit enough to expend an inordinate amount of energy on a spray of pointless color.

A diamond ring has a similar purpose. N. W. Ayer, the advertising agency behind “A Diamond Is Forever,” which crafted the marketing strategy for the global diamond cartel De Beers in the United States, persuaded American women to desire big diamond engagement rings, and men to buy one for them, by convincing them that these expensive bits of rock symbolized success. They gave big diamonds to movie stars and planted stories in magazines about how they symbolized their indestructible love. And they took out ads in elite magazines depicting paintings by Picasso, Derain, or Dalí to indicate that diamonds were in the same luxury class. “The substantial diamond gift can be made a more widely sought symbol of personal and family success—an expression of socio-economi achievement,” said an N. W. Ayer report from the 1950s. Today 84 percent of American brides get a diamond engagement ring, at an average cost of $3,100.

In 2008 Armin Heinrich, a software developer in Germany, created the ultimate Veblen good: he designed an application for the iPhone called I Am Rich. It did nothing but flash a glowing red gem o the screen. Its point was its expense: $999. Maybe stung by criticism over its banality, Apple remove it the day after its release. But before it could pull it, six people had bought it to prove that, indeed, they were.

A HISTORY OF PRICES

Value—what confers it, what it means—has captivated thinkers at least since ancient Greece. But the concept then was different from that of contemporary economics. For hundreds of years, the analysis of value began as a moral inquiry. Aristotle was sure things had a natural, just price—an inherent value that existed before any transaction was made. And justice was the province of God.

Throughout the Middle Ages, when the Catholic Church regulated virtually all corners of economi life in Europe, scholars understood value as a manifestation of divine justice. Inspired by Saint Matthew’s notion that one should do unto others only what one would have them do unto oneself, Thomas Aquinas stated that trade must convey equal benefits to both parties and condemned selling something for more than its “real” value.

~~In the thirteenth century, the Dominican friar Albertus Magnus posited that virtuous exchanges~~ were those in which the goods that were transacted contained the same amount of work and other expenses. This idea was refined into the principle that the inherent value of goods was set by the wor that went into them.

The Church gradually lost its grip on society as trade and private enterprise expanded throughout Europe. Religious dogma lost its appeal as an analytical tool. Still, the penchant to view prices through the lens of justice survived the development of capitalism, thriving well into the eighteenth century. Adam Smith and David Ricardo, the two foremost thinkers of the classical age of economics struggled with the notion of inherent value, which they viewed as a function of the labor content of products, distinct from the market price set by the vagaries of supply and demand. Smith, for instanc argued that the labor value of products amounted to whatever it cost to feed, clothe, house, and educate workers to make them—with a little extra to allow them to reproduce.

But this line of argument got stuck. For one, it had no role for capital. Profits were an immoral aberration in a world in which the only value could come from a worker’s toil. Moreover, it didn’t seem to square with common sense. In Ricardo’s day critics were harsh on the labor theory of value. Some pointed out that the only thing that made aged wine more valuable than young wine was time i a cellar, not work. But before the idea could die, Karl Marx took it to what seemed like its logical conclusion. He used the labor theory of value as a basis for the proposition that capitalists used their leverage as the owners of machinery and other means of production to filch value from their workers

A product, Marx maintained, is worth all the labor that went into making it, including the labor us to make the necessary tools, the labor in the tools used to make the tools, and so forth. Capitalists made money by usurping part of this value—paying workers only enough to guarantee their subsistence and keeping the rest of the value they created for themselves. This line of thinking could easily lead a thinker astray. Marx concluded that despite appearances, the value relation between different things—their relative price—had nothing to do with the properties of these things. Rather, i was determined by the labor time that went into them. “It is a definite social relation between men that assumes in their eyes the fantastic form of a relation between things,” he wrote.

This shares some of the cool strangeness characteristic of mystic thought, where things are representations of some deeper phenomenon underneath the skin of reality. But it sheds no light on why I find a glass of cold beer so much more valuable than a glass of warm beer on a hot day. I will buy a head of lettuce if its use value to me—because it is crunchy, fresh, and healthy—is higher than its price, what I have to forgo in order to get it. But if some desperate lettuce lover accosts me on my way home to offer twice what I paid, I will sell it to her at that higher price. There is no mysterious relationship between its intrinsic value and its market price. There are just two people who take different degrees of satisfaction from eating lettuce.

There’s a cool trick that teachers have used for years to expose students to the power of this transaction. First they distribute bags with assortments of candies among their students and ask them how much they value the gift—what would they be willing to pay for their stash? Then they allow them to trade candy among themselves. If students are asked again after the exchange to assess the value of their booty, they will invariably give it a higher value than the first time. That’s because trading allowed them to match their lot to their preferences. They traded things they valued less for things they valued more. Nobody worked, yet the value of the entire allotment of candies grew.

The realization that things do not possess an absolute, inherent value seeped into economic though in the nineteenth century. Marx’s labor theory of value eventually faded into irrelevance as nobody could figure out how his concept related to the prices at which people voluntarily bought and sold rea things. ~~Things are costly to make, of course. This puts a floor on the price at which they are supplied.~~ But the value of a product does not live inside it. It is a subjective quantity determined by the seller and the buyer. The relative value of exchanged things is their relative price. This realization lifted prices into their rightful spot as indicators of human preferences and guides of humankind.

TAMING PRICES

Two people will be willing to trade one good for another as long as the perceived benefit from ownin one more unit of what they get—the *marginal* gain—is at least as much as the lost value of what each trades away. This gain, in turn, is determined by the buyer's endowment of goods: money, time, and whatever else might come into her calculation. The more one has of a given thing, the less one will value having one more. This single principle is the organizing force of markets, which determines th prices of goods and services around the world.

In a market, sellers' priority is usually to squeeze as much money as possible from buyers. Buyers in turn, will try to get stuff they want as cheaply as they can. They each operate within a set of constraints: for buyers a budget; for sellers, the cost of producing, storing, advertising, and bringing t market whatever they make. While producers can raise prices if consumer demand for their good grows faster than its supply, consumer demand will wane as prices rise. Above all, producers' space t raise prices is constrained by competition. In a competitive market consumers can safely assume tha prices will be kept in check as rival producers vying for consumers' custom force them down to thei marginal cost, the cost of making one more unit.

There are lots of exceptions to this dynamic, however. To begin with, fully competitive markets ar rare. In markets for new inventions, legal monopolies called patents allow companies to charge highe prices than they would in a competitive field in order to recover the up-front cost of their invention. Local monopolies are common—think of the popcorn vendor inside the movie theater. Even in markets for run-of-the-mill products, producers will do their best to keep competition at bay. A tried and tested tactic is to convince consumers that their product is unique, muddying comparisons with rivals' wares. Another is to lock in consumers with a cheap product that, it later becomes apparent, only works in conjunction with some higher-priced good. Another is simply to hide their prices from consumers' view.

Unacknowledged motivations cloud the assessments of value that drive our daily decisions. My monthly dues of $58.65 at the New York Sports Club next to the office mean that each of my twice-weekly visits costs just under $7—a reasonable price for a two-hour session, less than what I would pay to see a movie or have a quick lunch. But there are those who will pay much more than I do for a session on the Stairmaster. Paradoxically perhaps, they aren't the fitness freaks. The uncommitted couch potatoes pay the highest prices. That's because they are paying for more than a workout. They are buying a commitment-booster too.

A study of visitors to sports clubs that offered monthly subscriptions for just over seventy dollars