There's a PRICE to Pay

BY VADIM LIBERMAN

Eduardo Porter likes to talk trash. The *New York Times* reporter opens his new book by examining the price of garbage in different societies. From there, he goes on to expose *The Price of Everything: Solving the Mystery of Why We Pay What We Do* (Portfolio/Penguin). Porter delves into the price of labor, happiness, products, even life. In doing so, he doesn't just explain the price of everything—he shows that everything has a price. "It is by looking at how we price things that we gain an understanding of how we behave," he says. By scrutinizing our conscious and unconscious decisions, he comes to some startling revelations about the role of price and its sometimes-disturbing implications. Porter, 47, spoke from his New York office about a wide range of topics, including executive compensation, immigration, and whether his child's life is worth more than $200,000.

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Eduardo Porter explains why things cost what they do.

THE PRICE OF GARBAGE, YOU CLAIM, PROVIDES A GUIDE TO CIVILIZATION.

How we value waste depends on where we are in the scale of prosperity. If you're an extremely poor person in an extremely poor country, your approach to garbage will be different than that of a rich person in a rich country. Think of the extremely poor scavenger living on a dump. For this person, who spends his life collecting and selling garbage, it will have a different value than it would for you or me.

This thinking can also be applied to countries. For instance, I compare China and Switzerland's attitudes toward waste. The Swiss, who are much richer and face less of a challenge to employ their people, have moved up on the environmental ladder, so they are much less tolerant of waste than the Chinese. For the Chinese, the value of producing an extra job is much higher than the value of saving an extra tree.

INDEED, YOU REFERENCE A MEMO BY LARRY SUMMERS FROM 1992, WHEN HE WAS CHIEF ECONOMIST AT THE WORLD BANK. SUMMERS WROTE, "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."

Summers was pointing out that it might make sense for the rich world to send its garbage to the poor world, where it is less costly relative to other things. He later said that this was a sardonic counterpoint rather than his true heartfelt thoughts; however, as a true statement of how the world works, it makes sense. But as a normative statement, it's complicated because you have to judge *why* garbage is considered less of a problem in China. Why will China consider importing a bunch of trash that Switzerland will not? For China, perhaps it might make sense to accept cash for trash and use that money to build a school or hospital, because such institutions are scarcer in China than in Switzerland. But there are other factors to consider, like the quality of governance in different countries. You can't throw away arguments pertaining to corruption, where a nation might import garbage so that the warlord in charge will dump it on a village and keep the money for himself.

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I want to make something very clear: Throughout the book, I'm not an advocate for any sort of action. I'm just looking at the world and describing how I think it works, how we use price to choose between our options. I'm not trying to show what's good and what's bad based on what we choose.

ARE THERE CHOICES THAT PRICES DO NOT SHAPE?

Sure. Why do we not eat dog while Koreans do? I'd be hard-pressed to find a reasoning that relied on the price of dog. There are clearly other dimensions to our preferences and choices, like culture. Still, if dogs were extremely expensive in Korea, then Koreans wouldn't eat dog either.

DOES CULTURE DETERMINE PRICES OR DO PRICES DETERMINE CULTURE?

If one starts with the notion that our choices were honed and shaped over time by evolutionary pressures, like the need to reproduce, I would be tempted to say—though I am not certain—that culture is first a consequence of prices, and then there's feedback. When people and societies were making choices and decisions with the imperative of surviving and passing on our genes, they were performing cost-benefit calculations. Such calculations evolved into institutions, preferences, rituals, laws, and so forth, eventually growing into a body of culture.

INTERESTINGLY, YOU WRITE THAT "SOCIETIES' CHOICE OF WORKING CONDITIONS HAS LESS TO DO WITH VALUES AND MORALITY, AND MORE WITH THE PROFITABILITY OF HOW LABOR IS ORGANIZED." HOW SO?

We tend to view ourselves and our intellectual and moral evolution as becoming better through the course of history.

We believe that the things we did in the past, such as coerce people into jobs, enslave them, discriminate against people, use child labor, and so forth are now known to be bad because we have become better people. Well, not quite! It's a pretty powerful narrative, but I push back against that notion.

Many of the institutions we now regard as bad changed because they became inefficient and unprofitable. Take child labor. When educating kids was pointless because there was no financial return on education, they were put to work in the fields at a very young age, as they were more valuable in the harvest. The choice to keep them away from the harvest to increase their human capital in order for them to reap even bigger rewards later on wasn't always there for families and society. But as society developed, there became less of an incentive to have your kids work in the field and more of an incentive to educate them so that they would be able to have a higher income later on. Eventually, something that used to be fairly common several hundred years ago became illegal in most of the world.

Slavery is another example. Economist Evsey David Domar argued that slavery lost favor when employers found that paying a wage was cheaper for them than enslaving people based on the costs of housing, feeding, and keeping slaves from running away. Moreover, when workers are paid a wage, there's an incentive for them to perform, which is not there when they are coerced to work. So we suddenly did not become better people when we outlawed slavery. Instead, over the course of history, slavery probably declined and became less popular an institution as a way of organizing work because it became less profitable than other alternatives.

DOES THIS MEAN THAT SLAVERY COULD REESTABLISH ITSELF WERE IT AGAIN TO BECOME A MORE PROFITABLE OPTION?

I'm not sure that tomorrow we could snap back into slavery if our demographics made it suddenly more profitable to keep slaves than pay people. Our current laws and cultural expectations wouldn't suddenly go away—but that doesn't mean the pressure wouldn't be there.

YOU DRAW A PARALLEL BETWEEN SLAVES AND ILLEGAL IMMIGRANTS.

Illegal immigrants are circumscribed by their legal status. They have virtually no recourse to law. They cannot exercise their choice the way you or I or other legal workers can. They are not truly free to leave to get another job.

THINKSTOCK

The debate among Americans about illegal immigration is itself a discussion about prices. Employers are rational profit-seekers. If you assume, for example, that strawberry growers in California are efficient managers who happen to employ illegal immigrants, presumably it's because their profits are higher than if they were to employ domestic workers at higher wages. As a result, consumer prices are lower, too.

You hear criticism that illegal immigrants should go away, that this economy should be only for domestic workers, but say the immigrants do go away from the strawberry patch. To attract laborers, you'll have to pay substantially more, so the strawberries will be more expensive. Then the demand for strawberries might fall. It might become more profitable to import your strawberries, so the land on which those strawberries are being grown now will probably lose value because it's less profitable. Then, because this *is* California, housing will likely be built on the land. Overall, a loss of jobs. The utopian image in which you remove the illegal immigrants to create vacant jobs ready to be taken by domestic workers is false.

MEANWHILE, YOU ALSO WRITE THAT RISING PAY HAS NOTHING TO DO WITH JUSTICE.

That's right. Employers don't pay more from a sense that it's fair to pay more. Historically, increased pay came about because of an increase in worker productivity. There are other dynamics, of course, like competition in the labor market, unemployment rate, and, in an open-trading system, supply and demand from abroad, but roughly speaking, wages rose because a worker can produce in less than ten minutes what it took a worker in 1890 an hour to make.

SPEAKING OF INDUSTRIAL HISTORY, WHAT DO YOU MEAN WHEN YOU CLAIM THAT "THE SOFT, PATERNALISTIC CORPORATIONS OF A CENTURY AGO [ARE] NOT THAT DIFFERENT FROM THEIR DESCENDANTS"?

Companies in the past cared as much about the bottom line as they do today. They always acted from a profit-seeking motive, not out of a motive to be soft and paternalistic. But they were protected by enormous barriers that kept profits high. Some companies were quasi-monopolies, and when you're a monopoly, you can afford to be generous with your workers. If you're the only company that produces photographic film, and that's what's in demand, then you're going to be raking in the profits, a good portion of which you'll share with workers. As the industrial environment has become much more competitive, these sorts of arrangements have become less possible. This partly has to do with the decline of the union movement. Unions have been good at extracting higher wages for their workers, but as American companies have faced more competition, their willingness and ability to tolerate extra wages or premiums that unions have been able to negotiate for workers has been less.

Maybe Mr. Eastman was a very outstanding person. I don't know, but I do know the incentives he had allowed him to have certain labor arrangements that his company would not be able to sustain today given the competitive nature of business.

SIRI STAFFORD

EXECUTIVE PAY CERTAINLY HAS CHANGED OVER THE YEARS. HOW DO YOU EXPLAIN TODAY'S HIGH COMPENSATION?

In 1981, University of Chicago economist Sherwin Rosen published an article entitled "The Economics of Superstars." In a nutshell, Rosen argued that technological progress would allow the best performers in a given field to serve a bigger market and thus reap a greater share of its revenues, but it would also reduce the spoils available to those less gifted in the business. It's compelling.

Forty years ago, if you were in San Francisco, you'd watch San Fran basketball games, and whoever was the top player on the San Francisco team would be the highest-paid player there. Then, suddenly, with the advent of national TV, the very best player in the country could broadcast his prowess nationwide, not just to his domestic market, so suddenly everyone wants to see him. So now the best in San Francisco becomes much less valuable, and the income of the top guy skyrockets. That dynamic transports to the world of corporate executives. The equivalent of national TV is companies that have become so large with greater reach that even a small change in the quality of the CEO can mean millions of dollars in extra profits, so your incentive to hire the best is much higher. That leads to an enormous increase in pay at the very top.

OBVIOUSLY, PRICES AFFECT NOT ONLY CORPORATE BEHAVIOR BUT THAT OF CONSUMERS. IN YOUR BOOK, YOU CITE AN EXAMPLE FROM THE 1990S WHEN COCA-COLA EXPERIMENTED WITH A VENDING MACHINE THAT WOULD AUTOMATICALLY CHARGE MORE FOR A COKE ON WARM DAYS, BUT WHEN

WORD GOT OUT, THERE WAS A STORM OF PROTEST.

People have a sense of justice, and that sense colors how they react to material choices. Often, people's reactions depend on how you present them with the choices. I would argue that if Coca-Cola posited this as giving a discount on cold days rather than charging a premium on hot days, it would have been much better received. Again, my purpose isn't to say what the company should have done. Rather, it's to demonstrate that sometimes companies try to hide prices from you, which makes it more difficult for you to compare goods and services, so you become a less efficient shopper.

GOODS AND SERVICES ARE ONE THING, BUT YOU CLAIM THAT EVEN HAPPINESS HAS A PRICE.

Yes, partially. Surveys find that richer people tend to be happier than poorer people. That's because money provides many of the things that improve people's lot, so it contributes to our happiness a very great deal. But there are other things besides money that make people happy, like finding a mate, seeing a beautiful picture, lazing in the sun.

RIGHT, BUT EVEN LAZING IN THE SUN HAS A PRICE. I COULD OFFER YOU X AMOUNT OF DOLLARS NOT TO LIE OUT IN THE SUN . . .

. . . and if you pay me enough, I won't lie out in the sun.

SO EVERYTHING DOES HAVE A PRICE!

That's exactly my point in the book. It's very simple. We know that when we do something, we are paying for it in some way where the price isn't necessarily monetary. There are all sorts of currencies. We might, for instance, be paying with our time. Our choices are value judgments, in which this path is more valuable to me than that path based on price, time, or other considerations. Everything is a cost-benefit analysis.

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YOU CITE AN AUSTRALIAN STUDY THAT REVEALS THAT LOSING ALMOST $200,000 GENERATES THE SAME LEVEL OF UNHAPPINESS AS THAT CAUSED BY THE DEATH OF A CHILD. YOU HAVE A SON. IS HIS LIFE WORTH ONLY THAT AMOUNT OF MONEY TO YOU?

Of course not. This study brings up how flawed cost-benefit-analysis techniques can be. If the Environmental Protection Agency values a life at $7.5 million because of some study, it doesn't mean that I would sell my kid for that amount.

The thing is, you can't avoid doing cost-benefit analyses. To allocate resources, you have to find *some* way to look at the value for the money you get. If I'm building a road, how much you value a certain percentage increase in the odds of you dying on that road is a valuable metric for how much I should value putting in a certain improvement.

I would not be at all surprised if companies did not operate using such cost-benefit analyses in many of their decisions. Should a manufacturer add an improvement that costs $100,000 per car to reduce the chance of dying in the car by 0.0001 percent? The answer is probably not, since no one would buy the car then. At a certain level, I'd consider this a legitimate measure.

SO CONSUMERS THINK ABOUT PRICE JUST AS COMPANIES DO?

Yes, they evaluate similarly. People may not be willing to put a price on their life, but every day we put a price on small changes in our chance of dying. The Toyota Yaris delivers seven miles to the gallon more in city driving than the Toyota Camry. It is also about $7,000 cheaper. But according to a report by the Insurance Institute for Highway Safety, the chance of dying in a car crash is about 20 percent higher in the tiny Yaris than in the midsized Camry. Some people who buy the Yaris are trading that discount for safety. Of course, your choices are always constrained. Some people simply can't afford the Camry. One should always keep in mind that when someone does A rather than B, it's not an unblemished, pure representation of their preferences in a vacuum. It's their preferences within a certain set of constrictions.

I say in the book that opportunity is the most important of all currencies. If you do one thing, the price of it is all the opportunities that you did not take because you chose that one thing. If we could have everything we wanted in an unlimited quantity, everything would be free, but that's not the case, so we're always pricing everything. ■