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Don’t Bite The Invisible Hand

CLINT WITCHALLS **TUESDAY, 2ND SEPTEMBER 2008**

Clint Witchalls finds an unusual novel that sugar-coats complex economic theories on pricing

The Price of Everything: A Parable of Possibility and Prosperity
Russell Roberts
Princeton
£14.95, 216 pages

The Price of Everything: A Parable of Possibility and Prosperity is an economics novel. It tells the tale of a Stanford University student, Ramon Fernandez, who is outraged when a local store called Big Box doubles its prices in the immediate aftermath of an earthquake. Fernandez stages a peaceful protest against the store’s price-gouging tactics at the Stanford campus, but the demonstration is hijacked by a radical and it turns into a mêlée. This is an embarrassment for the college, as Big Box’s chief executive officer, Robert Bachman, is an alumnus of the college and a generous benefactor. In fact, he’s on the cusp of providing funds for a new information technology centre.

Ruth Lieber, the college’s provost and economics professor, befriends Fernandez – one assumes as an exercise in damage limitation – and thus begins a series of dialogues that attempt to justify, or at least explain, why raising prices during a crisis may not be such a terrible thing. Lieber sets about educating the socially conscious student in the wonders of free- market economics. She explains why economists don’t know the price of everything, and don’t need to know the price of everything. Prices are the information that steer knowledge and resources.

Conversations between Fernandez and Lieber take place in Lieber’s office, on a tennis court (Fernandez is a professional tennis player), at a running track, a dinner party and in a café. There’s the occasional interjection during the economics lectures such as: ‘You want another coffee?’ to remind us where we are, but the settings are not important as there is no significant plot to advance. Indeed, the book lacks many of the elements one would expect to find in a conventional novel, such as tension and three-dimensional characters.

The purpose of the book is not to entertain you with a gripping yarn, but to sugar-coat economic theories on pricing – or so it seems to me. And it does a very good job of it. Lieber’s lectures answer questions such as: What drives innovation? What drives entrepreneurs? What guides prices, and how does economic order emerge without anyone being in charge? We also get a taster of the theories of emergence and complexity: quite a feat for a short novel. The author, Russell Roberts, is a professor of economics at George Mason University, and if Roberts’ lectures are anything like Lieber’s, no doubt they are fairly enthralling.

This is Roberts’ third economics novel – the first two were Choice: A Fable of Free Trade and Protectionism and The Invisible Heart: An Economic Romance. They are great introductions to free-market economic theory, especially for those who are easily turned off by numbers and graphs. Wrapping a narrative around economic theories may seem like a peculiar approach to teaching, but didactic novels have a long and noble pedigree. Jean-Jacques Rousseau used the novel to advance his theories on education and Emile Zola used it to promote his theories of heredity. More recently, John Steinbeck tried to convince us that individualism is bad in The Grapes of Wrath, and Ayn Rand tried to convince us of the opposite in Atlas Shrugged. Roberts is no Rousseau, but he does have a knack for getting complex economic theory across in a gloriously simple manner.

Of course, Roberts, like Rand, has already made up his mind that laissez-faire economics is the only workable system, so we don’t get a very two-sided argument. Fernandez’s protests are just straw men for Lieber to knock down. While she does a superb job of explaining how prices act as information in the market, she does a less convincing job of justifying price-gouging. The argument is something along the lines of: if vendors are allowed to raise their prices, it will mean that the first people to the store can’t buy all the provisions and therefore there will be some left over for those who get there late. Also, by giving shops the freedom to raise prices during a crisis, they have an incentive to bear the inventory cost of holding excess stock. Prices should be whatever the market can bear, not what consumers think is fair.

However, price-gouging is a felony in many American states. After hurricane Katrina, when profiteers tried to make money from selling diesel generators at well above market value, there were even calls for a national price-gouging law. Also, consider the outcry when a Starbucks’ clerk charged a New York ambulance crew the market rate for mineral water in the immediate aftermath of 9/11. Can you imagine how much louder the clamour would have been had Starbucks charged double the going rate simply because that’s what the market would bear? Clearly, price-gouging is a very emotive issue, and one that economic models can’t rationalise away. Nevertheless, anyone looking for a primer on how the ‘invisible hand’ steers prices in the market could do worse than read The Price of Everything.

Clint Witchalls is a former business analyst who writes for the Economist, the Guardian, the Observer and the Times