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Just Prices Today

In this article Andy Hartropp looks at the inadequacies of neo-classical economics compared to the great Christian tradition of just price theory and examines the resurgence of just price economics in the Fair Trade Movement.

Does the just price exist?

Can economics and justice go together? A frequent reaction to this kind of issue is puzzlement: 'what have *ethics* and *economics* to do with each other?' As the saying goes, 'business is business'. This response seems to derive from the idea that business is about making money, and the market should be understood in purely economic terms, while ethics is the luxury of those not concerned with making money.

The notion of a 'just price' goes right against the received wisdom of the first paragraph. This principle – much discussed by medieval economic thinkers, not least the theologian Thomas Aquinas, and taken up by the Reformers, especially Richard Baxter – says that the prices charged in economic dealings and trades are inherently subject to moral norms of justice and fairness. 'Just price' thinking asserts that the business of trading goods and services is constrained by moral boundaries and criteria, as is every other aspect of human life. This article briefly addresses the validity and potency of such thinking in today's economic world. Just price theory may just be an arcane distant memory, or it may again be the pivot of economic thought and activity.

References to 'justice' or to 'just price' in modern economics textbooks are rare. Mainstream economics – classical and neoclassical – places heavy emphasis on the determination of prices by market forces. If such forces are permitted to operate freely, then the prices set will be *equilibrium* market prices (where supply of any given product is equated to the demand for that product). Careful readers can already see the doublethink involved in this formulation. On the one hand, these forces are seen as inevitable and fatalistic. On the other hand, they have to operate freely. That is, the formulation itself is normative: this is the way the world should be. The justification for this position – coming from many textbooks and economists – is that these market forces produce outcomes for consumers and the economy as a whole that, on most definitions of 'welfare', are better than the outcomes offered by any other system.

It is hardly surprising, then, that the notion of the 'just price' merits little place within this textbook formulation. If prices are – and should be – set by market forces, then there is very little point in quibbling with those prices, or in philosophising about whether or not they are 'just'. They simply are what they are, and they are generally good for us as well. Yet even this formulation does not really work. Many economists operate with notions of pure competitive markets or mathematical equilibria which they acknowledge do not hold in the real world where all kinds of other outcomes occur.

This mainstream economic thinking does not fit well with the more practical economic examination of real world contexts where particular participants in markets do actually exert major influence over the prices that are set. Monopolies and cartels operate. Food supermarkets dominate the supply of farmers and control output. Companies set out to make consumers captive to their products and the pay of different groups turns out to be arbitrary by any economic rules. Not only does the theory not add up, but the enduring popularity of consumer watchdog TV and radio programmes, together with consumer lobby groups, are clear testimony to people's perception that prices and markets are unfair. Complaints such as 'we were ripped off by company X' or 'firm Y over-charged me' are frequent. The just price does not lie down and disappear.

The swings of the pendulum

Economic theory has vacillated on this issue of just price and markets. During the Industrial Revolution, market theory tended to be fatalistic. Malthus famously argued that workers would always tend to a subsistence level of chronic poverty and so there was little point in paying them more. Classical theory determined the amounts that would go to landowners, capitalists and workers. Yet, at the time that Shaftesbury and others were working for better conditions and limited hours of work, economic theorists were showing that levels of profits and workers' pay were related, and gradually unions changed the markets so that workers were paid more. The old fatalistic view was proved wrong, both theoretically and practically.

In the late nineteenth and early twentieth centuries the abuses of capitalism and monopoly power were thoroughly analysed at another level. Clearly, many workers were being exploited, not by a market mechanism but by employers who used certain forms of power, like outlawing unions, to keep wages down. Similarly, prices could be kept high if producers acted in concert. In the mid-west of the United States many producers were controlled by those who railroaded the produce to the markets in the east. These kinds of policy were widely seen as unjust. Sometimes, Communism and State Socialism were seen as the antidote to the exploitation. Democratic Socialism in Britain and much of Europe concluded that industries should be controlled or nationalised so that these sectors of the economy could function justly, as they often did for half a century or more. A strong sense of moral conviction was sometimes evident in the role of the political authorities in regulating industries and companies in terms of the prices charged to consumers. It was suggested by at least some economists that a company with monopoly control in a given industry should be forced by the authorities to set prices lower than it otherwise would (e.g. to use 'average cost pricing'), so that exploitation of consumers was prevented. Many industries functioned efficiently nationwide on this basis, expanding, investing and serving people effectively over a long period of time. The record of British Rail or the National Coal Board stands up to examination. Thus, a different conception of the market dominated much of the twentieth century and did operate with an understanding of fair prices and wages. The idea of a non-ethical market mechanism is nowhere near as normal as it often claims to be.

Nevertheless, in the era of Thatcher and Reagan there was a return of the idea that the market 'mechanism' was king. It was asserted that market prices are what they are through the operation of a mechanism and human freedom, and that this process was generally beneficial. On this view, a company with market power should operate in terms of its own self-interest and not with any moral responsibility in its pricing policy and behaviour. Its proponents were able to point to processes where workers had become indulgent and inefficient, but they appealed from this to the old model of the market mechanism, or the 'free market' as it was often called. Since then the growth of multi-national companies operating worldwide has continued apace, especially since the end of the Cold War and with the 'opening up' policy in China. Yet this change provoked exactly the same reaction. People pointed out that something similar to slave labour was being used in poorer countries to make footballs, trainers and jeans, a process that was far from inevitable, but the result of avid profiteering. The seeming triumph of the market mechanism worldwide led to a great resurgence of concern with just and fair prices that is with us now and we shall examine shortly.

Even in Europe a different view, called the 'social market' was often adopted, where the process of shaping the operation of markets was recognized and the criteria which should shape market operations were openly taken into account. These criteria included elements like establishing a maximum working week and supporting agricultural prices. The 'social market' also emphasized the responsibility of those engaged in market operations for health and safety, worker training, product standards, conservation, energy efficiency and a number of other norms of company operation. The fact that in some European countries workers' representatives played a directing role in running companies helped as well.

Thus, in three great upheavals, the view of markets as mechanisms (which operate independently of any human responsibility for others) has come and gone. In the light of this process, the assumption with which we started looks more than a little suspect.

The theology of the just price

The notion of a 'just price', however, is rather more explicit and focussed than this. It suggests that the market participants themselves have a responsibility to treat the people with whom they trade in a manner which reflects the love and justice that is both displayed and commanded by God. Thus the foundation of the principle is the command to *love your neighbour as yourself*. Clearly, because engaging with someone in a market operation requires a relationship with them, how they are treated in that relationship is inescapably a matter of justice and fairness. Many Old and New Testament examples show the necessary regard for others that God requires. If someone's work receives a thousand times the reward of someone else's work, then that is a matter of injustice. A company, whilst having some moral duty to its owners to make a profit, also has a duty to treat its customers and employees fairly. If companies fail to do this, then the political authorities in turn may have a moral responsibility to impose some measure of justice.

The 'market forces' theorists face the dilemma that markets are clearly human creations, developed over periods of time by our activities of trading. But if we bow down and worship the work of our own hands, the Bible quite clearly teaches that this is idolatry. Rather, we are called to take responsibility for the things we create, and that involves normative direction of markets.

Further, it is quite clear that all markets' decisions, involving as they do, other people, must have a normative content, whether by recognition or default. I cannot but affect coffee growers by the price I am prepared to pay for their beans. Logically, markets cannot but be normative, especially in their pricing, even for those who deny that is the case.

The question then becomes 'how should prices and other market decisions be justly made?' Clearly, this valuation is not made in abstraction from the way in which particular markets operate – how much workers are paid, the costs of production, transport costs etc. According to a recent book on medieval economic thought,[1] the medieval writers had some understanding that, under normal market conditions – in the absence of monopolies or artificially-created scarcities - the 'just price' was nothing different from the price arising under those market conditions. Most writers, however, 'accepted the right of public authorities to regulate or fix prices in the common interest.'[2] That pattern of thought suggests a remarkably shrewd understanding of the working of markets, as well as a wise grasp of the moral responsibilities of the different parties towards one another. At Norwich in 1564 the concerns at market were for common weights, brewing wholesome beer, not well-watered fish, killing cattle in calf, a quart of best ale for a halfpenny, and leather from calves rather than adult kine.[3] These were the ordinary concerns of running *good* markets.

Often prices were too low because the buyer had inordinate power. If people had no other means of income, then they had to accept work at any wage. When James says, 'Look! The wages you failed to pay the workmen who mowed your fields are crying out against you' (Jas. 5:4) he may be talking about underpaid rather than unpaid workers. Often the just price for labour, and for produce and services, has been too low. Conversely, through monopoly power and scarcity, prices can obviously be unfairly high. The details depend on relative prices and other valuations and the kind of market operating. In each era there have been concerns about this kind of unfairness – slavery and servants, corn prices, industrial labour, low farm prices, high and low share prices, overpaid employees and high priced patented goods.

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1 Diana Wood, *Medieval Economic Thought,* CUP, Cambridge 2002.

2 Review of *Medieval Economic Thought*, by Lawrin Armstrong (on the Economic History Services Website www.eh.net).

3 R.H. Tawney and Eileen Power (eds), *Tudor Economic Documents Vol. I*, Longmans, London 1924, pp 127-8.

Perhaps the most serious contemporary injustice with regard to prices concerns international trade. If producers in less developed countries (LDCs) are economically weak relative to companies in the West, then it is plausible that the prices paid for the products of LDCs may be lower than should be the case – to the detriment of the LDCs. For example, the price of coffee declined by 18% on world markets between 1975 and 1993; but the price paid for coffee by *consumers* in the USA increased by 240%. The World Bank suggests that, as a result, commodity-exporting countries may have lost $100 billion a year and that there should be better analysis of the lack of full competition at the intermediary level between the producer and consumer.[4]

Another area of unjust prices is inequalities in pay. It is not unusual for some workers, we call them executives, to be paid a hundred times more than their colleagues. Internationally, the discrepancy is a thousand time more or greater. Sometimes these executives try to argue that they are worth this kind of exalted figure, or they explain it by market forces or scarcity. Usually, there is not scarcity, but a lot of applicants for these jobs. A more likely explanation is that this group is able directly or indirectly to make decisions about their own pay.

Addressing unjust prices

It is one thing to highlight apparent injustices in prices; it is quite another to bring about change for the better. An instinctive response might be to call for governments to solve this type of problem, but, of course, it is also possible for those with political power to act unjustly. In addition, the empirical evidence suggests that government intervention in markets is sometimes very far from successful. Schemes to regulate commodity prices have been tried (not least in the EU), but they can easily finish up operating for the powerful. In any case, if there are underlying inequalities of power (e.g. between LDC producers and multinational trading companies), then such schemes are in principle less likely to be effective unless they change the power relationships. Nevertheless, efforts are being made, for example, to curb the selling of EU-produced sugar beet into LDCs which pushes sugar prices in LDCs even lower, and worsens further the plight of their own sugar producers.

A different approach is offered by the fair trade movement. Inspired in part, perhaps, by the case of coffee, the idea that consumers in the West could pay some kind of just or fair price directly to the actual producers (especially those in LDCs) is gathering momentum. If this means cutting out payments to multinational intermediaries, so much the better. The Fairtrade Foundation, in conjunction with the Fairtrade Labelling Organizations International, now offers to pay specific prices to producers. As at June 2004, for example, the price paid to producers for green coffee is $1.26 per pound (in weight). In exchange, the producer agrees to adhere to a set of standards, including standards for working conditions. In addition, the $1.26 payment includes a $0.05 premium that is to be invested for the social and economic development of their workers and/or communities.

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4 Jacques Morisset, 'Unfair trade?: empirical evidence in world commodity markets over the past 25 years', Policy Research Working Papers, World Bank, 1997.

The economics of these markets is interesting. Coffee producers are likely to move from commercial dealers to fair trade outlets, and so the only constraint on market expansion is the number of people who are prepared to purchase fair-trade coffee. As fair-trade expands, the market moves from a profit-dominant mode to a fair-trade mode. At present the market take is 15% and sales are growing fast. Soon it could be market leader. So, the market has changed, again refuting the idea that it is an unchanging mechanism, and certainly saving lives and giving the producers some possibility of a livelihood.

Fair trade is under attack from some market-oriented economists, on the grounds that any 'interference' with market prices distorts and worsens the effectiveness of markets. This attack is not difficult to repel, however. It is evident that existing markets for commodities often do not work well for producers, due in part perhaps to inequalities of market power. Profit-orientated companies have encouraged producers to overproduce, because it pushes prices down, and so that problem is not likely to get worse. In addition, fair trade does not appear to require the dumping of unsold stock (which clearly would distort markets). Instead, it can be thought of as a simple contract between two groups of people (certain Western consumers and particular LDC producers), and contracts are the basis of free markets! The difference is that fair trade involves an explicit embracing of the powerful and biblical idea that justice in economic behaviour really matters.

The prices paid and received in markets should reflect justice to all the participants. Prices can be too low or too high. They can unfairly remove resources from producers, consumers, workers, the environment and traders. The need for justice is greater than ever in a global economy. Let it roll on like a river in all our markets.

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