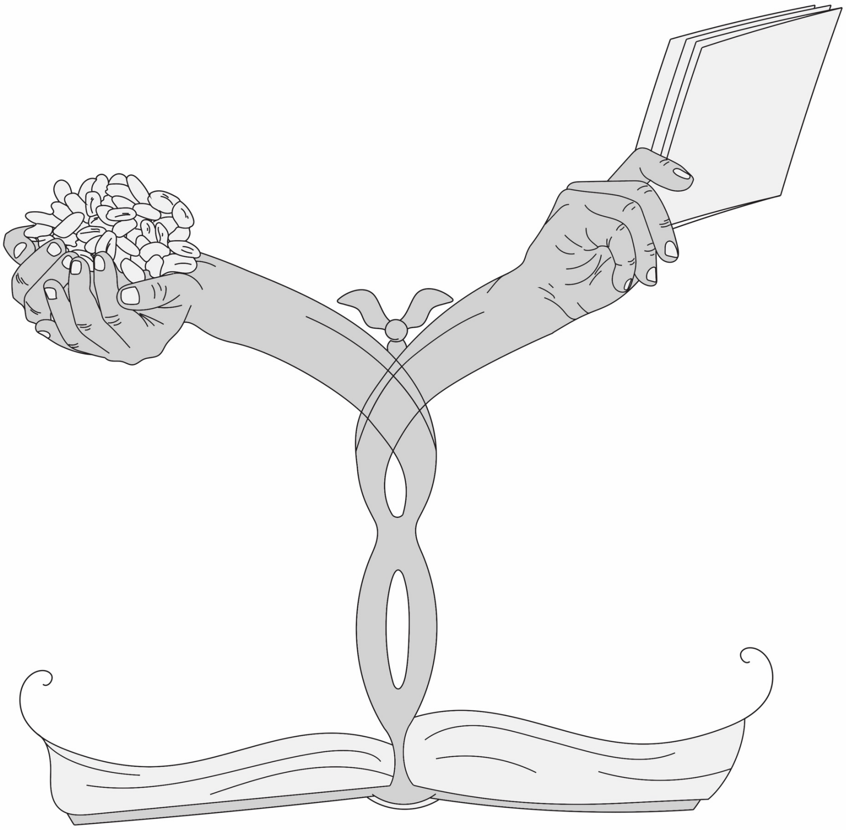

REALIZING THE CONCEPT OF JUST PRICE

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REALIZING THE CONCEPT OF JUST PRICE

by

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PREFACE

I want to thank Dr. C.W.M Naastepad for guiding me through this journey, and most importantly introducing me to a branch of knowledge that I greatly enjoyed exploring. A special thank you to Dr. Ir. U. Pesch and Prof. Dr. C.P. van Beers for their valuable comments and insights which helped me improve my thesis. I would also like to extend my gratitude to Ester Pendavingh for the inspiring interview and sharing her vision with me.

I want to express my gratitude to my family and my friends for supporting me throughout the process. I am blessed to have you all by my side and so close to my heart. The countless conversations I had with all of you during this process not only provided me with new insights but also motivated me to keep moving forward.

I pursued the topic of this thesis not just to fulfil my graduation requirement but to also contribute to the existing knowledge which I believe can have a positive impact on everyone in our society. I hope I have described my thesis in an understandable manner for all the readers.

Kratagya Dixit

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Executive Summary

This thesis is for Entrepreneurs, Managers, and Customers who are interested in paying Just Prices, and who would like to understand what the origin of the concept is, how it differs from the 'fair price', and how a Just Price could be reached in practice. This thesis is forward-looking rather than backward-looking. It will lead to recommendations for entrepreneurs and pricing managers wishing to pay Just Prices, rather than to conclusions based on data regarding the past.

Neoclassical Economics (NCE) which has built a strong foundation of our modern economy, leaves the determination of the price of the labour onto the forces of supply and demand in the labour market. The formation of prices in the labour market does not guarantee that all the producers are able to meet the basic material needs in life, which might plunge many producers into poverty. NCE assumes that human wants are infinite and resources relative to our wants are scarce. In order to meet the infinite wants of consumers, output must be maximized. NCE views the free market as the best possible solution to maximize output, and as a result, labour is traded like any other commodity in the free market. This view on labour turns the task of the economy upside down. Rather than saying that the role of economy is to provide human beings with goods for material well-being, individuals become means (’factors’) to serve our economy.

This contrasts with Aristotle’s view on the task of the economy. In Aristotle's eyes, the task of the economy and the business is to produce the goods that people need, and the problem of scarcity can be overcome by identifying proper ends. According to Aristotle the end goal of human life is Eudaimonia or happiness, which can only be achieved by practicing virtue and developing moral character. In order for everyone to be able to develop themselves, everyone's material needs must be met. This can be achieved if the price that is paid for a good, covers all the costs incurred by the producer, including the costs of livelihood of the producer and his/her family, which will enable the producer to continue to serve society (by producing goods/services) and develop her/his character while doing so.

This concept was further elaborated by Thomas Aquinas which was consistent with Aristotle’s philosophy in that we develop our character by serving others, and that this involves paying a Just Price for what we buy from others, thus enabling others to also practice virtue and develop character. A Just Price is determined by considering and judging relevant economic circumstances and reaching a common estimate by the parties in the exchange rather than through abstract forces of supply and demand in the market. The common estimate is reached upon by the parties concerned through their ability to reason and understand each other’s economic circumstances. The concept of Just Price provides a theoretical and philosophical foundation for making an economy just.

In order to investigate whether the Just Price could be implemented in today's (highly competitive) world economy, a case study on Fair Trade International (FT) was performed in my thesis. Similarities and differences between the concept of ‘fair price’ and the concept of Just Price were analysed. FT determines the fair price by fixing a minimum price for the producers irrespective of the prevailing market price. On top of this, consumers also pay a small fairtrade premium which is invested in the individual and community development of the producer. However, some researchers who analysed the formation fair price observed that in many instances the fair price failed to cover the sustainable cost of production of the producer.

Even though FT works towards providing a decent life to marginalized producers by determining a fair price for them, it shows considerable differences with the Just Price. The concept of Just Price aims at covering the cost of all producers throughout the supply chain, i.e. every transaction for every supplier must be just. But FT only focuses on the producers at the beginning of the supply chain whereas prices in the rest of the supply chain are based on conventional market prices. The conventional businesses participating in Fairtrade engage in paying fair prices only in a small share of their activities while in their remaining activities they still pay and receive conventional free-market prices. A second difference is that FT does not reject the labour market; it does pay for labour (rather than only for goods). A third difference is that in determining the fair price, FT looks at average costs (rather than actual production costs). A fourth difference is the underlying Aristotelian philosophy, which is missing in the 'fair price'.

In order for businesses wishing to pay a Just Price to their suppliers and survive a highly competitive environment, their economic thinking has to change from pursuing one’s self-interest to serving the larger community with one’s capabilities. The producers are to be viewed not as labourers, whose price is determined in the labour market with an intention to minimize the costs of labour, but as human beings developing themselves and practicing virtues by serving others (by producing goods/services). This change according to Christopher Houghton Budd can be mediated with financial literacy predicated on accounting. Accounting/Bookkeeping can be viewed as a tool for understanding and managing economic life for everyone’s benefits rather than a tool for maximizing profits and avoiding taxes. Entrepreneurs and Pricing managers can use Financial literacy in this sense to not only better understand accounting/bookkeeping, but also to collect, compare and analyse all information required to determine the just price.

Entrepreneurs and managers can constantly share balance sheets with their economic partners to keep track of all the costs in their supply chain. There have been empirical evidences that when prices become unjust, producers tend to follow certain strategies to cope up with the shortfall in their income, which is visible on their balance sheets. By sharing balance sheets with producers, it becomes possible to notice when and how prices become unjust, and rather than coping up with unjust prices, they can try to understand the economic circumstances which made the prices unjust in the first place and then try to fix them through cooperative efforts. Through financial literacy predicated on accounting, and constant sharing of balance sheets among economic partners, it becomes possible for entrepreneurs and pricing managers to analyze, judge, and understand economic circumstances of their economic partners. This gives them the opportunity to arrive at a Just Price through common estimate and enables everyone to practice virtue by helping each other reach a Just Price.

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Chapter 1: Introduction

Neoclassical economics (NCE) is one of the most dominant schools of economic thought that has established a strong foundation of our modern economics (Ghosh and Ghosh, 2019, p. 13). It refers to the great doctrine of Adam Smith's invisible hand, which states that the pursuit of one's self-interest, or competing for economic advantage, can contribute to the welfare of society (Albert O. Hirschman, 2013, p 199). But in the last few decades, according to various authors, this approach has contributed to unsustainable development, socio-economic problems and many struggles to earn a living and meet even the most basic needs of life (Andrillon, 2020; Lux, 2003; Matthaei, 1984). Is this because, as Hirschman (2013, p. 210) suggests, citizens tend to have little eye for the public good when they are dedicated to their private affairs?

Kenneth Lux in his article "The failure of the Profit motive" (Lux, 2003), analyzes the economic rationale behind our modern economics. The core characteristic of our society is now defined by narrow self-interest such as profit maximization, and excludes the higher transcendental motives which make our world sustainable and just. He calls our present economics an experiment because it is for the "first time in this vast history that a society attempted to live without motives and principles that were higher than the material or economic, that is, without some form of the transcendental" (Lux, 2003, p. 1). He calls this experiment a failure because "in its brief history modern society is well on its way to destroying both the natural and the social world" (Lux, 2003, p. 1). Our society is committed to limitless economic growth as our narrow self-interest has no natural end to it. This kind of growth is a forced growth or growth for its own sake (Houghton Budd et al, 2015, p. 58). It convinces individuals motivated by profits that happiness can only be found in external things, and inhibits their self-interest to include the common interest of the society.

NCE assumes that individual wants are unlimited, and therefore, all economic activities are directed at maximising economic growth (or maximizing output). However, when individual wants are unlimited, the resources provided by nature to meet (unlimited) wants are scarce. In NCE, output is maximised by identifying the scarce factor(s), giving them a price, and establishing a market for them (Naastepad, 2020). That is, in Neoclassical economic theory, not only goods, but also land, labour and capital (which in NCE are called production factors) are traded in 'free markets'. To maximise output, the production factors must be used efficiently, and according to Neoclassical Economics this will happen when they are traded in markets so that their costs are minimised. As a result of which, human physical and intellectual work are seen as costs that need to be minimised (Naastepad and Houghton Budd, 2019). NCE turns the role of the economy upside down. Rather than saying that the role of economy is to provide human beings with goods for material well-being, individuals become means ('factors') to serve our economy.

This contrasts with another view on the task of the economy that has its origins in the economic thought of Aristotle. According to Meikle (1995, p. 1), "[t]he influence of Aristotle's economic writing has been incalculably great, yet it amounts to fewer than half a dozen pages of the *Nicomachean* Ethics and the Politics". For Aristotle, the human being aims at *eudaimonia*, which can only be achieved by developing virtue and perfecting one's character (Dempsey, 1935, p. 485). Injustice is done when a person is denied opportunities to do so (Wood 2016: 101). A person can practice his or her morality and develop virtue by making him or herself useful to society (as a producer of a good or service). But this is possible only when, in exchange, we "render to each person his or her due" (Koehn and Wilbratte, 2012, p. 503), that is, when we pay a Just Price for the goods and services that are produced. In the market, "One is not morally permitted to treat one or more persons unfairly in an exchange in order to achieve the greatest good of the greatest number of people. Each transactor has a claim to be rendered his or her due in each and every exchange" (Koehn and Wilbratte, 2012, p. 504).

Aristotle's idea of justice or proportionality in exchange was developed further by Thomas Aquinas who is well-known in the economic literature for his concept of "justum pretium" or "Just Price". Since Aquinas, there has been a lot of debate on the right interpretation of the Just Price. In many books, the Just Price is defined as a price "which would enable the producer to live and to support his family on a scale suitable to his station in life" (De Roover, 1958, p. 418). This definition seems consistent with the view of Aristotle that we develop our character by serving others, and that this involves paying a Just Price for what we buy from others, thus enabling others to also practice virtue and develop character. However, it is also being argued that the Just Price is the same as the Neoclassical free-market price and that "it agrees with classical and neoclassical economic analysis" (De Roover, 1958, p. 422). On the other hand, it is also said that NCE conflicts with the Just Price, because NCE motivates businesses to maximize profits in the name of economic growth. As a result of this, businesses look at their workers as a cost to be minimized (rather than seeing them as providers of a product or service for which a Just Price needs to be paid), thus neglecting their dignity as human beings and reducing their opportunities for developing character.

Businesses play an important role in our economy that is derived "from the general nature of human needs in society" (Dempsey, 1935, p. 477). In order to be able to produce the goods that people need, businesses need to make a profit to cover their capital costs; however, this is not the same as maximising profit or shareholder value by minimising costs (including the compensation for labour). My thesis focuses on the idea behind the formation of prices in the Neoclassical free-market, and how this relates to how the purpose of the business is conceived. To do this, I investigate how the purpose of the business is defined in Neoclassical economics, and what this implies for price formation in Neoclassical free-market. This relation (between the purpose of a business and formation of prices) is critically analysed to provide theoretical evidence that the intentions with which the prices are formed in the Neoclassical free-market does not guarantee the welfare of *all* producers/suppliers in our economy. After this I examine the idea behind the concept of the Just Price as developed by

Aristotle and Thomas Aquinas to investigate whether it could provide a solution that could contribute towards the welfare of all producers/suppliers, and what it implies for the business and formation of prices. This will be the theoretical part of my thesis.

In order to realize the idea behind the concept of Just Price in practice, the thesis also has a practical or empirical part, which includes a case study on an organization which determines prices outside the Neoclassical free-market, with an intention to increase the wellbeing of the producers/suppliers. In recent times concepts like 'the Just Price' or 'the true price' or 'the fair price', have been receiving a lot of attention from Organizations such as Fairtrade International and TruePrice™ (trueprice.org), who claim to pay a 'fair price' or 'true price'. The organization selected for my case study is Fairtrade International that focuses on improving the lives of marginalized producers by paying them a fair price for their labour (Dragusanu et al, 2014). The Case Study provides empirical evidence by examining whether and to what extent the intentions behind 'fair price' paid by the Fairtrade organisation differs from the formation of the Neoclassical free-market price and the formation of Just Price. This comparison can help in identifying any gaps that may exist in realising the idea behind paying a Just Price in practice. Therefore, the first aim of the empirical part of my thesis is to understand the method used by the Fairtrade International to compute their 'fair price'. This method will be compared with the formation of Neoclassical free-market price and the Just Price and the conclusion of the case study will provide insights into the differences between fair price and Just Price, and whether or not is it possible for businesses to move to realize the idea behind paying a Just Price?

After the case study, the differences between the 'fair price' and Just Price' will be analysed and practical suggestions will be given for entrepreneurs wishing to realize the intentions behind the concept of Just Price in practice. In particular, in the Aristotelian view, the Just Price involves that individuals associated with the business are paid a Just Price. But how can businesses achieve this under today's competitive and free-market conditions as laid down by NCE? This brings me to my main research question:

> *"How can businesses, as part of the larger community, pay their suppliers a Just Price (enabling them to develop character) while surviving in a highly competitive economy?"*

This research question is answered in four main chapters (2–5). An overview of each chapter is given in the next section. The methodology used in my thesis to answer the main research question, is literature analysis and a case study. Reflections on the method used, as well as on the scientific and social relevance of this thesis, and on its relevance to the MoT curriculum, are given in Chapter 7.

1.1 Chapter Overview

The thesis comprises four main chapters, plus a concluding chapter and a chapter for reflection. The first two chapters form the theoretical part of the thesis, consisting of a literature review to analyse, respectively, the formation of prices in NCE, and the concept of Just Price. The fourth chapter of the thesis forms the empirical part of the thesis and a case study will be carried out to understand the formation of 'fair prices' by Fairtrade International in order to compare it with the Neoclassical free-market price and the Just Price. In the fifth chapter the main research question (how a business can survive a highly competitive market and pay their suppliers a Just Price) will be answered. The aim of each chapter is summarized as follows:

Chapter 2: The aim of this chapter is to analyse the idea behind the formation of prices in the Neoclassical free-market and what it means for the purpose of businesses in NCE. The reason behind this analysis is to investigate whether or not the formation of prices in the Neoclassical free-market contribute to the welfare of all producers/suppliers in our economy.

Chapter 3: The aim of this chapter is to present the concept of Just Price as an alternate price theory. The literature review investigates the origins of the Just Price concept and how it is embedded in Aristotle's philosophy of virtue ethics. The review provides insight into the purpose of economy as viewed by Aristotle and how the formation of the Just Price contributes to this purpose. The formation of the Just Price is also compared with the formation of the Neoclassical free-market price to interpret the differences between the two. This chapter provides a foundation for businesses, as to how they can adopt the concept of Just Price and contribute to making our economy just and increase the welfare of their suppliers.

Chapter 4: This chapter provides a case study on Fairtrade International and investigates the formation of the 'fair price'. This chapter provides empirical evidences of how the conventional prices formed in our economy marginalize producers/suppliers in developing countries and how fair prices try to overcome the challenges posed by conventional prices to increase the welfare of marginalized producers in our economy. The formation of fair prices is also compared with the formation of the Just Price and the Neoclassical free-market price to analyse the difference/similarities between them. The case study is concluded with the challenges FT still faces in a conventional market and the question whether it is possible for businesses paying a free-market price or 'fair price' to move to paying a Just Price.

Chapter 5: The aim of this chapter is to give practical suggestions to businesses who wish to make prices just. In this chapter I introduce the novel insights from Christopher Houghton Budd on financial literacy predicated on accounting and how it can be used as one of the instruments to realize the intentions of Just price in practice.

Chapter 6: This chapter presents the findings and conclusions of my thesis.

In Chapter 7, I reflect on the scientific and societal relevance of my thesis, on the method I have used for my research, on the relevance of this thesis for the MoT curriculum, and on the limitations of my research, and I conclude by giving recommendations for future research.

Chapter 2: Neoclassical Economics and Prices

Our modern economics is governed by the paradigm of Neoclassical economics (NCE), which aims at maximizing the total 'utility' of consumers. It assumes that if every individual pursued their own self-interest they unintentionally contribute to maximising total utility. It is based on the philosophy of utilitarianism where it believes that by maximizing one's utility, one is maximizing his/her happiness (Xie, 2020, p.44). Here utility means the satisfaction a person achieves by consuming a product. A person tries to maximize his/her utility from consumption by choosing a combination of goods that (given prices, one's budget constraint etc.) maximises his/her utility. On the basis of these assumptions, NCE derives various other assumptions regarding the behaviour of businesses, welfare of the society, and formation of prices.

In NCE, as in economics more generally, the purpose and objective of the prices are to optimally allocate scarce resources. But in NCE, land, labour, and capital are also priced, and markets are established for these 'factors of production'. Does this lead to welfare for everyone? To answer this question, this chapter is divided into five sections.

The first section will briefly summarise the assumptions made by Neoclassical economics with regards to the purpose of businesses, consumers, and the welfare of the society; the second section describes the formation of prices under these assumptions in the Neoclassical free-market, its implications on the labour market, and how the prices determined in the labour market play a role in maximizing profits for the businesses; The third section analyzes how the formation of prices in the labour market contributes to the welfare of everyone, even though the price of labour does not guarantee that it will meet the basic needs of all the producers; In the fourth section I perform a critical review of NCE, based on the analysis of critics of NCE; In the fifth section, based on this critical review I will argue why we need a different economic thought and an alternative pricing theory that aims at meeting the basic material needs of everyone.

2.1. Assumptions of Neoclassical Economics

Albert O. Hirschman (2013) analyses Adam Smith's famous doctrine of the invisible hand according to which pursuit of self-interest leads to maximum welfare of the society. "An intriguing paradox was involved in stating that the general interest and welfare would be promoted by the self-interested activities of numerous decentralized operators"(Albert O. Hirschman, 2013, p. 203). Adam Smith gives famous examples of brewer and baker, who supplied the basic necessities of life not for the public interest but for their self-interest. Welfare is maximized when everyone pursues their self-interest as it makes people more predictable, governable, and expands the commercial activities (Albert O. Hirschman, 2013, p. 202). The goal of the consumer is limitless consumption of goods (that is, limited only by one's available budget) which will be achieved when the output is maximized. Profit maximization is seen as a necessary condition to maximize the output by NCE.

To analyse the conditions under which a business maximizes profits in order to maximize output, it is important to describe the macroeconomic assumptions about the market where the actual exchange of commodities take place. NCE assumes that under very restrictive conditions the market moves towards the state of general equilibrium if it is left alone to itself (Houghton Budd *et al.*, 2015, p. 60). It argues that if the capitalist economy is free from all intervention then it moves towards equilibrium, where full employment is reached and resources are efficiently utilized. Our economy is assumed to have an automatic mechanism where all the people find work to earn a living, resources of the firms are utilized in full capacity, and the welfare of the society is maximized. The macroeconomics also assumes that if the government interferes with the economy through their policies, either it will have no effect or it will move the economy away from equilibrium and reduce the welfare of the society (Ghosh and Ghosh, 2019, 13).

The free-market economy reaches its equilibrium state only when it is characterized by perfect competition (Houghton Budd *et al.*, 2015). In a perfect competition there are a large number of buyers and sellers. Every individual buyer is assumed to have knowledge about the prices of goods and their preferences. The firms are price takers as they have no influence over the prevailing market price (Royer, 2011). Under these conditions, a business/seller maximises profit by choosing a level of output that minimises costs. The sellers and buyers participate in the market exchange with an objective of maximising profits and utility, respectively. This self-interested behaviour by businesses and consumers is assumed to lead to the equilibrium state where full employment is achieved, resources are utilized in full capacity, and output is maximized for the welfare of the society. How do prices play a role in achieving the goal of profit maximization for the business?

2.2. The Business and Prices

Prices play an important role for a business in maximising their output and their profits. In a perfect competition the "prices are determined by the forces of supply and demand" (Ghosh and Ghosh, 2019, p. 34). The level of a price is determined by the interaction of aggregate demand for the good by all the buyers and aggregate supply of the good by all the producers. NCE constructs a demand curve of an individual buyer and a supply curve of individual producer to link prices with the output produced. The demand curve is constructed on the assumption that a buyer receives less satisfaction from consuming every additional unit of a particular good (i.e. marginal utility declines), and would only consume more if the price of the good decreases. The supply curve is constructed on the marginal analysis of the producer (Nicholas, 2012). A business supplies a good till its marginal cost is equal to its marginal revenue. Here marginal cost is the "cost incurred for expanding the production by one unit", and marginal revenue refers to the revenue earned by selling one additional unit. If the marginal cost exceeds the marginal revenue, then the business incurs a loss. If the marginal cost is below the marginal revenue then the business earns profit and will expand output until cost and revenue become equal (Hall and Hitch, 1939, p. 13). When the aggregate demand of all the buyers is equal to the aggregate supply of all sellers, then at that point a set of prices exist, which is also known as the equilibrium prices. At this price, all commodities are produced at an equilibrium quantity (maximum output), labour and capital are completely utilized, and the system reaches full employment (Ghosh and Ghosh, 2019, p. 33). The prices change relative to the changes in the demand and supply of the goods. To each individual producer and consumer, "it is a market where goods and prices are already given; they are outside the control of each participant" (Houghton Budd *et al.*, 2015, p. 27), and prices are determined "by the relative preferences of individuals and the relative costs of producing commodities" (Nicholas, 2012, p. 27).

Based on the above mechanism of the free market, the price of a good is determined by the interaction of supply and demand in the free market. Businesses maximize profits by minimising their cost of production. In order to do this, they make efficient use of the inputs they need. The entrepreneur uses inputs to produce the commodity, and these inputs are combined in a least-cost way in order to “minimize the use of resources per unit of output” (Naastepad, 2020, p. 3). To achieve this level of efficiency, prices formed in the market help the firm in determining the least-cost combination of inputs (Naastepad, 2020, p. 3). The price will signal their (relative) scarcity, and this will induce producers to substitute relatively abundant factors of production for relatively scarce ones. This is general economics and not specifically Neoclassical.

In Neoclassical economics, this conceptualization of efficiency is also applied to labour. Special about NCE is that it treats labour, land and capital like commodities that can be traded. The labour involved in producing this commodity is itself also seen as a commodity, and it is traded in a market in order that its cost can be minimized.

The cost of labour comprises two elements: the amount of labour that is needed per unit of output, and the wage rate per unit of labour. Over time, as a result of technological progress, the use of labour per unit of output tends to fall. Technological progress tends to cheapen capital, which induces the entrepreneur to substitute capital for labour. Labour cost is reduced because less labour is required per unit of output. The other element of labour cost is the wage rate, which in NCE is called the 'price of labour'. According to NCE, the price of labour needs to be determined in a market, the 'labour market'. In the labour market, the price of labour is determined by the interaction of the demand for and the supply of labour. When the demand for labour falls (for example due to technological progress) the price of labour may fall. According to NCE, there should be no lower or upper limit to the price of labour. This means that the 'price' of labour can fall below the poverty line, even below subsistence level. How does this relate to the Neoclassical goal of maximising welfare?

2.3. Prices & Welfare: Trade-off between Efficiency & Equity

In the view of NCE maximum welfare will be achieved when the economic rationale of profit maximization motivates businesses to maximize their output, but NCE does not concern itself with how the output gets distributed. The idea is that in the economy, we maximise output, and everyone is paid according to his or her marginal productivity (it is assumed that this can be correctly measured). If someone's productivity is very low, this person will be paid very little. This means that NCE may leave many people in poverty. According to Amartya Sen:

> *"An economy can be [Pareto] optimal ... even when some people are rolling in luxury and others are near starvation as long as the starvers cannot be made better off without cutting into the pleasures of the rich. If preventing the burning of Rome would have made Emperor Nero feel worse off, then letting him burn Rome would have been Pareto optimal. In short, a society or an economy can be "Pareto optimal" and still be perfectly disgusting." (Houghton Budd et al, 2015, p. 122).*

NCE maximizes output for a maximum number of people. But in the process of maximizing output, our economy can plunge several people into poverty. The reason being that NCE prescribes that all prices, including the 'price' of labour, should be formed in so-called 'free markets' (i.e. markets free from interference from outside, for example by a government). But when the price of labour is determined in a 'free market', it does not consider the economic circumstances[1] of the people responsible for producing goods.

It is generally said that NCE involves a trade-off between equity and efficiency. On Neoclassical assumptions, the free market will lead to maximum output. At the same time, free markets may also lead to poverty (because of the establishment of a labour market). This is the trade-off: the free market maximises output, but it may also leave some (or many) in poverty. However, according to NCE, it is still better to have a free market, because those who the free market leaves in poverty may be compensated after the market has done its work (through redistribution via measures in the political sphere). According to NCE, it is better to maximise output (and then, if people wish, to redistribute some of the output via governments) than to have an economic system that is not based on the free market and that, on Neoclassical assumptions, will not maximise output.

The Neoclassical model of general equilibrium is also criticized for being 'comparative static' rather than dynamic. For example, if the system is in equilibrium A, and when

[1] Here economic circumstances refer to the economic problems faced by producers who are unable to cover their cost of production as they receive really low prices, and lack the ability to finance themselves in order to become more productive and develop themselves.

a new variable is introduced to the model, all variables in the model will quickly adjust and generate a new, different, general equilibrium B. The critique is that Neoclassical general equilibrium models do not explain how the adjustment from A to B takes place. They do not describe the transition. They simply show how prices change and how demand and supply adjust to the new price vector, but this change may involve declines in production in one sector and increases in production in other sectors. Correspondingly, people may need to shift from one sector to another, meaning that they may need to acquire new skills and knowledge, that individuals and their families need to move from one place to another, moving houses, that individuals will need to close down businesses and start new ones, for which they will need to find finance, and so on. In this way NCE is only able to explain the process of exchanges in terms of supply, demand, and prices, but not how production adjust to them.

According to Howard Nicholas (2012) the formation of prices has always ignored the importance of production in a purely exchange process:

> *"Production is missing from Neoclassical analyses of price formation in the first instance because individuals exchanging commodities are assumed to be naturally endowed with these. There is no indication of how these commodities come into existence let alone how individuals come to acquire them. When production is eventually brought into the picture to explain where an individual's commodity endowments come from, it is after price has been explained excluding production" (Nicholas, 2012, p. 463).*

This ignorance misleads us into thinking that the only purpose of price is to allocate scarce resources among consumers for them to maximize their satisfaction, and act like signals for decision makers to estimate the quantity of demand and supply (Nicholas, 2012, p. 463). The forces of Neoclassical free-market may fail to realize that everyone may not be able to meet even their basic needs of life because the prices are formed in the context of maximizing the output and it remains indifferent towards the economic circumstances of all the people.

But according to Paul Krugman this amorality of our market is what makes it so efficient:

> *"Nobel prize laureate Paul Krugman explains: ". . .the amorality of the market economy is part of its essence, and cannot be legislated away". Labour should be traded, "just like apples or coal"; markets are "absolutely and relentlessly amoral". The only option to deal with poverty and marginalisation is "after-market intervention" (Houghton Budd et al., 2015, p. 122).*

If the formation of price is amoral towards people and maximizes output at the expense of labour provided by the people, then can we still assume that our market is maximizing welfare for everyone?

The purpose of formation of prices in NCE, is to efficiently allocate scarce resources (Nicholas, 2012, p. 464), which, according to NCE, is achieved when labour is also treated as a resource to be traded in the market. This solution by NCE to overcome the problem of scarcity may results in the unfair treatment of producers. The formation of prices may fall below a level where the producers cannot even meet their basic needs in life.

Behind the Neoclassical labour market is the concept of scarcity. NCE scholars like Leon Walras, Carl Menger, and Stanley Jevons have viewed scarcity as the prime mover of all the economic activities (Matthaei, 1984; Xie, 2020, p. 41), and sees labour as a cost to be minimized to tackle the problems posed by scarcity. But what causes scarcity according to NCE?

2.4 The Root Cause of Scarcity

NCE assumes that, human wants are infinite, whereas nature provides only limited resources relative to our wants. In order to overcome this problem of scarcity, prices should be formed in a free market. This is the optimal solution to allocating resources efficiently. The resources are allocated efficiently and "flow where they are most demanded" (Matthaei, 1984, p. 82).

The market determines the price of labour on the assumption that our wants for consumption are endless, resources provided by nature are scarce, and in order to maximize output, labour must be treated as cost to be minimized. According to Matthaei (1984) Neoclassical theory convinces us that scarcity is an inevitable human condition and our present economy is the perfect solution to this problem (Matthaei, 1984, p. 82). She argues that scarcity is not the main problem but our wants for infinite consumption poses a bigger problem. Infinite wants are not embedded in human nature but are a manifestation of our current system that makes us believe we always want more. Our resources become scarce only if our wants become infinite. But in reality, both resources and nature can fulfil our wants if they are not driven by our greed. Viewed this way, output need not be maximized at the expense of labour. The problem of our modern economics is not the scarcity of resources but its assumption that our end lies in consumption.

The self-interest of producers and consumers, or the profit motive and the absence of a limit on wants, motivates them to pursue only activities which maximizes profits/utility. This kind of self-interest is embedded in our society. This makes a society always committed to "perpetual economic growth" (Lux, 2003, p. 2). Our modern economy is threatening the integrity of our society and its natural environment. The reason being that we are still inclined towards believing that human beings have limitless wants, so growth needs to be limitless too. However, an economy is not socially sustainable if part of the population of the world is being underfed[2]. Even in the United States which is known as a wealthy country, a significant share of the population still finds it difficult to make ends meet[3] (Matthaei, 1984). Many across the world lack time to devote to other activities for their development as they struggle to earn a living. “In 1930, Keynes speculated, people would have enough income to turn their attention to other things in life besides material subsistence. Humanity would have solved its economic problem. Beyond this point, the further accumulation of capital for economic purposes (i.e. production to support material existence) would make no sense " (Houghton Budd & Naastepad, 2019, p. 117). It’s been 90 years since the publication of his essay, but our economy is not even close enough to meet everyone’s material needs. Most consumers are looking for cheap products in order to consume more and more, whereas, the firms in the name of efficiency and optimization are trying their best to minimize the cost of labour, unaware of the consequences it has on the life of people, who provide their labour.

2.5. Towards an Alternative Theory of Price

According to economists critical of NCE, the introduction of a 'labour market' by NCE has made our economic system unjust, because of its implicit indifference towards the people who can barely make a living out of their labour. All our economic activities are concerned with providing ‘the greatest happiness for the greatest number’ (as Jeremy Bentham said), but it is not concerned with meeting basic material needs (or sufficient income) for everyone. The next chapter in my thesis, shifts the focus away from NCE and explores an economic theory that aims at the goal of meeting everyone’s basic needs.

The next chapter presents another view on the task of economy in general and formation of prices in particular, that has its origins in the economic thought of Aristotle. For Aristotle, the human being aims at *eudaimonia*, which can only be achieved by developing virtue and perfecting one’s character (Dempsey, 1935, p. 485). Injustice is done when a person is denied opportunities to do so (Wood, 2016, p. 101). A person can practice his or her morality and develop virtue by making him or herself useful to society (as a producer of a good or service). But this is possible only when, in exchange, we "render to each person his or her due” (Koehn and Wilbratte, 2012, p. 503), that is, when we pay a Just Price. In the market, "one is not

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[2] According to UN reports, around the world enough food is produced to feed everyone in the global population, and yet 690 million people still go hungry due to lack of money and other resources. Even though our world economy has been growing, “there are 60 million more undernourished people now than in 2014” (“Action against hunger internal nutrition security policy”, p. 8)

[3] “Despite solid US economic growth this year, the share of Americans who are struggling financially remains statistically unchanged from a year ago… The study adds to a body of research that millions of American families have trouble making ends meet… to pay for basic needs such as groceries or housing” (Picchi, 2019).

morally permitted to treat one or more persons unfairly in an exchange in order to achieve the greatest good of the greatest number of people. Each transactor has a claim to be rendered his or her due in each and every exchange" (Koehn and Wilbratte, 2012, p.504).

In the next chapter I will analyse how Aristotle's Economic thought and the concept of Just Price provide an alternate view and a pricing theory which can potentially make our economy just by meeting basic material needs for everyone.

Chapter 3: THE JUST PRICE

The concept of Just Price was developed by the scholastic writers from 13th century up till the 16th century. St Thomas Aquinas was one of the most important writers of the scholastic to have contributed to its development. But his theory owes a significant debt to the theory of exchange of commodities which was developed by Aristotle (Landreth, 1976, p.14). Both, Aristotle and Thomas Aquinas viewed exchanges as a social phenomenon which was necessary for a community to flourish. They both believed that justice needs to be preserved in such social relations, as in an exchange a person can treat another person unfairly by taking more than her share. Aristotle in his book V of *Nicomachean ethics* tries to tackle the problem of how exchanges can be made equal so that no person treats another person unfairly.

The scholastic writers developed the concept of Just Price by elaborating on Aristotle's work and using his exchange theory as the starting point (Hollander, 1965). The concept of Just Price is embedded in Aristotle's philosophy of virtue ethics and the end goal of the Just Price in eyes of Aristotle is to meet all the needs of the producers so that they can continue to serve society and develop their virtues while doing so. The main question investigated in this chapter is whether the concept of Just Price could serve as a new paradigm for our economic thinking, where economic development is viewed as a means for supporting human development and not as a goal in itself.

This chapter comprises six sections. The first section analyses Aristotle's theory of exchange and critically reviews interpretations by Neoclassical scholars. The second section investigates Just Price theory as developed by prominent Scholastic writers based on Aristotle's theory of exchange as the starting point. The third section presents a comparative analysis to show the difference between the Just Price and the Neoclassical free-market price. The fourth section analyses the formation of Just Price, the fifth section elaborates on the formation of Just Price, i.e. how can we determine the Justness of Just Price. Finally, the sixth section examines how Aristotle's philosophy could help businesses wishing to to pay a Just Price to their suppliers/producers.

3.1. Aristotle's Economic Analysis and Neoclassical interpretations

Happiness, according to Aristotle is seen as the end goal of every person's life – but happiness in the sense of eudaimonia, which differs from happiness the way it is generally conceived. True happiness or Eudaimonia is achieved by practicing virtues and developing a moral character. True happiness for Aristotle always lies in doing 'fine actions' or being virtuous, and only when one forms a moral character, the person can "[live] a life of virtue", which is "a means of finding true happiness" (Kern, 1983, p. 507).

Today's economic thinking has led people to believe that happiness can be found in external goods (Hirschauer, 2015), which results in unlimited wants so that "consumption becomes the sole end and purpose of all industry and commerce" (Kern, 1983, p. 501). As seen from chapter 1, when utility maximisation becomes the purpose of individuals, then according to Aristotle, people live just for the sake of living and not upon living well. And as their desires are unlimited, they also desire that the means of satisfying them should be without limit (Kern, 1983, p. 510). Desire or unlimited wants are the cause of the problem of scarcity as seen by the Neoclassical economists (Matthaei, 1984). NCE assumes that our wants are unlimited and the resources to satisfy them are limited. Therefore, we need to minimise the use of scarce resources which for NCE means that not just goods but also labour must be traded. Whereas, Aristotle thought that the problem of scarcity can be overcome by identifying the proper end: "Because the nature of the good life is his chief concern, the problem of scarcity is seen by Aristotle as mainly a question of selecting the proper ends" (Kern, 1983 p. 508).

3.1.1. Aristotle's Economic Analysis

Economics according to Aristotle is not an end to itself but it is a means towards human flourishing or *eudaimonia*. *Vice versa*, for human beings to achieve *eudaimonia* they must develop their natural capacities or moral virtues and our economy provides the means to do so (Giovanola, 2009, p. 435). Wealth then is seen as a means to human fulfilment and not as an end goal:

> *"As for the money-making life, it is something quite contrary to nature; and wealth evidently is not the good of which we are in search, for it is merely useful as a means to something else." (Eth. Nic., I, 8, 1094a, 7-8)*

Aristotle dedicates his book V of Nicomachean ethics to the subject of justice in exchange. According to him there are two kinds of justice, universal and particular. Universal justice deals with actions unlawful, whereas, particular justice concerns itself with actions which are unfair. He viewed economic exchanges as an ethical problem because in an exchange a person can treat another person unfairly by taking more than her share. Therefore, economic dealings fall under particular justice because they are about not taking too much nor too little. Aristotle wanted to make exchanges equal so that everyone was treated justly in private transaction.

Justice in exchange can be expressed as "a relation between persons in accordance with their specific relation to something" and "governs man's conducts in his dealings with his fellow-men" (Soudek, 1952, p. 49). An exchange requires four 'terms', i.e. the two people in exchange and the two things that are being exchanged. In order to make the exchange just, one must find a mean to make the exchange equal. Aristotle finds the mean in some sort of proportionate i.e. in the ratio between the people and the things in exchange. And for the ratios to be proportionate they must be equal.

> *"That which is just, then, implies four terms at least: two persons to whom justice is done, and two things. And there must be the same "equality" [i.e. the same ratio] between the persons and the things: as the things are to one another, so must the persons be." (Eth. Nic., V, 5, 1094a, 12-3)*

A private exchange can then be termed as equal if it does not allow a possibility of gain or loss, i.e. a mean has to be found between having too much (gain) or losing too much (loss):

> *"What is fair or equal, then, is a mean between more or too much and less or too little; but gain and loss are both more or too much and less or too little in opposite ways" (Eth. Nic., V, 6, 1094a, 2-7).*

In order to establish a proportion in exchange, Aristotle gives an example of a builder and shoemaker, and suggests that "proportionate interchange is brought about by "cross junction"" (*Eth. Nic.*, V, 8, 1094a, 14-5). In his example he takes A as the builder; B as the shoemaker; C as the house; D as the shoes. For an exchange to take place "The builder then must take some of the shoemaker's work, and give him his own work in exchange". (*Eth. Nic.*, V, 8, 1094a, 14-5). But before the exchange takes place the" proportionate equality" of the two things must be established in order to identify how many shoes should be exchanged for one house "for there is no reason why the work of the one should not be worth more than the work of the other. Their work, then, must be brought to an equality [or appraised by a common standard of value]." (*Eth. Nic.*, V, 8, 1094a, 14-5).

In order to make the exchange of the product and work equal it must follow the equation A:B = C:D. This equation will be further explained numerically, but before this it is important to analyse what Aristotle considered the common standard in order to equate the exchange.

In order to find proportionate equality between two things he tries to find a common standard between the things so that they can be equated:

> *"All things or services, then, which are to be exchanged must be in some way reducible to a common measure." (Eth. Nic., V, 10, 1094a, 9-11).*

He first suggests that money can be a common standard of measure since it serves as a medium of exchange and all things can be then compared with money:

> *"For this purpose, money was invented, and serves as a medium of exchange; for by it we can measure everything, and so can measure the superiority and inferiority of*

> *different kinds of work- the number of shoes, for instance, that is equivalent to a house or to a certain quantity of food." (Eth. Nic., V, 10, 1094a, 9-11).*

Let's assume that it is known that 5 shoes = 1 houses i.e. five shoes should be exchanged for one house to establish a proportionality in exchange. In this case money can be used to represent five shoes and can be used to buy a house from the builder. This means that money cannot be termed as a common measure in exchange since two things can be exchanged without the money, if it is known how many quantities of shoes equals one house. Aristotle recognizes this problem and drops the idea that money can be used to equate an exchange.

Since Aristotle tries to equate two things based on their quantities, he tries to find the quantity that is commensurable. After he drops the idea of money as a common standard to equate things, he then suggests *chreia* or needs as a measure to make things commensurable. The reason for this being:

> *"That it is our need which forms, as it were, a common bond to hold society together, is seen from the fact that people do not exchange unless they are in need of one another's services, as when that which one has, e.g. wine, is needed by other people who offer to export corn in return, This article then [the corn to be exported], must be made equal [to the wine that is imported]" (Eth. Nic., V, 13, 1094a, 12-14).*

But then again, he drops the idea of *chreia* or need as a measure for making things commensurable as "needs" lack a unit and cannot be used as a measure to equate quantifiable things (Meikle, 1995, p. 23). He then tries to establish money as the unit of need to establish "a commensurable dimension" but then he finally drops this solution as well because something "which brings and holds the needy parties together in exchange, is not the same dimension in which the things exchanged are themselves commensurable" (Meikle, 1995, p. 24).

This problem of finding a quantity between two things to make them commensurable is at the heart of our economic exchange (Meikle, 1995). According to Meikle, this problem to which Aristotle is trying to find a solution has been overlooked by many commentators of Aristotle's work, and this has led to several misinterpretations and under-appreciation of his work. Meikle Scott in his book "Aristotle's Economic Thought" analyses many critics of Aristotle's work and presents a logical explanation for why these critics have failed to understand Aristotle's theory of exchange.

3.1.2. Neoclassical (mis-)interpretations

Aristotle's interpretation of ratio and proportion in an exchange has been criticized by many Neoclassical scholars. It has "attracted a number of very unflattering appreciations" but, according to Meikle, many of these views are "exaggerated":

"Finley's verdict is representative 'that this is not one of Aristotle's more transparent discussion is painfully apparent'. Soudek thought that it 'belongs to the obscurest parts of his writings', and refer to it as 'this dark passage in the Ethics'. Bonar refers to it as 'this much tortured passage', and so more or less does Langholm" (Meikle, 1995, p. 7).

According to Meikle, these scholars completely ignored the main aspect of Aristotle's reason behind his economic analysis.

According to Aristotle a product has 'use value' and 'exchange value'. Its use value can be determined by the property of the product and the particular need it fulfils. For example,

"objects such as hammers, grain, loaves, or houses are useful for particular purposes and they are designed and made in order to meet particular needs 'every-one who makes something makes it for some end or purpose" (Aristotle, quoted in Meikle, 1995, p. 9).

Whereas, the problem Aristotle was trying to solve was to determine a product's exchange value, and this has to be something quantifiable. It has to be related to a capacity of the product that is quantifiable (Meikle 2002, p. 113). This is fundamentally different from the notion of 'value' in Neoclassical economics, where the price the consumer is prepared to pay is called the 'value' of the product. But for Aristotle, this cannot be the exchange value of a product, since the exchange value must be related to something *intrinsic* to the product (Meikle 2002, p. 111); it cannot be subjective, as in Neoclassical economics. The reason for this interpretation is derived from his theory of substances and categories. Substances are individual entities like house, cow, human body etc, and categories are attribute of these substances like quality, quantity, and relations. So, in an exchange "his problem is occasioned by the fact that a relation of equality or inequality can exist between things only if they are commensurable, they are so in respect of some property they share, and if that property is measurable, they may be said to be equal or unequal in respect of it." (Meikle, 1995, p. 13).

So, when it comes to an exchange between a house and shoes, it is certain kind of shared property that must be equated, and this property must be a quantity rather than a quality because quantity is measurable and quality is not.

"The relation Aristotle has identified between proportions of houses, food, and shoes is one of equality and he writes of quantity in the categories that 'most distinctive of a quantity is it being called both equal and unequal…" (Meikle, 1995, p. 15).

In his example of the builder and the shoemaker, while comparing the house with the shoes he uses the word *kreîton* to illustrate "too great or too much". *Kreîton* also means "superior to" or "better than", and as a result Aristotle's commentators thought that Aristotle was trying to equate the quality of the house and the shoes. But quality of the product was never in Aristotle's mind, because qualities are conditions which can be similar to each other but cannot be equal or unequal:

> *"Beds and houses are qualitatively different things, and in respect of some qualities they may be said to be similar, and in others dissimilar. But proportions of houses, food, and shoes, cannot occur in equations like '5 beds = I house', because then they could be said to be similar or dissimilar, not equal or unequal" (Meikle, 1995, p. 15).*

Contrary to Aristotle's search for an objective measure, Neoclassical economists have been keen to interpret exchange value in terms of use value, so that the price of a product can be equated to the value the product has for the consumer, that is, to utility, or subjective value. This, way, several economists have tried to incorporate Aristotle in Neoclassical economics (Meikle 2002, p. 111). The neoclassical view on economic value is strongly inspired by Bailey's writing in 1965 (Meikle, 1995, p. 115). According to him "Value denotes nothing positive and intrinsic, but merely the relation in which two objects stand to each other as exchangeable commodities" (Meikle, 1995, p. 115). Schumpeter (in his *History of Economic Analysis*), Soudek (1952) and others attempted to show that "the basis of exchange value is utility" (Meikle, 1995, p. 116). However, Aristotle's exchange value is related to production conditions or circumstances of the producer / on the supply side rather than the consumer / the demand side.

The Neoclassical misunderstanding of the philosophical basis of Aristotle's theory of exchange. may have arisen from the word *"chreia"* or need that Aristotle uses in one of his passages to solve the problem of commensurability in an exchange. According to Meikle (1995, p. 118), the term *"chreia"* was misunderstood as demand by Barker in his writings, and he suggested that demand can make exchanges commensurable. This misunderstanding was a result of overlooking Aristotle's metaphysical theory and also misinterpreting the word 'need' with 'demand' (Meikle, 1995, p. 118).

In NCE demand is an aggregate of wants or revealed preferences, which is very different from how Aristotle interpreted 'needs'. According to Aristotle need is a requirement for us to flourish, for example an organism 'needs' a particular environment to flourish and without this the organism cannot flourish. Whereas "Demand does not have any connection with flourishing, and it cannot be used to represent the Aristotelian idea of need without destroying a tissue of connections that are vital to Aristotle's philosophy" (Meikle, 1995, p. 120). NCE bridges the gap between 'use value' and the 'exchange value' with the help of demand, and uses utility as the property to equate the two exchanges. Aristotle's commentators describe this as Aristotle's lack of knowledge to not come up with this solution, but Aristotle had his reasons to not solve the problem of equating exchanges in this way as it did not follow his theory of metaphysics. (Meikle, 1995)

The modern Neoclassical scholars did not acknowledge Aristotle's theory of metaphysics in exchange and rather came up with their own assumptions that 'value' is extrinsic, and exchange relation can only exist on the basis of utility. Whereas, Aristotle was trying to equate a quantity that is common between a house and shoes, and he knew that utility is a property that cannot be quantified and equated. On the other hand, medieval scholars acknowledged the problem of commensurability that Aristotle was going through. As Langholm quotes

> *"that the schoolmen were puzzled 'as to what "common substance" in the different goods constitutes the principle of equalization" (Langholm, quoted in Meikle, 1995, p. 143).*

The scholastic writers used Aristotle's example of the builder and the shoemaker as a starting point to build the theory of Just Price (Hollander, 2015, p. 616). They saw Just Price as a measure to make exchange equal between the builder and the shoemaker. From the above interpretation of Aristotle's theory of exchange and the analysis of the Just Price doctrine (which will be investigated in the next section), there is one thing that is common between the builder and the shoemaker, which is the cost that goes into building a house and the shoes. This cost is measured by money and determined by a price that renders the two producers what is due to them. Therefore, the equality between the two things is established with a Just Price that is determined by cost, and if this is not observed then there is not justice in the exchange.

The above argument can be supported by the definition of Just Price given by St Thomas Aquinas, a prominent scholastic writer who quotes Aristotle while coming up with the concept of Just Price:

> *"Buying and selling were instituted for the common good of both parties since each needs the products of the other and vice versa as is evident from the Philosopher. But what was introduced for the common utility ought not to bear harder on one party than on the other, and therefore, the contract between them should rest upon an equality of thing to thing. The quantity of a thing which comes into human use is measured by the price given, for which purpose money was invented, as said. Therefore, if the price exceeds the quantity of the value of the article, or the article exceeds the price, the equality of justice will be destroyed." (Thomas Aquinas, quoted in Dempsey, 1935, p. 481).*

Let's look at the example of the builder and the shoemaker again with numerical values and equate the exchange by keeping costs as the common measure.

In order to express this in numerical terms, let us assume that after calculating the cost it is established that in terms of costs and effort spent, 1 house equals 1000 pairs of shoes. To simplify the example, let's assume the costs include only the remuneration for labour. If the shoemaker wants to buy the house, the exchange would be equal if he gives in return 1000 pairs of shoes. So, the ratio that follows now is:

C : D = 1 : 1000

where, as before, C stands for the house and D for the shoes.

If the builder wishes to buy a pair of shoes, which equals 1/1000th of work of the shoemaker, the exchange will be fair or equal if the builder gives the shoemaker a proportion of his work that is equal to 1/1000th of his own work. The builder, then, would need to give the shoemaker the equivalent of one-thousandth of the house, which will be equivalent to what the shoemaker needs to make one pair of shoes.

If the ratio C : D = 1 : 1000 represents production costs, the ratio A : B would represents what each producer will need to give to the other in order to enable the other to cover his production costs.

But it will be quite impractical for the builder to give the shoemaker one-thousandth of the house in exchange for the pair of shoes. Therefore, a common measure or standard is required to make exchange more practical. For this reason, according to Aristotle money was created:

> *"All things or services, then, which are to be exchanged must be in some way reducible to a common measure. For this purpose, money was invented, and serves as a medium of exchange; for by it we can measure everything, and so can measure the superiority and inferiority of different kinds of work- the number of shoes, for instance that is equivalent to a house or to a certain quantity of food." (Eth. Nic., V, 10, 1094a 9-11).*

For the exchange to be equal, the returns need to be of the same proportion as the costs. For 1000 pairs of shoes, the shoemaker needs to receive the same amount as the builder receives for one house. If the production costs of the house equal €100,000 (so that the shoemaker would need to pay €100,000 if he wished to buy the house), the builder would need to give the shoemaker €100 for a pair of shoes:

A : B = 100 : 100,000.

For one pair of shoes, the builder would give the shoemaker €100. In terms of production costs, this is the equivalent of one thousandth of the house. This satisfies A : B = C : D as well as A : C = B : D.

From this we can interpret that C:D is the ratio of production cost to build a house and the shoes and that A:B is the ratio of the prices that the producers must pay to one another to cover each other's production cost. The exchange is equal when the builder gives for a pair of shoes the equivalent of one-thousandth of the value he has produced, which is equivalent to one-thousandth of the total value produced by the shoemaker. This is confirmed by Aristotle's example of an exchange between a shoemaker and a farmer, where Aristotle explains:

> "*There will, then, be reciprocity when the terms have been equated so that as farmer is to shoemaker, the amount of the shoemaker's work is to that of the farmer's work for which it exchanges*" *(Book V, 1133a 32-35).*

Compared to NCE, Aristotle clearly distinguishes use value, or the value for the user of the good, and exchange value, or the value in terms of production costs. Unlike

NCE, in which the price is determined by the forces of supply and demand, and exchange is meant only to satisfy the individual wants, Aristotle saw exchange as a means to rendering each other what is due to them so that the producers could live well and continue their business. At the same time, the needs of people were seen as a precondition for the exchange to take place, for if there was no need then the exchange would not have occurred in the first place:

> *"That it is our need which forms, as it were, a common bond to hold society together, is seen from the fact that people do not exchange unless they are in need of one another's services (each party of the services of the other, or at least one party of the service of the other), as when that which one has, e.g. wine, is needed by other people who offer to export corn in return. This article, then [the corn to be exported], must be made equal [to the wine that is imported]." (Eth. Nic., V, 13, 1094a, 12-14).*

Aristotle viewed economic activity as a social phenomenon and a means for our society to flourish. For this to happen a Just Price is needed to make our exchanges fair. For if this is not the case then the producers would not be able to recover the costs required to continue their business and eventually not be able to live a decent life in the society:

> *"The arts… would have been destroyed if the partners to the exchange were not assured that what they give -away and receive is not of equal value. Equality of goods exchanged, some sort of "justice", is thus the postulate of exchange in the market" (Soudek, 1952, p. 47).*

Aristotle's theory of exchange made it possible for the scholastic writers in the 13th century to develop the theory of Just Price. St. Thomas Aquinas, is one of the most prominent scholars of Just Price who elaborated on the work of Aristotle. The next section describes the concept of Just Price developed by the Scholastic writers, and how cost of production and justice plays a role in determining this price.

3.2. The History of the Just Price

The history of Just Price begins with Aristotle's theory of exchange. Unlike Neoclassical economic theory, which revolves around a theory of market exchange, Aristotle's theory of exchange value was more concerned with the people producing the goods. Soudek (1952) summarized Aristotle's theory of exchange by expressing it in terms of demand, utility, and wants. But in the previous section I argued that Aristotle always meant cost of production to be the common denominator for equivalent exchanges of goods. His aim was to find a mean price where no party gained or lost, and just received what was due to them. Here, justice concerns itself with finding the mean between loss and gain, or "the intermediate between excess and defect" (Soudek 1952, p. 51). But which is then the just mean? Soudek (1952, p. 51) refers to an example given by Aristotle to explain the difference between the mean "which is one and the same for all men" and a mean "relatively to us". The mean that would be just in the market is the mean 'relatively to us'. The example shows that the 'mean relatively to us' is a mean that considers the economic circumstances of the persons concerned.

These economic circumstances of a *producer* can be related to the costs of production that will need to be covered. The economic circumstances of a buyer relate to how much money she has to spend (which in turn depends on whether, as producer, she received a price that covered her costs of production). The problem in the market is to find the mean between two sets of personal circumstances of two producers. Aristotle never saw labour as a cost to be minimized, instead he saw the need for the effort spent by the producer to be properly remunerated to enable him or her to continue producing goods for society. Soudek interprets that Aristotle "was not intent to engage in the formation of anything resembling a systematic theory of economics" (p. 46). But it can also be said that he might have had the whole economy in mind, since the economy is made up of a myriad of exchange relationships. It is through his theory of exchange that the concept of Just Price was developed by the scholastic writers and the aim was to make exchanges between producers equal.

The Just Price according to Thomas Aquinas, is "the price that would be agreed to by the just person as part of an exchange of goods and services. This "just person" exchange price considers the well-being of all who are parties to a given transaction and the good of the larger community" (Koehn and Wilbratte, 2012, p. 502). In order understand its underlying philosophical meaning and be able to relate it to Aristotle's theory of exchange, Bernard W. Dempsey analyses the concept of Just Price in its historical context and through the quotes of leading medieval thinkers. This section elaborates on his findings by presenting how with the help of important scholars Aquinas was able to develop Just Price as a concept which is still relevant to our modern economics.

Well before formulating the concept of Just Price there had been a lot of argument since the Roman law about the price and objective value of commodities. Aurelius Augustinus, "bishop of Hippo Regius in Africa, saint, Father and Doctor of the Church" was one of the first philosophers to have contributed to the theory of value (Dempsey, 1935, p.474). The writings of Augustinus have been much quoted and analysed by scholastics, and created confusion among modern writers because different elements of these writings appear to present contradictory points of view which "modern writers of ability and authority" have been unable to reconcile, namely, "that there is a powerful subjective element in our evaluations, and yet that there is a Just Price which is independent of my subjective judgements" (Dempsey, 1935, p.474)

The scholastic writers make it clear that the formation of Just Price requires both subjective and objective forces and once determined it becomes completely objective (Dempsey, 1935, p.476). This contrasts with Soudek's view that the Just Price is "essentially subjective" (Soudek 1952, p. 51).

Albertus Magnus, who was not a scholastic writer but a “founder of Theological tradition of the Dominican order”, was an advocate of Just Price “on his own grounds”, and he commented on “Ethics of Aristotle” while formulating the Just Price concept (Dempsey, 1935, p.476). Starting from the passage about gain and loss in the Nicomachean Ethics (referred to above) Albertus Magnus didn’t see exchange to take place through an equality of the things that are exchanged, but by fulfilling each other’s needs. This need "includes not only my personal need of this particular object but also and more significantly the need which all men have of living in society and of exchanging with one another the products of their labour, if human life is to be carried out on a level in any way proportionate to human capacity and dignity” (Dempsey, 1935, p. 476). Albertus agreed with Aristotle’s view that the needs of people in society are a precondition for just exchanges and when an exchange takes place it is required to fulfil each other’s due i.e. the cost of production. If this is not the case then the exchange is unjustified:

> "*For all would, indeed, be destroyed if he who makes a contract for so much goods of such a kind, does not receive a similar quality and quantity. For the state cannot be built up of one type of workers alone. Properly, therefore, these things are exchanged not absolutely but with a certain comparison to their value according to use and need. Otherwise, there would be no exchange*" *(Albertus Magnus, quoted in Dempsey 1935, p. 477).*

Albertus tries to interrelate Just Price with social organization as according to him "life can only be sustained through mutual exchange of products, therefore human beings live in a community where everyone is fulfilling each other’s needs." This makes the whole process of exchange a social phenomenon:

> "*Because exchange is socially necessary, money is socially necessary, and because both money and exchange are designed to serve the development of persons in community, the quantitative determination of price is necessarily social. Prices must be equitable because all of the functional groups are necessary to each other and live in mutual interdependence*" *(Albertus Magnus, quoted in Dempsey, 1935 p. 478).*

Both Thomas Aquinas and Albertus Magnus viewed the Just Price as a powerful force for social organization.

> *“"Man is naturally a social animal". This is evident from the fact that one man does not suffice for himself if he lives alone because the things are few in which nature makes adequate provision for man, since she gave him reason by means of which to provide himself with all the necessities of life such as food, clothes, and so forth, for the production of which one man is not enough. Wherefore man has a natural inclination to social life*" *(Thomas Aquinas, quoted in Dempsey, 1935, p.478).*

Aquinas, whenever concerned with social issues always cited Aristotle’s principle that "Man is naturally a social animal". Aquinas with reference to Aristotle’s theory of exchange also speaks about the division of labour:

> *"For, as many things are needed for man's livelihood for which one man is not sufficient for himself, it is necessary that different things be done by different men, that some, for instance, should cultivate the land, that some build houses, and so forth" (Thomas Aquinas, quoted in Dempsey, 1935, p.479).*

With the above passage he also gives importance to our civic relationship and community membership. A community according to Aquinas is a body with interrelated exchange among people. Just as a human body cannot function without proper coordination between the legs and eyes, a community cannot work without mutual cooperation among all the members (Dempsey, 1935, p. 479). Since, Aquinas saw exchange as a social phenomenon, he gave a lot of importance to progress through division of labour in our society. But Aquinas never had in his mind about progress being driven by competition in the Neoclassical sense, competition in a free market. He thought one should not be thinking just about one's own needs:

> *"In the temporal commonwealth, peace departs because the individual citizens seek only their own good. . . . Rather through diversity of function and status is the peace of temporal commonwealths promoted inasmuch as thereby there are many who participate in public affair" (Thomas Aquinas, quoted in Dempsey, 1935, p. 479).*

This also means that Aquinas saw narrow self-interest as an unjustified condition of our society. For him as well as Aristotle, exchanges between people promoted the common good for everyone in the society. Therefore, by referring to Aristotle's theory of exchange and origins of money, he states that through exchange everyone contributes to the common good of the society, but the common good can only prevail if the burden/cost related to production is equally shared between the parties in exchange:

> *"Buying and selling were instituted for the common good of both parties since each needs the products of the other and vice versa as is evident from the Philosopher. But what was introduced for the common utility ought not to bear harder on one party than on the other, and therefore, the contract between them should rest upon an equality of thing to thing." (Thomas Aquinas, quoted in Dempsey, 1935, p. 481).*

Since exchanges were social phenomena, production of goods and progress happens in association with everyone. Thomas Aquinas acknowledged that every producer must get a just return for what he/she produced as they had the moral right to live a well-reasoned life (Koehn and Wilbratte 2012, p. 504). Every good has a Just Price and that price changes based on its location, time and risk that the producer is exposed to. Both parties must be compensated in the exchange and justice must be preserved in this exchange.

With the above interpretation of Just Price by Thomas Aquinas, John Duns Scotus who was a young contemporary of Aquinas added two more rules in order to elaborate on the relation between a business person and her suppliers, and how through Just Price a business can serve its larger community. He also specifies that earning a profit is not an act of sin, if it is seen as a means to achieve a purpose of contributing to the society, and to provide a decent life to her suppliers and family.

> *"Beyond the rules which have been given above as to what is just and what is not, I add two. The first is that such an exchange be useful to the community, and the second, that such a person shall receive in the exchange recompense according to his diligence, prudence, trouble, and risk. . . . This second rule follows because every man who serves the community in an honest function ought to live by his work. But such a one as transports or stores goods is of honest and useful service to the community, and should, therefore, live by his work. And, moreover, one can sell his effort and care for a Just Price. But great industry is required of one who transports goods from one country to another inasmuch as he must investigate the resources and needs of the country. Therefore, may he take a price corresponding to his labour beyond the necessary support for himself and those of his establishment employed according to his requirements, and thirdly, something beyond this corresponding to his risk" (Scotus, quoted in Dempsey, 1935, p. 483).*

The summary given below by Antoninus, archbishop of Florence in the 15th century, also elaborates on the view scholastic writers had about the end goal of doing a business. According to Antoninus, a business which aimed at profits alone at the expense of labour brings injustice and disables the economy of exchange (Antoninus, quoted in Dempsey, 1935, p. 483). The concept of Just Price considers the dignity and morality of everyone in society. It does not accept underpayment, and condemns the search for gain as the purpose of a business. It recognizes that labour should be adequately remunerated and this may also involve compensation for, for example, transport and risk. Unlike NCE it treats all the individuals involved in the production of goods with dignity by demanding that labour or effort spent in producing a good or service that people need should not be underpaid. Antoninus in the following passage explains the nature of a business which pays a Just Price and also condemns a business that seeks gain only as an end to itself:

> *"The notion of business implies nothing vicious in its nature or contrary to reason. Therefore, it should be ordered to any honest and necessary purpose and is so rendered lawful, as for example, when a business man orders his moderate gain which he seeks to the end that he and his family may be decently provided for according to their condition, and that he may also assist the poor. Nor is condemnation possible when he undertakes a business as a public service lest necessary things be wanting to the state, and seeks gain therefrom, not as an end, but in remuneration for his labor observing all other due considerations which we mention. But if he places his final purpose in gain, seeking only to increase wealth enormously and to keep it for himself, his attitude is to be condemned" (Antoninus, quoted in Dempsey, 1935, p. 483).*

The theory of Just Price, in spite of its great relevance to our modern society has been interpreted differently by our modern economic scholars. Some scholars argue that Just Price is related to the production costs. While the others interpreted that Aquinas's Just Price is equivalent to our prevalent market price. In order to understand the formation of Just Price in the market, it is important to compare it with the formation of Neoclassical free-market price and also distinguish them based on their underlying philosophy.

3.3. The Just Price and the Neoclassical free-market price

The Just Price has been interpreted and analysed by many modern economic scholars, in order to understand the implications of the writings of medieval scholars regarding the purpose and determination of prices. This analysis has led to a debate between two major views on Just Price. For many centuries, the dominant view had been that by the Just Price, Aristotle and St. Thomas Aquinas were referring to "a normal price dependent upon cost of production, rather than a fluctuating price dependent upon the chances of the market" (Hollander, 1965, p. 615). Production costs included a compensation for the efforts made by the producer, according to an accepted standard of living. However, around the middle of the twentieth century, the view came up "that the Just Price was the going market price, and particular emphasis was placed on demand and utility" (Hollander, 1965, p. 615), that is, that the Just Price did not really differ from the Neoclassical free-market price. Today, this view is again being contested and the Just Price is again viewed as a cost-of-production price. This section investigates the difference between these two views on the Just Price, based on the method and underlying philosophies of determining prices in NCE and Just Price tradition.

Hollander (1965) while interpreting the concept of Just Price provides a strong evidence that the Just Price concept "was in fact related to costs within the medieval context of social status" (Hollander, 1965, p. 616). He refers to Aristotle's Nicomachean ethics and presents passages of his doctrine of exchange to argue that Aristotle was only concerned with price which covered cost of production of a producer. One of the quotes Hollander refers to is as follows:

> *"This is to be observed also in the other arts, for they would be destroyed if a workman did not receive according to the quantity and quality of what he produced. Between two doctors an exchange does not take place but between a doctor and a farmer who are altogether different and unequal. These then must be equated." (Nic Eth, V, 1132b 21, quoted in Hollander, 1965, p. 617)*

From the above quote it can be seen that Aristotle is concerned with covering the cost of the producer and Hollander takes the above passage as an evidence that "Aristotle maintained a cost theory of the Just Price" (Hollander, 1965, p. 618). This view was challenged by J.T. Noonan that in the above passages "Aristotle intended it only as an illustration, not an absolute affirmation that equality in exchange demanded an equality of labour being matched" (Noonan, quoted in Hollander, 1965, p. 618). After this Noonan immediately concluded that utility is the common denominator to establish the value of a commodity. J.J Spengler also agreed with Noonan and concluded that Aristotle was more concerned with demand in exchange which also made him a "forerunner of Austrian school of thought". (Spengler, quoted in Hollander, 1965, p. 618).

To conclude, it seems that Neoclassical economists have been keen to interpret exchange value in terms of use value, so that the price of a product can be equated to the value the product has for the consumer, that is, to utility. This, way, several economists have tried to incorporate Aristotle into Neoclassical economics (Meikle 2002, p. 111). However, as argued in the previous section, this conclusion was reached by Aristotle's commentators because they overlooked Aristotle's theory of metaphysics and interpreted Aristotle's concept of needs as demands. Whereas, Hollander had realized that Aristotle was not trying to equate exchanges based on utility or want satisfaction, but he was only concerned with costs to be covered by the price. In order to elaborate his explanation, he then quoted Aquinas's Commentary in which he developed the concept of Just Price based upon costs and referred to Aristotle's doctrine to maintain his cost theory. Hollander refers to the following quotes of Aquinas to provide us evidence that for both Aristotle and Aquinas the Just Price was a cost-of-production price:

> *"The arts would be destroyed if the craftsman, who works at some handicraft, would not be supported, i.e., would not receive for his workmanship, according to the quantity and quality of what he produced." (Comm. On Nic.Eth, V. VII, quoted in Hollander, 1965, p. 619)*

The above quote was directly taken from Aristotle's Nicomachean ethics by Aquinas, and he goes on to elaborate upon it as follows:

> *"… first an equality according to proportionality is found so that on one side a certain number of sandals be fixed as equal to one house (for a builder incurs more expense in building one house than a shoemaker in making one sandal)" (Aquinas, quoted in Hollander, 1965, p. 619).*
>
> *"In order then to have just exchange, as many sandals must be exchanged for one house… as the builder… exceeds the shoemaker in his labour and costs. If this is not observed, there will be no exchange of things and men will not share their goods with on another." (Aquinas, quoted in Hollander, 1965, p. 619).*

Aquinas does not refer to Aristotle from word to word, rather he elaborates his examples and shows that the Just Price should always correspond to costs, if all the costs of the producer is not covered by the price then the exchange is unjustified and will not take place. (Hollander, 1965, p. 620). Aristotle did not speak about want satisfaction to be covered by the price during the exchange process. But he does elaborate about needs, "immediately after the establishment of the rule that Just Price is determined by relative costs." (Hollander, 1965, p. 620). According to Aristotle needs should come into the picture as a precondition of exchange to take place. Needs of one's fellow human beings motivate producers to supply goods, while the Just Price is paid to compensate the producer for the costs so that (s)he can continue to meet the needs of people:

> *"That human demand connects everything as by a kind of measure is evident because when men are so mutually situated that both or at least one is not in need, they do not exchange their goods. But they engage in exchange when one needs what the other has, e.g., wine, and they give grain for it. An equation then must be made between these goods." (Aristotle, quoted in Hollander, 1965, p. 619).*

The measure that Aristotle mentions depends upon a certain kind of estimate which has to be made by those concerned, who understand each other's economic circumstances. Unlike NCE, this measure is not determined by the forces of Neoclassical free-market because at times these prices can be unjust towards the producers. One of the aims of the Just Price is to bring about justice in the economy and render everyone 'what is due to them'. By adopting the Neoclassical free-market price as a general rule for all economic activity does not satisfy the above criteria all the time, because justice in the sense of Aristotle and Thomas Aquinas is not the intention of the free-market price. The costs as determined in NCE do not guarantee that the real costs of a producer are covered. It does not set any limits below which the remuneration for labour should not fall. Nor does the free-market price always enable the producer to prevent or compensate for negative environmental effects. The Neoclassical price does not preserve justice in exchange because it does not necessarily render the producer or also, for example, the natural environment what they need.

3.4. Formation of the Just Price

In the previous section it was argued that the Just Price is different from the Neoclassical free-market price in the sense that, a Just Price always corresponds to the total cost-of-production rather than the want satisfaction of the consumer. This section elaborates on the formation of Just Price in the eyes of Aristotle and Thomas Aquinas, and compares it with the formation of Neoclassical free-market price to show the difference between the two concepts.

According to Hollander (1965: 625), "the Just Price is frequently defined as that price which reflects 'the community estimate' of the product". The price would depend upon the judgement and reasoning of the parties in exchange rather than being decided by the Neoclassical free-market which is not concerned with providing producers the opportunity to develop themselves. In NCE, economic agents remain passive and unconscious, and they act mechanically [in response to financial incentives] in search for personal gain. NCE tells us to follow our instincts (self-interest), as if it does not believe in the moral power of individuals, nor in their analytical powers. Whereas, on the other hand, the concept of the Just Price demands of us that we look at economic circumstances with full consciousness, with all our knowledge and analytical powers.

The Just Price in the eyes of Aquinas is assessed by associated sellers and buyers; the process is described by Koehn and Wilbratte as

> *"In general ... the prevailing market exchange price will be just if we take the market price to be a price that emerges as a collective evaluation of the worth of that product at that particular point in time as assessed by 1) reflective sellers who know their costs, who are attuned to their own and the buyers' well-being and who respect the dignity of all of their fellow human beings; and by 2) reflective buyers who grasp whether and to what the extent the product meets their needs and who, like the sellers, are sensitive to the common good" (Koehn and Wilbratte 2012, p. 502).*

The Just Price can be either higher or lower than the prevailing market price and the idea is to bring the market price as close as possible to the Just Price. A Just Price is a result of everyone's judgement (of conditions in the market) and determination to promote the well-being of everyone in society. If problems of scarcity arise they will be solved, not through general rules such as cost minimisation, but by investigating the economic situation and by addressing the problem directly. To reach a Just Price one needs to reason deliberately about one's own production costs and those of others, and this will also give "meaning to a human life lived in a community where particular practices and actions affect our fellow human beings for better or for worse" (Koehn and Wilbratte 2012, p. 504).

This judgement and determination will improve with the development of one's capabilities and moral character. And in order to be able to develop oneself, first of all the basic necessities of life such as clothes, shelter, and food must be met. This is the reason why the price becomes just when "citizens render each other that which is due to them, and what is most due to people is the ability to live a decent, reasoned and ordered life" (Koehn and Wilbratte 2012, p. 502). By contrast, according to Koehn and Wilbratte (2012, p. 505), "the Neoclassical market price will exclude marginalized community members whose resources are insufficient to afford them a place on the demand curve, thus preventing them from having a say in what the prevailing price should be".

In their article 'A Defense of a Thomistic Concept of the Just Price', Koehn and Wilbratte defend the position that the Just Price implies that no one will artificially create, or take advantage of scarcity in the market. They give the example of a natural disaster, when prices (for example for bread or gasoline) rise because supply falls short of demand. The suppliers try to capitalize this supply shortage (or excess demand), and Neoclassical economists may not find injustice in charging high prices (also known as price gouging), because these may induce suppliers from other areas to send their supplies to the hard-hit area. But a Thomist would condemn this behaviour on the grounds that the seller demands a higher price than required and deprives the buyers of basic necessities during a disaster (Koehn and Wilbratte 2012, p. 505). Therefore, "when individuals can readily and easily help others without harming themselves, they have an obligation to extend that help in and through the exchange transaction itself" (*ibidem*). Another reason for not joining in such behaviour is that in so doing, price-gougers "distort their own souls to the extent that they behave selfishly. They give no thought to the possible harm they inflict on this individual with who they transact and whom they could readily help by charging a price incorporating only normal profits. The needy condition of possibly desperate buyers seeking clean water, for example, does not enter into the thinking of price gougers. By acting in a self-absorbed and unjust way, price-gougers deprive themselves of the most excellent moral virtue and so fail to render that which is due to themselves as human beings." (Koehn and Wilbratte 2012, p. 506).

For environmental economists it may be interesting to know that the Just Price also differs from the Neoclassical free-market price on the basis that the parties concerned will also avoid so-called 'negative externalities' in producing a commodity. A "negative externality is an uncompensated cost imposed on persons who are not parties to the economic activity generating the costs" (Koehn and Wilbratte, 2012, p. 507). A Just Price would be high enough to allow for alternative modes of production that do not cause environmental damage (Andrillon 2020). If there are no possibilities to produce the same or a similar good in a more environmentally-friendly way, "the Just Price might need to be set high enough to compensate for the costs imposed on others" (Koehn and Wilbratte 2012, p. 508). If this is not the case then a price will not be just as such a transaction can harm the well-being of the other members of the society indirectly.

A Just Price takes into consideration, not only the needs of one's fellow human beings but also the requirements of the natural environment. A Just Price allows individuals to judge and reason, and enables them to become more responsible towards others. In order to reach a Just Price, it requires individuals in exchange to be motivated by their moral obligation towards others rather than their economic compulsion to maximize utility.

> *"The most outstanding aspect of the ethical framework of scholastic economic vision, is that man has a fundamental moral responsibility for the common good of the society as an agent of creation, therefore Just Price should guarantee both a proper reward to the merchant [producer] and a fair price that prevents the consumer from being deceived or exploited under economic compulsion" (Monsalve, 2014, p. 9).*

The problem that arises in the formation of Just Price is "to determine if a real price is fair or unfair in a particular transaction" (Monsalve, 2014, p. 10), i.e. how do we determine the justness of Just Price?

3.5 Determining the Justness of the Just Price

According to Langholm it is the moral responsibility and free will of the economic agent that needs to be considered instead of the free-market mechanism of supply and demand for determination of prices:

"The modern mechanistic conception of the market as a super personal force setting the terms to which an individual exchanger must submit was foreign to the medieval masters. Their frame of reference was a moral universe that obliged any buyer or seller to act for the common good and agree to terms of exchange accordingly, regardless of the advantage granted him by the forces of the market. This means that the common estimate of the Just Price could not refer indiscriminately to whatever price might be obtainable under existent market conditions. It was only with the dissolution of the medieval paradigm, initiated by some of the late scholastics, that a freer play of market forces was permitted to influence the Just Price" (Langholm 1998: 85, quoted in Monsalve, 2014, p. 11).

Common estimation which plays a key role in determining a Just Price, was not defined by an individual's self-interest but by the moral responsibility and common good for the society.

"Common estimation is not merely an impersonal force driven by the egotistical individual's interests but rather a communal and prudent process wherein moral responsibility and free and voluntary consent play an outstanding role in preventing economic compulsion". (Monsalve, 2014, p. 14)

Langholm compares common estimation with the bargaining process, where the "free and voluntary consent" of individuals play an important role to fix the Just Price (Monsalve, 2014, p. 13). The common estimation fixed a Just Price free from a "lawless and irrational way" (Monsalve, 2014, p. 13). According to Dempsey, a commentator of the Scholastic Just Price, considers it irrational if an economic behaviour of an individual exploits others for personal gains. Instead the economic behaviour should be guided by justice and fairness because we all are social animal and we all need each other to live (Monsalve, 2014, p. 15).

Unlike our competitive market which sets a price for everyone irrespective of their economic circumstances, a Just Price is set by the individuals in exchange, who take into consideration of each other's economic circumstances. A Just Price gives the freedom to individuals to be price makers and set a price that is fair to everyone.

" In the medieval context, it makes more sense to interpret the market estimate of Just Price. . . as a means to combat the exploitation of individual economic needs. In this sense, Just Price settled by common estimation will be something different than the competitive market price. Economic agents (buyers and sellers) are price-makers with a moral duty (agents of Creation), not merely price-takers, as liberal traditions seem to claim. " (Langholm, quoted in Monsalve, 2014, p. 14).

Another important aspect related to formation of Just Price is the end goal of every individual. In NCE individuals are motivated by self-interest, their goal is utility maximisation, and work is a 'disutility'. For Aristotle, the goal of the human being is to acquire virtue or 'character', the economy (including the Just Price) is a means to this end, and work is the place where we can practice virtue. For scholastic writers, both Aristotle and Aquinas left the determination of Just Price to the judgment of people involved in the exchange process, rather than to the forces of supply and demand in the Neoclassical free-market. This would give the people an opportunity to reason and develop themselves as responsible human beings, by understanding each other's economic circumstances, and reaching a Just Price for the common good of the society. The price will be determined by everyone's judgements and having to come to a proper judgement is an exercise, for each individual concerned, for developing one's consciousness, responsibility, morality. Every individual will be able to analyse the production process with their knowledge and everyone will know the real costs of what goes into the production.

Every person has the moral obligation and right to develop and perfect their character, On the other hand, the free market may make it hard if not impossible to fulfil this goal. Coming to a Just Price is not just necessary in order to make our trades justified; it also gives individuals many opportunities to develop themselves and practice virtues. The two places where people can develop their character is with their family and friends, and in their business. Businesses play an important role in our economy that is derived "from the general nature of human needs in society" (Dempsey 1935: 477). In order to be able to produce the goods that people need, businesses need to make a profit to cover their capital costs; however, this is not the same as maximising profit or shareholder value by minimising costs (including the compensation for labour). In the next section I will analyse the purpose of the business from an Aristotelian perspective, and what this implies for formation of Just Prices in our economy.

3.6. The Purpose of an Aristotelian Business

"The only responsibility of a business is to make profits" was the statement made by Noble Laureate Milton Friedman, who argued that a business bears no responsibility other than making money for its shareholders (Friedman, 1970, p. 1). Friedman was a strong supporter of the free-market economy and one of the biggest economic influencers of the 20th century. This article "The social Responsibility of Business Is to Increase Its Profits" by Friedman received a lot of support from the corporate leaders (Times, 2020), and the idea that the purpose of the business is to maximize shareholder value gained momentum.

In the name of efficiency NCE reduces human beings to 'agents' who mechanically respond to impulses. Their actions are determined by (financial) incentives and inclined towards maximizing utility. According to William Baumol (1968), the way businesses are run today has little to do with entrepreneurship:

> "*Obviously, the entrepreneur has been read out of the model. There is no room for enterprise or initiative. The management group becomes a passive calculator that reacts mechanically to changes imposed on it by fortuitous external developments over which*

it does not exert, and does not even attempt to exert, any influence." (Baumol 1968, p. 69)

To explain the problem, Baumol refers to Thorstein Veblen:

"The problem was recognized long ago by Thorstein Veblen. One may recall the characteristic passage in which he described the economic man as "a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before.... [he] is not a prime mover. He is not the seat of a process of living, except in the sense that he is subject to a series of permutations enforced upon him by circumstances external and alien to him" (Veblen, quoted in Baumol 1968, p. 67).

The manager or executive only lives for herself and her rationality lies in fulfilling her desire for profits. She seeks an extreme end which has no limit, which is unnatural. Moreover, she sees the people who work for her as a means to her never-ending desire for profits (on which the remuneration of managers often depends, through principal-agent relationships with shareholders). The principal-agent relationship is not focused on serving other human beings.

NCE reduces human relationships between autonomous producers into a labour contract between the management of a business and workers, where labour is treated as costs by the managers. Managers or 'corporate executives' are more inclined towards searching for ways by which they can minimize labour costs than towards meeting the needs of other people. In NCE, the autonomy of human beings and their *self-chosen* development is given no importance, but it makes sure that the people do have the freedom to buy the products they desire if they have sufficient income.

"Friedman's now infamous idea that 'the social responsibility of business is to increase profits' betrays a wilful misunderstanding of the very nature of both social responsibility and business", concludes Solomon (2004, p. 1029).

On the other hand, according to Aristotelian thinkers, the role of the business in the economy is derived "from the general nature of human needs in society" (Dempsey, p. 477) Businesses are unlikely to change unless entrepreneurs rethink their underlying philosophy and their relation with society, and reorganise their business.

A business in Solomon's view is a social entity that serves the needs of its larger community. The people comprising the business are members of the community and their "self-interest is for the most part identical to the larger interests of the group. Competition presumes, it does not replace, an underlying assumption of mutual interest and cooperation.” (Solomon, 2004, p. 1028). Most people find their identity in the work they do. A business is a place where a person works and becomes excellent in her functions. She learns how to work in a team, and finds meaning in what she does by serving the needs of the society through her function. A business is not a machine that runs only when fuelled with profits. It is a community with interlinked relationships between producers with different roles and skills. Producers are not mechanical agents but people with a soul. All producers have a moral right to develop themselves, and a duty to serve their fellow human beings by producing goods or services people need. For this to happen they must receive a Just Price so that they can continue serving the society with their skills.

Individual producers may decide to associate themselves by working together in a business. The Aristotelian business then can be seen as an economic system that is mediated by exchange “in which the commodities are produced and reproduced through the cooperative efforts of interlinked producers” (Nicholas, 2012, p. 463). The Just Price will give producers an opportunity to produce their products and sell it to other consumers in need of it or other producers who require it for their output. A Just Price will be formed when individuals judge, analyse, and know (their part of) the market, and act responsibly on the basis of their own knowledge, analysis, and judgement. Every individual is autonomous, and responsible, and our duty (to ourselves, as a human being) is to learn and develop ourselves so that we can grow in virtue so that we become even more responsible, and to give others the opportunity to do the same. This becomes the end goal of every individual and the purpose of (associated) producers becomes to meet the needs of people while paying each other a Just Price.

In recent times there have been organizations that have taken the initiative to overcome the challenges posed by conventional prices and are trying to improve the way prices are determined in our market in order to contribute to the wellbeing of producers/suppliers. One such organization is "Fair Trade", which describes itself as an initiative that aims at improving the lives of poor farmers in developing countries. The Fair Trade International does not take market prices as given but it uses its own method to determine what they call a 'fair price' for the products businesses buy from the farmers. Their aim is to pay a price that is high enough to cover the cost of sustainable production including a "decent standard of living" for the farmers (Dragusanu et al., 2014). Their primary goal is “to provide prices that deliver a basic livelihood for producers” (Dragusanu et al., 2014 p. 218). They are trying to implement a new pricing model called “Living Income Reference Prices (LIRP)” that guarantees that every producer receives a “just and favourable remuneration, ensuring an existence worthy of human dignity. Hence, a full-time farmer should be able to make a living income from his or her farm revenue” (Veldhuyzen et al, 2017). The method to determine these prices will be analysed in detail in the next chapter.

The aim of the case study of Fair-Trade International (FT) presented in the next chapter is to compare the Fairtrade’s fair price with the concept of Just Price and provide empirical evidence if Just Price can be implemented in practice based on the similarities or differences between the two prices. Fair price will also be compared with the Neoclassical free-market price to list the differences between the two. The case study will focus on the self-stated mission of the organization, the process of determining prices, the similarity (or otherwise) of the notion of 'fair price' to the notion of Just Price as developed by Aristotle and Thomas Aquinas.

Chapter 4: Fair Trade

The aim of this chapter is to compare the formation of ‘fair prices’ as developed by Fairtrade International with the formation of the Neoclassical free-market price, and the ‘Just Price’ as developed by Aristotle & Thomas Aquinas. This chapter is the empirical part of this thesis and investigates how Fair Trade (FT) determines prices outside the conventional market and how similar or different it is from the formation of the Just Price. If the formation of both prices is similar, then a case study on FT can serve as a practical suggestion for businesses wishing to pay a Just Price to their suppliers. If this is not the case then one will need to think further about how the Just Price could be brought into practice.

In order to investigate the ‘fair price’, the chapter is divided into five sections. The first section defines the objectives of Fair Trade and analyses what according to them is a ‘fair price’. The second section investigates how Fair Trade International determines fair prices for the producers. The third section compares the formation of fair prices with that of the Neoclassical free-market price. The fourth section discusses the challenges FT faces to survive in a highly competitive conventional market. Finally, the fifth section compares the formation of fair price and the Just Price, and concludes with the differences/similarities between the two.

4.1. Free-market Prices and the Objectives of Fair Trade International

A most notable event to assess the impact of prices formed in the conventional free-market (still dominated by NCE) is the 1999-2003 global coffee-crisis. The deregulation of international prices of raw green coffee and overproduction relative to demand were seen as the main causes of extremely low prices for coffee (Andrillon, 2020, p. 70). The crisis affected around 25 million producers across Latin America, Africa, and Asia (Andrillon, 2020, p. 71). The free-market prices failed to cover the cost of production of coffee growers and plunged millions of farmers into poverty (Riedl, 2012, p. 3). The crisis drew the attention of global civil organizations. Consumers accused conventional corporations of exploiting poor farmers, and people realised that “the importance of coffee trade lies less in the sustenance it gives the coffee addicts that drink it, but more importantly in the sustenance it should, yet fails to offer the producers that grow it.” (Riedl, 2012, p. 3). Due to the absence of government intervention in the sector, FT decided to revive the incomes of coffee farmers (Cheng, 2007, p. 1).

Fair Trade is officially defined as "a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South." (Horodecka and Sliwinska, 2019, p. 12)

Fair Trade (FT) started as a social movement (which has now evolved into a full-fledged trading model) six decades ago in order to bring "together conscious consumers, non-governmental organizations and companies involved in international trade aiming at improving the lives of the poor in developing countries" (Horodecka and Sliwinska, 2019, p. 11). The movement first started after WWII in "the USA and Western Europe" to help the poor in developing countries by promoting the economic ideal of "trade not aid" (Horodecka and Sliwinska, 2019, p. 9). The movement particularly aimed at eliminating socio-economic problems of marginalized producers living in the global south by replacing our conventional trading model. This makes FT "a bottom-up initiative, which should not be perceived as a kind of charity or humanitarian aid. It rather postulates an alternate model of trade relying on permanent, direct relations between local producers from the poor countries of the Global South and consumers living in prosperous Northern countries and supporting those societies on the path of development" (Horodecka and Sliwinska, 2019, p. 12).

The first fair trade shop was established in The Netherlands in 1967 and was named Max Havelaar (Horodecka and Sliwinska, 2019, p. 13). Coffee became the most popular agricultural good to be imported and as the sales of Fair Trade products grew, it became necessary to prove that these goods met the Fair Trade standard and principles. This was the reason for the launch of the first Fair Trade certification mark launched in 1988 by Max Havelaar in the Netherlands, and in 1997 the Fair Trade Labelling International Organization (FLO) or popularly known as Fair Trade International was created (Horodecka and Sliwinska, 2019, p. 14). The FLO is an umbrella organization of all the Fair Trade Organization networks, "whose aim is to set Fairtrade standards, support, inspect and certify disadvantaged producers and harmonize the Fairtrade message across the movement. That is why in 2002 the FLO launched a new International Fairtrade Certification Mark, whose aim was to improve the visibility of the mark in supermarkets, facilitate cross border trade and simplify export procedures for both producers and exporters (Śliwińska, 2018: 24, quoted in Horodecka and Sliwinska, 2019, p. 14).

Fairtrade labelling allows the product to be traded within the conventional market, which makes Fair Trade products "easily accessible to the consumers to achieve growth in demand" and "provides a products assurance for any products that have the Fairtrade label, without making any claims about the business that trade or sell Fairtrade products" (Riedl, 2012, p. 73). It is important to note that FT does not produce and sell its own products, but "creates rules for business behaviour, specifically the terms of the relation between business and producers, with regards to any product traded as Fairtrade." (Riedl, 2012, p. 136)

The fair trade phenomenon is based on a simple idea of benefiting both the parties in mutual exchange: producers and consumers. The purpose of fair trade "is to improve the living and working conditions of small farmers and workers, and it depends on solidarity with people who are willing to pay more for a product to ensure that their purchase has a positive impact on producers" (Modelo, 2014). The end goal of the FT is not only to pay the producers and their organizations a fair price for their work but also to make sure they are enabled to take "control of their businesses and reinvest in their communities" (Modelo, 2014). The Fair price which includes a FT premium (explained later in this chapter) is used to fund "projects that address both individual and community needs" (Baztan et al, 2019, p. 3). In my thesis I would refer to 'fair trade' (ft) as a broad social movement that aims to improve the living conditions of small producers through trade, and 'Fair Trade' (FT) as the International organization that certifies Fair Trade products (Modelo, 2014).

FT also aims at other primary goals such as "longer-term buyer–seller relationships that facilitate greater access to financing for producers; improved working conditions; the creation and/or maintenance of effective producer or worker organizations; and the use of environmentally friendly production processes." The above objectives are achieved by the prices that Fair Trade provides the producers and by a third party certification process that "regularly checks that producers and suppliers adhere to a set of requirements" with an aim to achieve the above goals (Dragusanu et al., 2014, p.218).

4.2. Formation of the Fair Price

One of the key roles of FT is to determine fair prices for the Fair Trade product in order to realize its end goal. FT determines the fair price of the product by establishing a Fairtrade minimum price (FMP) and a social premium. The FMP "represents a minimum-based price which covers the producers' average production costs and allows them to access their markets. The FMP represents a formal safety net that protects producers from being forced to sell at a very low price when the market price is below the FMP. It is therefore the lowest possible price that the Fairtrade payer[4] may pay to the producer. When the relevant market price for a product is higher than the Fairtrade minimum price, then the market price must be at least paid" (FLO, quoted in Pedini et al., 2017, p. 6).

FT also establishes a social premium that must be paid by the buyers on top of the FMP. According to the FLO the

"The Fairtrade Premium is a tool for producer to improve the quality of their lives, communities, and businesses. It is an additional amount of money paid on top of the agreed Fairtrade price, which producers decide democratically how to use. The Fairtrade Premium

[4] Fairtrade payers are the buyers responsible for paying the Fairtrade Minimum Price or agreed commercial price and/or the Fairtrade Premium. Buyers must check their status as Fairtrade payer with the Fairtrade certifier (https://www.flocert.net/glossary/fairtrade-payer)

is often used for investments in education, healthcare, and farm improvements that increase income" (Fairtrade International, 2021).

FT provides autonomy to individual producers to participate in the decision-making process with regards to "how and on what the extra money [premium] is spent" (Baztan et al, 2019, p. 53). The individual participation of producers helps the producers' organization to listen to individual/common needs and decide objectively on how and where to use the "premium funds" (Baztan et al, 2019, p. 53)

According to a fieldwork research by Baztan et al (2019), producers participate in producer organizations where they can voice their needs and democratically decide upon the investment of these premiums to cover their needs. The premiums are invested in "projects that address both individual and community needs" (Baztan et al, 2019, p. 3). The major part of the premium is used to fund individual services of producers and amounts to 52 percent of total fund. These individual services mostly include educational needs for the producers and producers' children (Baztan et al, 2019, p. 3). The rest of the fund is used in financing the operations of producer organizations (Baztan et al, 2019, p. 3).

In order to understand the formation of FMP, S. Pedini et al (2017) investigated the formation of the FMP of coffee produced in Brazil and compared it with conventional market prices (The NYSE), and the local market prices, over the period 2011 − 2016. The FMP is established by FT in "US$ cents per pound and varies according to the coffee species (Arabica or Robusta), the processing procedure (natural or washed) and the "quality", that actually is the production method (conventional or organic)" (Pedini et al, 2017, p. 7). Pedini et al then performs a comparative analysis among the FMP, NYSE price, and local market price (in fig 3) and concludes that "in the periods from April 2011 to October 2012 and from August [2014] to October 2014 the FLO minimum price was lower than the price practiced by other buyers in the local market (in Reais)" and the FMP was lower than the total cost of production from February 2012 - October 2015 (Pedini et al, 2017, p.11).

The main reason identified for a lower FMP when compared to the local market price and total production cost is the fluctuating exchange rate. FMP is calculated based on "worldwide fixed price approach in US$" (Pedini et al, 2017, p. 13). Whereas, the total production costs of the farmers are expressed in the local currency. "The currency exchange is highly fluctuating and influencing directly both the prices received by small farmers and the production costs due to a large part of the agricultural inputs being imported" (Pedini et al, 2017, p. 12). When the FMP is lower than the cost of production when expressed in the local currency, it results in farmers side selling "their coffee to other operators", and the premiums are then used to cover the gap instead of being invested in other productive activities (Pedini et al., 2017, p. 12). The comparative analysis of the Total cost expressed in the local currency (Reais) and in US$, can be seen in fig 2.

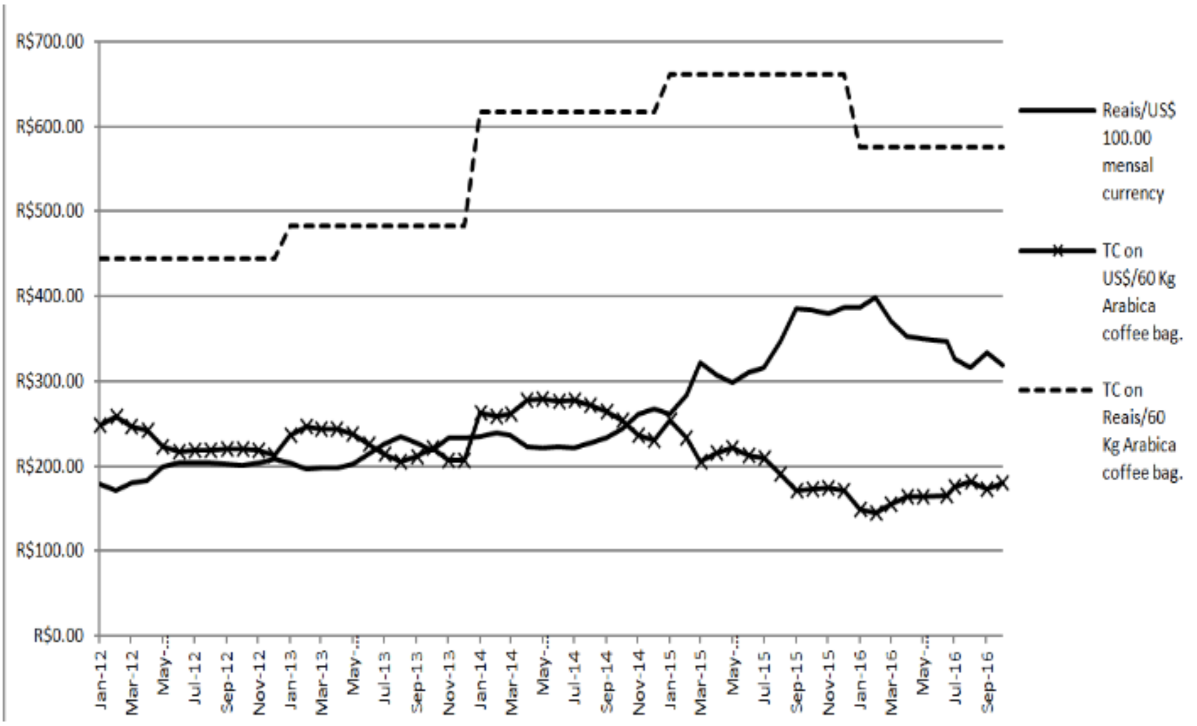

Fig 2.Total Cost (TC) in reais and TCin US$ for a 60 kg coffee bag, and exchange rate reais/US$100.00 (January 2012 to October 2016) Source: CNA and NYSE organized by Pedini et al.

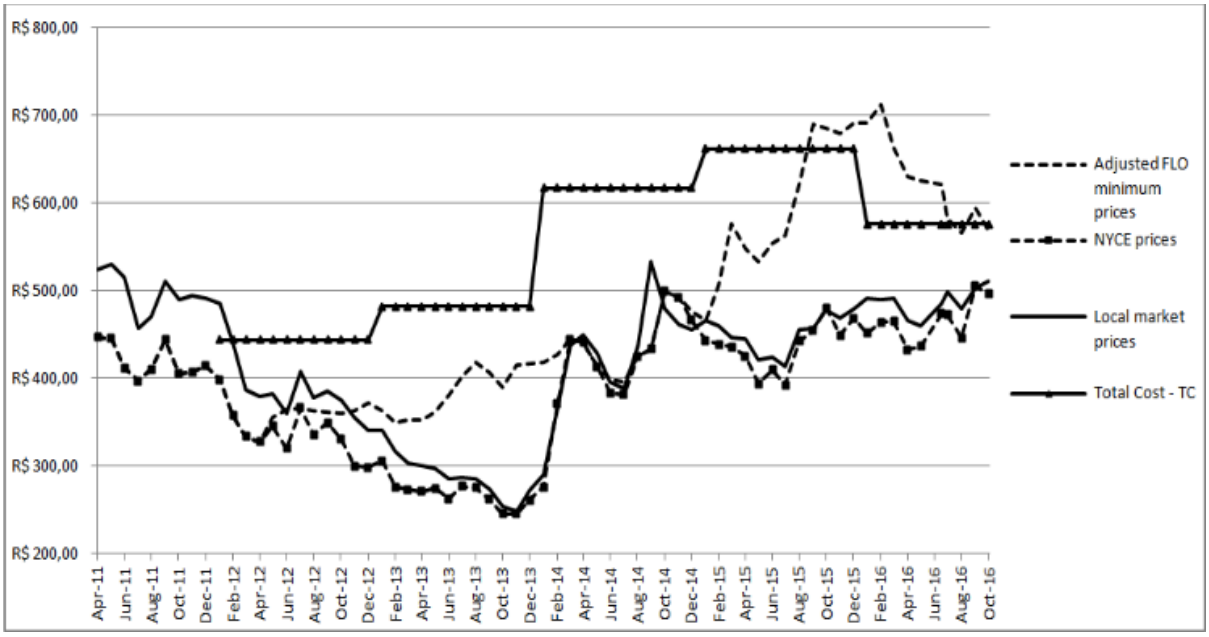

Fig 3: Comparative analysis of coffee prices (Reais per 60 kg Arabica coffee bag) Source: S.Pedini et al (2017) elaboration

FT realizes that the minimum guaranteed price determined with them is not always enough to reach their end goal (Pendavingh E, Personal communication, Oct 14, 2020). In order to achieve its purpose of providing the marginalized producers a sustainable and secure livelihood, FT has started a new pilot project of Living Income

Reference price (LIRP) to ensure a living income for the marginalized producers at the beginning of the supply chain. With the help of LIRP it tries to make its supply chain more sustainable by creating awareness about the actual price needed for the producers to meet a decent standard of living and cover their sustainable cost of production. The LIRP is a holistic pricing strategy which tries to overcome the challenges FT faces under the conventional market conditions.

Providing living-income prices lies at the heart of FT's mission (Veldhuyzen, 2020). According to FT a living income has to provide a decent standard of living to the producers as it is their human rights (Decent Livelihood, 2020, p. 1). A decent standard of living must cover "basic needs and supports an existence worthy of human dignity" (Decent Livelihood, 2020, p. 1). FT believes that in order to make the global food supply chain sustainable, the farmers producing the crops must also receive a sustainable price to achieve living income. Since LIRP is a pilot project, it has not yet produced enough data to analyze the impact of LIRP critically. For readers interested in understanding the formation of LIRP, I have summarized the LIRP report for Vanilla in the appendix to shed light on how FT determines a living income price for its producers and sets a benchmark for sustainable prices.

4.3. Comparing the Fair Price and the Neoclassical Free-market Price

This section briefly summarizes the differences between the formation of Neoclassical free-market price and the fair price. The differences between the two are based on the Neoclassical assumption of utility maximization and on its view upon the cost of labour.

<u>Utility maximization:</u> From a Neoclassical perspective, it could be said that the consumers of Fair Trade show altruistic behaviour and lower their utility just to help the marginalized producers (Horodecka and Sliwinska, p. 21). The consumers are willing to understand the economic circumstances of the producers and are willing to sacrifice part of their income to pay a fair price, thus enabling producers to live a decent life, to be educated, and to broaden their development through their economic activities. This behaviour goes beyond the understanding of consumer behaviour in NCE (Horodecka and Sliwinska, 2019 p. 21). Whereas, the producers of Fair Trade do require profits to achieve the above goals, but profit maximization is not one of their primary goals (Horodecka and Sliwinska, 2019, p. 21).

<u>Cost of labour:</u> All the businesses in NCE free-market compete among each other in order to gain as many resources as possible and enhance their economic advantage over others. All businesses tend to compete with each other by minimizing their cost of production, which also includes reducing the cost of labour. Fair Trade on the other hand, supports the producers who are not able to compete in the global market. It does not minimize the cost of its labour, but pays their producers and workers beyond

the minimum market wage, with the aim of giving them an opportunity to live a worthy life (Horodecka and Sliwinska, 2019, p. 21).

Even though the formation of fair price shows considerable difference with the Neoclassical free-market price, FT operates under the conventional free-market and it is important to evaluate till what extent the methods used by FT can help businesses pay a Just Price. The next section summarizes the critical review of the impact of FT on producers while operating under the conventional free-market.

4.4. Criticism & Challenges for FT

According to Sarma and Pais (2008, p. 170), the economic view of FT and its fair prices has resulted in a positive impact on the wellbeing of marginalized producers in developing countries. Also according to Dragusanuet *et al.* (2014, p. 234), there is empirical evidence that "Fair Trade farmers do on average receive higher prices, have greater access to credit, perceive their economic environment as being more stable, and are more likely to engage in environmentally friendly farming practices" (Dragusanuet al., 2014, p. 234). In many researches it was hard to collect quantitative data on the non-economic effects on the producers like gender equality, improvement in education, and household development. But some researches did make use of both qualitative and quantitative data. For example a research done on the wellbeing improvements of Sri Lankan farmers associated with FT was able to provide evidences that the FT contract did offer "stability during periods of price slump, thereby providing a measure of risk mitigation as well as a sense of improved wellbeing among the farmers (Holmes & Imai, 2019, p. 18). The guaranteed minimum price to the farmers also enabled them to organize their business and invest in the long term due to stable price (Holmes & Imai, 2019, p. 18). When compared to conventional farmers, the FT farmers generated more income, were more productive and worked for lesser hours, were able to support household development and children's education, and had an improved diet (Holmes & Imai, 2019, p. 27).

On the other hand, according to the critics of FT "Fairtrade does not presently, however offer opportunities to the bulk of smallholder coffee producers, *who need to be reached*" (Riedl, 2012, p. 142). FT introduces a business model which has a high barrier to entry and for producers to have access to the FT market, they have to apply for a costly certification process and adhere to specific FT standards. These costs "can be a high burden for producers that struggle to put food on the table, let alone to afford close to their yearly pay packet in certification" which results in exclusion of various smallholder producers (Riedl, 2012, p. 105). Moreover, the minimum price that FT guarantees the producers does not essentially cover all the cost of production sometimes and is often lower than the prevailing market price. The premium paid additional to the minimum price is seen as an incentive by most producers to not sell their crops to other suppliers when the market price is higher than the minimum price. As a result, the purpose of the premiums, which is to be invested in the development of the producers' community is defeated and it becomes a tool to buy the loyalty of the producers. This "surely raises an ethical issue when Fairtrade's own producers have to be arguably 'bought off' for continued loyalty, and likely undermines the product assurance given to consumers that they are supporting the payment of fair prices for the products they purchase" (Riedl, 2012, p. 114).

FT has increased its growth in sale of "Fairtrade-labelled products, which has created a niche in the mainstream market and has been remarkably successful in mainstreaming the concept of Fair Trade itself" but this strategy of FT heavily relies on the "participation of conventional commercial businesses, which typically only commits a small portion of their business to Fairtrade-labelled products" (Riedl, 2012, p. 49). This means that the large number of conventional businesses do not commit to the FT standards for most part of their business activities (Dean Cycon, quoted in Riedl, 2012, p.138). According to Loureiro and Lotade, the "corporations may simply be offering and promoting labels like Fair Trade to create a reputation for ethical behaviour in international trade practices" (Loureiro and Lotade, quoted in Riedl, 2012, p.135). This poses a serious challenge on the impact of FT on paying the marginalized producers a fair price, when the bulk of businesses and marginalized producers operate under a conventional free-market.

This can be observed in the analysis of Johannessen & Wilhite's article "Who Really Benefits from Fairtrade". The authors study the supply chain of Fairtrade coffee from production in Nicargua and Guatemella to final consumption in Norway. It was observed that the supply chain for coffee from Central America to Norway was "skewed" in the sense that most of the income generated from the consumption remained in Norway, and the producers at the beginning of the supply chain received comparatively a very small amount of share from the income that was generated. It was also noted that the farmers cooperatives which are responsible for exporting the coffee from the farmgate producers to Norway captured most of the retail income generated in Central America:

> *"The distribution of value in the coffee chain from Central America to Norway is skewed dramatically in favour of the consumer country. During the period of this study, the increased value to producer cooperatives from the Fairtrade certification was 0.01% of the total retail price per package (250g) of Fairtrade coffee. In the distribution of value from brewed coffee, the Fairtrade certification increased the income of producer cooperatives from 3.79% to 3.93%." (Johannessen, S., & Wilhite, H, 2010, p. 535).*

The above analysis shows that even though the FMP aims at covering the total costs of the producers, it still remains unsuccessful in making the price fair for them when their contribution in the whole supply chain is considered. In the table below provided by Johannessen, S., & Wilhite, H (2010), shows the value distribution of one cup of brewed Fairtrade coffee, and shows the gap between the value received by the producer country and the consumer country:

Actors	Percentage of total price	Total price
Siås cantine	79.17	4.75
Max Havelaar	0.38	0.02
Friele AS	16.52	0.99
2nd level cooperative	1.07	0.06
1st level cooperative	0.84	0.05
Producer	2.02	0.12
Total	**100**	**6.00**
Total consumer country	**96.07**	**5.76**
Total producer country	**3.93**	**0.24**

Fig 3: Distributed value of one cup of brewed Fairtrade coffee, UMB. Agricultural cycle 2006/2007; Source: Johannessen, S., & Wilhite, H (2010)

The fair price paid by FT does not guarantee whether it can cover all the needs of the marginalized producers and even though it has a more positive impact on the Fair Trade farmers when compared to conventional farmers, "it is unrealistic to expect that FT alone can solve the producers' issue" (Andrillon, 2020, p. 91). The formation of fair prices does not tackle the underlying problems which make our prices unfair/unjust in the first place. The entrepreneurs and managers need to realize that the purpose to pursue maximum profits and paying their suppliers conventional prices is making our society unsustainable (Andrillon, 2020). They need to reorganize their underlying values and economic view to be able to pay their suppliers/producers a Just Price and make our society more sustainable.

To solve the challenges that FT meets, it will be necessary to move on from the idea of the fair price, which lacks an economic as well as philosophical underpinning, to the concept of Just Price, which has both an economic and a philosophical underpinning (Discussed in Chapter 2). Unless our economic *thinking* changes, as well as our thinking about the human being and what (s)he needs, any organisation wishing to pay Just Prices will be faced with challenges like those that FT faces. In the next section I explain how the fair price 'falls short' of the Just Price (on five accounts).

4.5. Comparing the Fair Price and the Just Price

The formation of the Fair price is quite different from that of the Just Price. The four main differences between the two are as follows:

<u>Production Cost vs Average cost:</u> The Just Price as argued in the previous chapter is determined when the producer and the buyer reach a certain estimation based on their own judgement, reasons, and ability to understand each other's economic circumstances. The Just Price determined by common estimation then covers the production cost of each producer for every production cycle. Whereas, in the above

case, fair price, which is a guaranteed floor price and a premium is determined against the market price but both the producers and the buyers were price takers. This price remains the same for all the producers irrespective of their circumstances or needs which might change over time, for example due to fluctuating exchange rates. In the above analysis it was also seen that at many instances the minimum price was not sufficient to cover all their costs, in this case the prices can still be called unjust.

Just Price vs Labour market: An implication of the Just Price is that everyone is a producer of their goods and services. The idea of wage labour does not match the concept of Just Price. Whereas, FT still operates under the labour market and tries to make wages fair for the labours under conventional market setting, without addressing the root cause of the problem – the concept of the labour market.

Producers vs The whole supply chain: The concept of Just Price aims at covering the cost of all the producers throughout the supply chain, i.e. every transaction for every supplier must be just. But FT only focuses on the producers at the beginning of the supply chain and their price formation only aims at covering their average cost of production. Whereas the price of the rest of the supply chain is determined by conventional market prices.

Philosophical concept vs Economic concept: The concept of Just Price is embedded in Aristotelian philosophy of virtue ethics. The formation of the Just Price has an end goal of providing means to people to be able to practice virtues and develop their characters. Whereas, the formation of fair prices is embedded in a socio-economic movement that aimed at raising awareness about unfair conventional market prices that exploited small farmers in developing countries (Modelo, 2014). The purpose of fair prices is to provide decent livelihoods to all the producers, but is not embedded in a wider philosophy of the human being.

Autonomy of the producer: The scholastic writers of Just Price viewed the people in economic exchanges as "price-makers with a moral duty (agents of Creation), not merely price-takers, as liberal traditions seem to claim." (Langholm, quoted in Monsalve, 2014, p. 14). For Aristotle and Thomas Aquinas, every participant in the economy, whether as buyer or seller, should aim at paying a Just Price in every transaction in which he or she is involved. By rendering each other what is due to them through the Just Price, we enable everyone to be able to develop their moral characters by practicing virtues and become more responsible towards other human beings. On the other hand, Fair Trade emphasises the 'empowerment' of producers, the procedures used to achieve this tend to be either top-down or democratic. Individual consciousness, or ethical autonomy is not part of the FT approach, whereas it is essential for Aristotle and Thomas Aquinas. Without individual judgement and decision, how can we practice virtue?

For entrepreneurs wishing to pay their suppliers a Just Price, they will have to overcome the gaps identified between fair price and the Just Price. The entrepreneurs will need a clear picture of all the costs of all the producers in the production chain. This can be done with help of bookkeeping/accounting, where every producer will have a book to keep a track of all their costs. The entrepreneurs through book sharing will be able to understand the economic circumstances of each and every producer, i.e. the actual costs of the producer including the living costs of the dependents on the producer. The producers through bookkeeping can communicate the costs to their buyers and both the parties can reach a Just Price based on their judgement and analysis, thus giving them autonomy in setting prices and develop their characters by becoming responsible towards each other. But in order to understand accounting/bookkeeping this way, I will elaborate on Christopher Houghton Budd's novel insights on financial literacy predicated on accounting and how accounting can be used as an instrument to reach a Just Price.

In the next chapter I will introduce Christopher Houghton Budd's idea of using Accounting/Bookkeeping as a practical tool that can help entrepreneurs and suppliers reach a Just Price together. I will give suggestions on how entrepreneurs and their suppliers can keep track of all the costs incurred during the production cycle by sharing their balance sheets. With the help of bookkeeping the producers can assess the underlying economic circumstances that make prices unjust at first place, and fix these underlying conditions by reflecting on their economic behaviour and everyone would hold oneself (above all!) as well as others accountable. This continual reflection on one's own behaviour would be helpful and indeed indispensable for practicing virtue and to help everyone to achieve *eudaimonia.*

Chapter 5: Making Just Price Possible through Accounting (Bookkeeping)

The aim of this chapter is to answer the main research question of “How can businesses, as part of the larger community, pay their suppliers a Just Price (enabling them to develop character) while surviving in a highly competitive economy?” by explaining how the five problems identified at the end of the previous chapter (in Section 4.5) might be overcome.

The idea presented in the present chapter is that entrepreneurs wishing to pay a Just Price could overcome the five main gaps between the fair price and the Just Price identified in the previous chapter by using accounting/bookkeeping as an “instrument of perception”, as proposed by Christopher Houghton Budd (2016, 2017). I explain how ‘financial literacy predicated on accounting’, as proposed by Houghton Budd, could help producers to address all problems identified in Chapter 4, because it would enable them: (1) to calculate actual costs and, based on this, (2) to determine the just price, and (3) to do so throughout the entire supply chain, which however is unlikely to happen unless accounting is used to (4) develop character, which will be possible only (5) when individuals are autonomous in the sense of being permitted and able to make individual, independent judgements.

Based on the above summary, I will explain in detail how Accounting/Bookkeeping can help entrepreneurs to pay a Just Price to their suppliers. The first section introduces Christopher Houghton Budd’s idea of financial literacy predicated on accounting, that could bring about a change in our economic thinking and in our understanding of accounting. The second section explains how bookkeeping and the sharing of balance sheets between producers could enable producers to a) arrive at a clear picture of their production costs, b) reach a common understanding of the Just Price through common estimation, c) assess and remove underlying economic conditions that make prices unjust throughout the supply chain, d) remain or become autonomous in their financial decisions, and e) develop themselves by becoming more responsible towards each other.

5.1 Financial Literacy predicated on Accounting

The main purpose of paying a Just Price to a producer is to enable her to meet her needs, including the need to learn and to develop 'character' (in the Aristotelian sense) while she continues to serve the needs of others. When the purpose of human beings, as consumers as well as producers, changes from pursuing their self-interest to serving the interest of its larger community then according to Houghton Budd, the purpose of finance and accounting changes as well and *vice versa*, if people (producers and consumers) keep books and share them with one another, this may help to make them realise where there are economic problems, and then their thinking (about how these problems can be solved) may also change.

Accounting/bookkeeping is taught in the context of our present economic theories, where students or young accountants understand accounting as a means to maximize profits for shareholders and avoiding taxes for businesses. However, according to Houghton Budd "accounting is indifferent to ideology" (Houghton Budd, quoted in Naastepad, 2019, p. 380). Houghton Budd describes a different kind of experience one can get through financial literacy:

> *"Not… the experiences to be had from a financial literacy that sees economic life as a medium for self-interest and self-enrichment, but one that shows how economic life is really about serving others through the uniqueness of one's gifts, talents and capacities, all the while supported by the capital of others as evidence of their belief in you – hence, „credit" (Houghton Budd, 2017, p. 32).*

Accounting can be used both for developing one's own economic behaviour and for enabling and empowering others. This can be achieved "by the simple medium of peer presentation – of people regularly sharing their accounts with one another, but for the sake of having a way of seeing what they are trying to achieve and whether they are doing so. Not, as cannot be over-stressed, in order to gladden the hearts of investors or tax inspectors alike" (Houghton Budd, 2017, p. 32).

Financial literacy is not only about understanding accounting/bookkeeping, but also devising a financial plan to navigate and "cast over the life of one's project or at least five years in the case of a business intended to be going" (Houghton Budd, 2017, p. 35). A financial plan is based on three precepts, "adequate profit, appropriate capitalisation (amounts and types), and positive cash-flow management" (Houghton Budd, 2017, p. 42). In this case, profits are seen as a "metric on the social validity of a business", capital as a counterpart and a measure of the capacity of the user, and positive cash flow as an indicator that its purpose "is supported rather than subverted by its profitability" (Houghton Budd, 2017, p. 42).

When entrepreneurs make financial plans for their businesses based on these three precepts, it can provide a "self-generated, multi stakeholder view" to all (Houghton Budd, 2017, p. 42). This will enable the entrepreneurs to have an outward and inward view of how their undertakings are affecting their social environment and what they expect from their actions. Furthermore, if the prices of their output are just and "every value recorded in the accounts is without externalities of any kind, such an audit also meets today's various 'people, planet and profit' criteria devised by different groups to ensure that a financial profit is also a social profit" (Houghton Budd, 2017, p. 38).

Businesses today tend to keep prices as low as possible because our economic thinking convinces us to believe that "lowest prices are more affordable to the consumers and maximize shareholder value." (Andrillon, 2020, p. 15). This mode of thinking has not only deprived many producers of a decent life because the prices formed in the Neoclassical free-market "do not always capture all the costs", but also has made our economy unsustainable (Andrillon, 2020, p. 24). Our modern economy puts more emphasis on meeting the wants of the consumers and investors and it neglects the needs of the producers (Andrillon, 2020, p. 23). Entrepreneurs have the capacity to pay Just Prices but they will not do so until their economic thinking changes. If entrepreneurs wish to pay a Just Price to their suppliers, they will have to change their view with regards to producers/suppliers, not as labourers whose costs need to be minimized, but as human beings who want to develop themselves and practice virtues by serving society (as producers of goods/services). Every producer throughout the supply chain will have to receive a Just Price, so that they can continue to serve the society and become more responsible towards each other.

This economic change and ability to pay a Just Price can be mediated through accounting/bookkeeping. In the next section I will explain how financial literacy predicated on accounting and continuous sharing of balance sheets can help entrepreneurs arrive at a Just Price to pay their suppliers.

5.2 Aiming at the Just Price through accounting

A Just Price is a result of a common estimate reached by reasoning and judging the economic circumstances of both (or all) parties involved in an exchange. For entrepreneurs to be able to pay their suppliers a Just Price, they must become aware of and reflect on each other's economic circumstances, which will help them to judge what would be a Just Price, or what would need to change (whether on the demand side or the supply side) in order to bring about Just Prices. Bookkeeping can be used as a tool to understand each other's economic circumstances, which can provide a clear picture of all the costs of every producer/supplier in the production process, and reach a Just Price. In this section I will also explain the importance of sharing of balance sheets with each other to make businesses and suppliers aware of how prices become unjust in the first place and provide examples on how they can fix them by changing their economic behaviour and also holding others accountable for their economic behaviour as well.

Andrillon (2020), uses the language of accounting as an instrument to measure the Just price or True price[5]. Since the Just Price is not a fixed price but an estimate reached by both /all parties in the exchange, accounting can facilitate this estimation by allowing "to perceive the conditions that underlie the prices, to modify these conditions, and to observe the effects of prices on income statements and balance sheets" (Andrillon, 2020, p. 67). When a business is in an economic exchange with its supplier, then any change on the balance sheet of the business will consequently

[5] 'True price' is a term coined by Steiner 1919 [1999] and 1922 [1993]. It is an elaboration for the modern economy of the concept of just price as developed by Aristotle and Thomas Aquinas (see Andrillon 2020).

impact the balance sheet of its supplier. So, if a business "record a debit" then its supplier "must record a corresponding debit" and *vice versa* (Andrillon, 2020, p. 48). Similarly, "their accounting entries must match with records in the accounts of the counterparts as changes in the value of income, expenses, assets, or liabilities" (Andrillon, 2020, p. 48). In order to make the price Just, it has to always correspond to the total cost of the production of a supplier, such that the supplier is able to meet all her needs to reproduce the supply for the business. It's through accounting the business can equate the price with the supplier's cost, and if there is any mismatch "they must find and correct the error" (Andrillon, 2020, p. 48).

Sharing financial information with the help of balance sheets can help the businesses and its suppliers to reach a Just Price and also fix the underlying conditions that makes prices unjust. Unjust prices can occur through various causes leading to price falsification. For example, if a business or a supplier creates an "unhealthy competition that ultimately falsifies prices" (Andrillon, 2020, p. 35). In NCE, if a producer is not able to become as productive as the competitor, because the competitor is able to bring the prices of its output down, then the producer is left with no choice but to exit the market. NCE hardly focuses on the underlying economic condition of the producer and instead considers the competition as justified because it is able to increase the utility of the consumers because of price reduction. The cause of unproductivity can be because the producer lacks the resources to acquire methods of production that increases productivity, or the competitor is able to bring down the prices because she has a "stronger balance sheet" and can sustain losses till she drives her competitor away from the market (Andrillon, 2020, p.132). Sharing of balance sheets with an aim to pay Just Price would allow the producer and her economic partners to analyze the underlying cause of unproductivity, and the solution could be to finance additional means of production for her and other producers affected by unhealthy competition to enable them become more efficient, and also hold their competitors accountable for initiating an unhealthy competition. The concept of competition then changes from continuously lowering prices to bringing the market prices closer to Just Prices together. Prices can become unjust due to excessive competition and *vice versa,* therefore, the issue of competition must be resolved instead of accepting the unjust Prices caused by unhealthy competition (Andrillon, 2020, p.135).

Similarly, prices can be unjust due to excessive production that is caused not because of the amount of goods or services consumers require but because a business is producing goods based on "the financial expectations of the market (Andrillon, 2020, p. 36). A business in search for profits can produce more goods than consumers demand and push them to consume more through advertising. If we take a smartphone business for example, then in this case the business in search for profits will continually produce new software that is not compatible with older hardware, so that consumers are more or less forced to buy new hardware. In order to keep the prices just, the business can keep a track on its sales through accounting. In this case the prices can be made just by analysing how much sale is required to maintain an adequate profit and how to invest the profits in R&D to make businesses more sustainable. If a business and its suppliers receive a Just Price and are able to satisfy the needs of their consumers "then they have no reason to push for more sales through marketing or other means" (Andrillon, 2020, p. 132).

There are so many other instances that lead to unjust Prices, but by sharing the balance sheets with the partners in exchange, one can understand the underlying problem and fix them through cooperative efforts. Comparing each other's balance sheet can help the producer and its supplier to get an overview of how they finance their assets and keep a track of every transaction that goes into production. A balance sheet provides an overview of total assets and liabilities of a producer. Assets include all the means of production that is used to "produce goods or services that the consumers ask for" (Andrillon, 2020, p. 45). For example, the cash, accounts receivable, inventory, buildings, equipment and other capital that the producer own to produce a good is included in the producer's assets. Whereas all the means to finance these assets are included in the liabilities of the producer (Andrillon, 2020, p. 45). These liabilities can include the accounts payable to the supplier, loans and other form of debts.

When the prices received by the producer or the supplier are unjust then this can affect the balance sheet in many ways. Andrillon (2020) shows a few examples of how producers cope up with unjust prices and how these effects can be seen on their balance sheet. For example, if a producer receives an unjust price, the producer can compensate for their lack of income by using their cash flow, selling their current assets, or investing in capital gains through speculations. All the above approaches can result in diminishing cash reserve for the producer, which is required to finance the input materials for means of production. The producer can overuse the production equipment in search for more revenue by increasing the output, but it can lead to "reduction in the value of productive assets" (Andrillon, 2020, p. 56). The sale of producers' current assets can affect her livelihood and her future income. She may be tempted to "find capital gains from speculation", but the indirect effects of "renting or selling at speculated prices is to raise the costs of the means of production for other producers" (Andrillon, 2020, p. 58). When the prices are unjust the producer may also hold on to paying her supplier for the good or service, which results in a loss of income for the supplier as well (Andrillon, 2020, p. 59). This loss of income might have the same impact on the supplier as the producer and use the same strategies to cope up with unjust Prices. If both the producer and the supplier share their balance sheets with each other, it will enable them to understand the economic circumstances which puts them under the financial stress and then fix the prices accordingly to make exchanges just.

It is possible for entrepreneurs and their customers to pay Just Prices in a highly competitive market through financial literacy predicated on accounting. It can be argued that the Just Price can become unaffordable for the consumers to pay, but it should be kept in mind that most consumers are themselves producers / suppliers to certain businesses, and one of the reasons they cannot afford the prices could be because "the prices and income they get, in their capacity as producers", are unjust (Andrillon, 2020, p. 21). If a situation arises where the consumers may find the prices unaffordable and the businesses may find the prices unjust, then in that case they can compare their balance sheets and objectively understand the impact of the transaction in their “permanent account” (Andrillon, 2020, p. 135). Financial literacy predicated on accounting gives an opportunity for everyone to judge, reason, and understand each other’s economic circumstances, and provide the means to reach a Just Price through common estimate.

By paying a Just Price the business will be able to “progress towards optimal allocation of human, environmental, and capital resources” (Andrillon, 2020, p. 131). A Just Price can help a business move towards sustainable development[6] as they will have access to enough resources to produce with minimal waste and pollution (Andrillon, 2020, p. 135). Striving for a Just Price through financial literacy in accounting can bring about transparency among all the stakeholders, and enable everyone to recognize “economic life as being about using one’s skills and capacities to meet other people’s needs through: trade/the production of goods … and maintaining an overview of the economic process as a whole with an eye to contributing to all-round fairness” (Naastepad, 2019, p. 382).

[6] “Sustainable development is the idea that human societies must live and meet their needs without compromising the ability of future generations to meet their own needs.” This is the official definition of sustainable development which was first coined in the Brundtland Report, 1987.

Chapter 6: Findings and Conclusions

Aristotle's Economic thought and the concept of Just Price aim at covering the costs of production, including the costs of living of the producers and those dependent on him or her, so that everyone can develop their character and practice virtue by serving society. Whereas, the prices formed in NCE (which forms a strong foundation for our modern economics) do not guarantee that everyone's basic material needs are met. In my thesis I investigate whether or not is it possible for businesses to pay their suppliers a Just Price and yet survive a highly competitive market, thus giving their suppliers an opportunity to cover all their production costs and to practice virtue by meeting people's needs.

In the first chapter, I analysed the formation of prices in the Neoclassical free-market and its role in contributing to the welfare of everyone in the society. According to NCE the end goal for every individual is to maximize his/her utility. NCE assumes that human wants are unlimited and the resources to satisfy these wants are scarce. For everyone to maximize their utility, all our economic activities are directed towards maximizing the output for the society. To overcome the problem of scarcity NCE introduces markets for the production factors land, labour, and capital, and the prices formed in these markets reflect the relative scarcity of each factor.

The prices when formed in the labour market in this context do not guarantee that the basic material needs for all the producers are being met. When producers receive such low prices, it may plunge them into poverty and decrease their welfare. NCE has made us believe that our wants are unlimited and our resources are scarce. But according to the critics of NCE, our unlimited wants poses a bigger problem than scarcity and is on its way to making our society unsustainable.

In the second chapter I investigate Aristotle's economic thought and the concept of Just Price. Aristotle's concept of *eudaimonia* overcomes the problem of scarcity by identifying the proper ends. In NCE, consumption is seen as the end of all our economic activities, but according to Aristotle, consumption is only a means towards a higher end. The problem of scarcity can be solved when our economic activities are directed towards this higher end rather than treating consumption as the end.

According to Aristotle the end goal of every individual is happiness or *eudaimonia.* This happiness is not achieved by maximizing one's utility but by developing virtue and perfecting one's character (Dempsey, 1935, p. 485). The task of our economy is then viewed as providing the means for everyone to be able to achieve *eudaimonia*. Aristotle and Thomas Aquinas (a prominent scholar who elaborated on the work of Aristotle) saw prices as a condition to meet the needs of the producers and their dependents so that they can all practice virtue while serving the society (as producers of goods/services). The prices formed in this context then enables the reproduction of commodities which is required by our society to flourish, and the problem of scarcity is tackled by investigating the underlying economic condition that poses the problem of scarcity in the first place.

According to Aristotle, the price is just when the exchange value between two parties is equal i.e. “if it enables the completely mutual exchange of the two parties, that is, equality in terms of exchanged values and liabilities” (Screpanti, quoted in Andrillon, 2020, p. 27). Thomas Aquinas used Aristotle’s exchange as the starting point and elaborated on the notion of Just Price that “it was linked to the costs that producers had to pay to support their families” (Brady, quoted in Andrillon, 2020, p. 28). The Just Price emerges as a common estimate based on the judgement, reasoning, and understanding of the economic circumstances of the producers and the buyers, and it aims at covering all the costs of the producers so that they can continue to develop themselves by serving the society.

In order to investigate whether there are practical examples of organisations that are paying a Just Price to the producers in our modern economy, I analysed (in Chapter 3) the formation of fair prices by Fairtrade International. FT recognizes that conventional market prices which do not cover all the costs of the producers, may plunge them into poverty and decrease their welfare. FT tries to fix the conventional free-market prices by setting a minimum price and an additional Fairtrade premium that must be paid to the producers by the Fairtrade buyers irrespective of the ongoing market price. FT tries to work within the conventional market in order to increase the demand for fairtrade products. It also sets guidelines for conventional businesses that want to participate in Fairtrade and increase the welfare of the producers by paying them a fair price. In the case study it was observed that even though fair trade was often able to increase the wellbeing of fairtrade producers, many cases were also found where FT was not able to offer producers a price that covered the whole of their production costs. It was also observed that conventional businesses only dedicate a small share of their activities to FT while a major part of their activities are still carried out in the conventional free-market. As a result, FT alone cannot solve the problem of the marginalized producers.

When compared to the concept of Just Price it was observed that in many cases the formation of fair prices does not guarantee that all the costs of the producers are covered. Moreover, FT only focuses on the producers at the beginning of the supply chain, so the remaining producers in the supply chain still receive the conventional prices. The concept of Just Price is based on the underlying philosophy of Aristotle’s virtue ethics, and aims at every producer being able to practice virtue and arrive at a Just Price by understanding each other’s economic circumstances. Whereas, a fair price does not have the same philosophical underpinning and does not really include ethical autonomy in their approach. Most of the activities of the businesses participating in FT are still being carried out in the conventional free-market, which makes it difficult for FT to address the problems which makes the prices unfair in the first place.

Entrepreneurs wishing to pay a Just Price will face similar challenges as FT unless they change the underlying conditions that makes the prices unjust. The concept of Just Price provides a philosophical underpinning for a new economic thinking that could make our society socially and ecologically sustainable by covering all production costs. This will require a change in economic thinking from pursuing one's self-interest to serving the larger community with one's capabilities. According to Christopher Houghton Budd the purpose of finance and accounting will then also change. *Vice versa*, when viewed as a tool for understanding and managing economic life for everyone's benefits and not only as a tool for maximizing profits and avoiding taxes, accounting could be used as an instrument in bringing about just prices.

In order for producers to pay each other a Just Price, financial literacy predicated on accounting and constant sharing of balance sheets between economic partners (discussed in chapter 4) allows them to understand each other's economic circumstances and arrive at a Just Price. Bookkeeping allows continual reflection on one's own economic behaviour while also holding others accountable for their economic behaviour. Empirical evidence shows that when prices become unjust, producers follow certain strategies to cope with the shortfall in income, which is visible on their balance sheet. By sharing balance sheets with their suppliers, it becomes possible for businesses and their suppliers to notice when and how prices become unjust. And rather than coping with unjust prices, they can try to understand the economic conditions which made the prices unjust in the first place and then try to fix them through cooperative efforts.

Through financial literacy predicated on accounting/bookkeeping, and constant sharing of balance sheets between economic partners, it becomes possible for businesses and their suppliers to analyze, judge, and understand economic circumstances of each other. This gives them the opportunity to arrive at a Just Price through common estimate and enables them to practice virtue by helping each other reach a Just Price.

Chapter 7: Reflections, and Suggestions for Future Research

In this final chapter I reflect on the scientific and societal relevance of my thesis, on the relevance of this thesis for the MoT curriculum, on the method I have used for my research, and on the limitations of my research, and based on the latter I give recommendations for future research.

7.1 Scientific Relevance

Economic literature on alternatives to the conventional way of doing business is expanding. A growing number of articles and journals can be found on themes such as 'social entrepreneurship', 'corporate social responsibility', 'responsible innovation', 'People, Planet, Profit' (PPP) or 'Triple Bottom Line' (TBL), 'sustainable business', and so on. However, much of this literature remains within the conventional theoretical frameworks, and does not challenge concepts that are at the centre of, and therefore determine the current economic system. When core theoretical concepts such as the 'labour market', 'competition' as the basis of economic activity, and free-market price formation are left untouched, the question rises how effective such good intentions can and will be. This thesis focuses on one, if not *the* core economic variable: the price. By analysing literature on the Just Price, a concept developed by two eminent thinkers, Aristotle and Thomas Aquinas, and by investigating differences with the free-market price, this thesis aims to contribute to building a theoretical basis for economic behaviour that truly takes the interests of all people as well as the planet into account.

7.2 Societal Relevance

Based on an analysis of differences between the free-market price and the just price (in Chapters 2 and 3) and a case study of fair pricing (in Chapter 4), this thesis gives practical suggestions for forming just prices in practice (in Chapter 5). These suggestions will be relevant to entrepreneurs, managers, executives, and consumers wishing to pay a just price.

7.3 Relevance to MoT

According to the "Criteria for graduation at MOT"[7] printed on the "Final Assessment Form MSc Thesis Project CoSEM | EPA | MOT":

> "*Management of Technology graduates learn to explore and understand how firms can use technology to design and develop products and services that contribute to improving outcomes, such as customer satisfaction, corporate productivity, profitability and competitiveness.*"

This short description of the MoT curriculum represents a rather limited understanding of what society's future high-tech managers, executives, and entrepreneurs need to learn and know, and through my thesis I would like to break a lance for a wider scope for Management of Technology. For example, the criteria on the Final Assessment Form do not refer to a growing literature in economics, business organisation, and entrepreneurship on 'social', 'sustainable' or 'responsible' entrepreneurship, or to serious concerns that are voiced by entrepreneurs (including managers found with high-tech companies such as Fair Phone, or high-tech companies (such as Bosch) that are associated with the German organisation Purpose[8]) regarding the effects of conventional ways of doing business on "people and the planet". This thesis meets those concerns by investigating a theoretical concept that could turn out to be critically important in "contribut[ing] to improving outcomes" for people and the planet.

If the concept of Just Price turns out to be feasible in our modern economy, then it can improve the outcomes of customers and suppliers also and especially in high-tech markets. High-tech businesses tend to operate in oligopolistic markets, where they have much liberty to set prices. The technology itself tends to give businesses oligopolistic power due to, for example, 'first mover advantage'[9] and 'network externality'[10] effects of high-tech innovation. However, when businesses become price setters (rather than price takers as in the perfectly competitive market), this may come at the disadvantage of customers (who may be paying too high prices) as well as suppliers (who may be receiving too low prices). The price is a core economic variable which determines whether the suppliers of a business as well as its customers will have sufficient means to care for people and the planet. Conventional economic theory leaves the determination of prices to the free market, and is not very concerned with

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[7] At MOT? Or should this be: "in MOT"?

[8] Purpose: an organisation seeking to promote sustainable development by changing corporate ownership: "*A more equitable and sustainable economy is possible. We enable the pioneering founders, business leaders, and investors who are building it, by re-envisioning the nature of corporate ownership*" (see https://purpose-economy.org/en/).

[9] First mover advantage: the competitive advantage gained by the first business in a particular market segment.

[10] Network effects arise when the utility of a user of a network increases with the number of other users that use the same network. This gives huge advantages to, for example, first movers in social networking services.

the impact of the free-market price on suppliers who, when market prices become too low, may be forced to cut down on expenditures that are socially or ecologically necessary. This appears especially unjustified in a context where many high-tech businesses generate profits that are much higher than the 'zero profit' that businesses should be making according to the original Neoclassical model (the model of the perfectly competitive economy). Would they be generating such high profits if they were paying Just Prices?

This thesis aims at "improving outcomes" by critically examining how prices are formed in the free market, and how prices could be formed if the welfare of suppliers became a concern for businesses. Although the case study in this thesis is not in the high-tech sector, this thesis is relevant for all types of business who wish to change the way they form prices, including and especially high-tech businesses. Being price-setters rather than price-takers, high-tech businesses have more liberty than other businesses to set prices, and therefore more room for manoeuvre to turn the tide. Crucially, this thesis aims at moving beyond slogans used by high-tech businesses, including 'social responsibility', 'responsible innovation' and 'PPP', to an in-depth study of what it means to truly pay a Just Price.

7.4 Reflections on Method

The methods used in my thesis are mainly qualitative in nature. This may raise the question whether my thesis is scientific – especially so because, according to the "Criteria for graduation at MOT"[11] printed on the "Final Assessment Form MSc Thesis Project CoSEM | EPA | MOT", an MoT thesis needs to be based on "scientific methods and techniques":

> "For MoT the following criteria would be considered to indicate a 'typical' MoT thesis:
>
> - the work reports on a *scientific study* in a technological context (e.g. technology and strategy, managing knowledge processes, research & product development management, innovation processes, entrepreneurship)
> - the work shows an understanding of technology as a corporate resource or is done from a corporate perspective
> - *students use scientific methods and techniques* to analyze a problem as put forward in the MoT curriculum." [emphasis added.]

Being scientific is often interpreted as using the quantitative methods that are used in the natural sciences. However, there is a big difference between the natural and the

[11] At MOT? Or should this be: "in MOT"?

social sciences. The object of study of the natural sciences is nature, which is given. The object of the social sciences is the human being, whose behaviour depends not (or not entirely) on nature, [12] but also, or predominantly on intentions. This is a crucial difference between the natural sciences and the social sciences that, for example according to Sumantra Ghoshal in the *Academy of Management Learning and Education*, should be emphasised in the curricula of management education programmes. In this article, Ghoshal (2005) refers to (Austrian school of economics) economist Friedrich von Hayek (1974) who, in his Nobel prize lecture *The Pretence of Knowledge*, argued that:

> "*... this failure of the economists to guide policy more successfully is closely connected with their propensity to imitate as closely as possible the procedures of the brilliantly successful physical sciences – an attempt which in our field may lead to outright error. It is an approach which has come to be described as the "scientistic" attitude – an attitude which, as I defined it some thirty years ago, "is decidedly unscientific in the true sense of the word, since it involves a mechanical and uncritical application of habits of thought to fields different from those in which they have been formed."[13] I want today to begin by explaining how some of the gravest errors of recent economic policy are a direct consequence of this scientistic error.*"

That intention matters in the social sciences is an important realisation which, according to Ghoshal (2005), is especially relevant for managers, executives, or entrepreneurs, whose day-to-day decisions have major effects on society at large and in fact create that world. In the sciences, we are not interested "in the way in which man's existing view of the world leads him to act"; the scientist "tries to study things independently of what men think or do about them" (von Hayek 1942, p. 275). By contrast, in the social sciences including economics, "the facts of our mind remain not only data to be explained but also data on which the explanation of human action guided by those mental phenomena must be based":

> "*Here a new set of problems arises with which the scientist does not directly deal. Nor is it obvious that the particular methods to which he has become used would be appropriate to these problems. The question is here not how far man's picture of the external world fits the facts, but how by his actions, determined by the views and concepts he possesses, man builds up another world of which the individual becomes a part.*" *(Friedrich von Hayek 1942, p. 276).*

The subject of the social sciences is not objective facts, but intentions. In the social sciences, in particular that part of the social sciences "which used to be described as the moral sciences" or, in German, the "Geisteswissenschaften",[14] ideas and intentions

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[12] To some extent it does, as is the case for example when one is hungry, thirsty, or in need of shelter.

[13] "Scientism and the Study of Society", *Economica*, vol. IX, no. 35, August 1942.

[14] Von Hayek 1942, p. 277. Von Hayek (1942, p. 267) reminds us that the study of economic phenomena originally started as "a branch of moral or social philosophy".

are our data, not facts of nature. In economics, "we study not the physical world but the mind of man" (Von Hayek 1942, p. 279).

Based on this essential difference between the natural and the social sciences, my research is scientific. The data I investigate are the intentions behind price formation in Neoclassical economic theory, and in the theoretical concept of Just Price. The intention of NCE is to create the conditions that enable people to maximise utility (from consumption), given people's preferences. On the other hand, the intention of Aristotelian economics is to enable everyone to reach *eudaimonia*, and in this approach people's preferences are not taken as given. Rather, we need to develop our preferences and intentions, so that they become more virtuous.

The purpose of this thesis (in comparing these two approaches) is not to show which is true and which is untrue. As Friedrich von Hayek (1942, p. 281) explains,

> "*all the 'physical laws of production' which we meet, e.g. in economics, are not physical laws in the sense of the physical sciences, but people's beliefs about what they can do.*"

If maximising utility is what one thinks one can do, then that is what one will do. On the other hand, according to Aristotle, it is possible for a human being to do more than this. Those who agree with Aristotle may attempt to do more. Von Hayek explains that this applies also to the price of a good. The price of a good does not depend on the physical attributes of the good, but on the knowledge and beliefs of the people dealing with the good (which determine how it is produced, traded, improved through innovation, and so on):

> "*And our explanation of a particular price phenomenon can therefore also never be affected by any additional knowledge which we (the observers) acquire about he good concerned, but only by additional knowledge about what the people dealing with it think about it.*" *(Von Hayek 1942, p. 283)*

The aim of my thesis is to re-introduce the concept of Just Price because of its potential to redirect the intentions of individuals, and to investigate whether and how (the intentions behind) the just price could be realised in practice.

The focus being on intentions, or people's will, I conclude my thesis by suggesting a method (a specific use of accounting)[15] that enables us to explicate and reflect on our intentions. Accounting is a quantitative method, but the idea is not to use in a deterministic way (for example to maximise a pre-determined goal such as shareholder value), but rather as an instrument for becoming conscious of our intentions, and for making conscious (rather than mechanical) decisions. When used

[15] As suggested by Houghton Budd , Christopher (2016) Twin value theory as reflected in accounting, and its consequences for our understanding of capital, in: C. Houghton Budd and C.W.M. Naastepad (2016), Chapter 4, pp. 51–91.

as an 'instrument of perception'[16], accounting may assist producers, managers, executives, entrepreneurs to reflect on their intentions and, based on this, to find ways to form just prices.

7.5 Limitations & Suggestions for Future Research

In my thesis I analyse the microeconomics of Just Price (the exchanges between producers), but I do not study how paying just prices would work out macro-economically. For example, if all producers in the production chain receive a Just Price, then how would this affect the production process in general? Will production remain efficient? Will output be maximised? Does output need to be maximised?

A main reason for (re-)introducing the Just Price through my thesis is that paying just prices may have a positive impact on the ability of producers to develop themselves. This may positively influence their capacities, including their capacities to innovate or to influence innovation. This is an assumption underlying this thesis which has not been explicitly investigated, but which would be interesting to investigate in a future study.

A business cannot pay a Just Price alone, but it will require cooperative efforts from their direct economic partners. For a business to be able to receive and pay Just Prices, the role of shareholders and investors in particular may have to be reconsidered. Further research might analyse the implications a Just Price has for shareholders and investors in our modern economy. The role of consumers in realising the concept of Just Price in practice could also be investigated.

In chapter 5, I propose accounting/bookkeeping as an instrument to reach a Just Price. With the help of bookkeeping the producers and the customers can look at each other's economic circumstances, understand them, and reach a Just Price. But in a complex world like today, how feasible is it for all the producers and customers to be able to come together and discuss their books? How could this be organised?

Further research could also be done into how other methods (including quantitative methods such as macroeconomic modelling or National Accounting) could inform entrepreneurs who are trying to form just prices, and how economic policies could further support the formation of Just Prices.

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[16] As "a way of seeing, even measuring economic facts, especially those represented by profitability, capitalisation and positive cash-flow management" (Budd, 2017, p. 42).

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APPENDIX

The above analysis gives an overview of the formation of fair prices for one of the most popular FT commodities and the challenges FT faces to achieve its end goal. The above analysis also provides us with data to compare the formation of fair price with that of the Just Price.

"A Living Income Reference Price indicates the price needed for an average farmer household with a viable farm size and an adequate productivity level to afford a decent standard of living (a living income) from the sales of their crop" (Veldhuyzen 2019). All the data given below are collected from the report prepared by Carla Veldhuyzen, 2019.

Madagascar and Uganda are largest producers of vanilla, and the farmers face extreme challenging environmental conditions and volatile prices which makes them vulnerable and prone to living in extreme poverty (Veldhuyzen, 2019). Many farmers look for other livelihoods when vanilla prices do not cover their basic needs of lives or use cheap unsustainable methods which drives down the quality of vanilla and degrades the environment (Veldhuyzen, 2019). The price volatility poses serious sustainable challenges to the vanilla market. This is why a living income price that guarantees a sustainable way of production and decent living standards to the farmers has become one of the top priorities for FT.

"The establishment of a living income reference price for vanilla builds understanding around the minimum market conditions for vanilla farmers to earn a decent return and to escape poverty" and income price would also provide incentives to farmers organization "to establish their own productivity and quality targets and are empowered to negotiate adequate prices to sustain their vanilla business throughout market fluctuations" (Veldhuyzen, 2019).

The LIRP consists of the following four key parameters:

Cost of a decent Standard of living (Living income Benchmark):

FT uses Anker's methodology[17] to calculate Living income benchmark, that makes sure that a household is able to generate a sufficient income for a "decent standard of living" (Veldhuyzen, 2019). This income includes all the costs related to "a nutritious diet, water, decent housing education, healthcare, transport, and other essential needs, including provision for unexpected events." (Veldhuyzen, 2019). The data collection method to determine the living income included "questionnaires, market

[17] Anker, R. and M. Anker. 2017. Living wages around the world: Manual for measurement.

surveys and focus group discussions", based on which the following expenses were determined for both Madagascar and Uganda farmers:

Madagascar (For household with an average of 4.2 members):

Cost of nutritious diet = €2,597/yr

Cost of basic decent housing = €1,926/yr

Other essential expenses (Education, healthcare, Clothing, transport etc) = €953/yr

Provision for unexpected events = €274/yr

Total living income: €5,750 per year

Uganda (For household with an average of 6.6 members):

Cost of nutritious diet = €3,110/yr

Cost of basic decent housing = €1,749/yr

Other essential expenses (Education, healthcare, Clothing, transport etc) = €2,091/yr

Provision for unexpected events = €347/yr

Total living income: €7,297 per year

The cost of nutritious diet in both cases accounts for 45%. But since the framers in both Madagascar and Uganda were able to grow a few crops in their farms for house consumption, then this income was deducted from their total living income which was then adjusted to:

€5,337 for Madagascar vanilla farmers;

€6,561 for Uganda vanilla farmers

Sustainable Yields (Productivity Benchmark):

Sustainable yield or productivity benchmark is established by determining "feasible yields, obtained when implementing sustainable agricultural practices"(Veldhuyzen, 2019). The Fair Trade organization carries out an empirical and agroeconomic research to establish a target yield of vanilla by the farmers. In Madagascar, vanilla is harvested once a year, so a target of 350 kg/ha is seen appropriate by the vanilla farmers and other stakeholders. It is possible to yield more vanilla in good years, but due to frequent cyclones in Madagascar the average of 350 kg/ha seems appropriate. Whereas in Uganda the vanilla is planted more intensively and harvested twice a year. So a target of 500kg/ha is established by vanilla farmers, "which was confirmed by cooperative leaders and vanilla companies" (Veldhuyzen, 2019).

Viable Farm Size:

In order to establish a productivity level, it is also necessary to assess a viable farm size such that "a farm that is big enough to fully absorb the available household labour should generate a living income". Setting a viable farm size plays a critical role in establishing a reference price. In order to establish a viable farm size, the farmers were asked to make an individual assessment and then determine a common estimate by participating in focus groups. After calculating average household labour size for Madagascar and Uganda, it was estimated that a farm size of 1.0 hectare in Madagascar and 0.8 hectares in Uganda is viable enough to produce a sustainable yield worthy of living income price.

Cost of Production:

The cost of production involves all the main costs necessary for a sustainable yield, which are as follows:

- External labours for guarding the crops from theft and also for maintaining the crop. This amounts to €594 in Madagascar and €922 in Uganda.

- Agricultural inputs like planting material amounts to €15 per hectare in Madagascar, and €94 in Uganda. since the inputs are scarce in Uganda, it is more expensive comparatively. It is also worth noting that no fertilizers are used for growing vanilla.

- Tools and materials like knives, torches, batteries and so on. It amounts to €17.3 per hectare in Madagascar and €84 per hectare in Uganda.

Which brings the total cost of production in Madagascar to €626.8 and €877.7 given a viable farm size and a target productivity level is achieved.

Now that the values of key parameters are determined the value of LIRP is calculated by the following equation:

$$\text{Living Income Reference Price} = \frac{\text{cost of decent living} + \text{cost of sustainable production}}{\text{viable land area} \times \text{sustainable yields}}$$

Fig 1. Living Income Reference Price equation, Source Fairtrade living income reference prices for vanilla

Before inputting the values, FT also determines other farm income that the farmers earn through other crops. This income is deducted from the cost of decent living and it amounts to €150 for farmers in Madagascar farmers and €1211 for farmers in Uganda. The farmers in Uganda diversify their crops by growing other cash crops like cocoa and coffee, which results in higher income than farmers in Madagascar.

Therefore, the LIPR for Vanilla in Madagascar is:

$$\text{Living Income Reference Price } \mathbf{Madagascar} = \frac{(5750 - 413) - 150 + (1.0 \times 627)}{1.0 \times 350} = 16.6 \text{ €/kg}$$

Fig 2. Living Income Reference Price for Madagascar, Source Fairtrade living income reference prices for vanilla

And the LIPR for Vanilla in Uganda is:

$$\text{Living Income Reference Price } \mathbf{Uganda} = \frac{(7297 - 736) - 1211 + (0.8 \times 1097)}{0.8 \times 500} = 15.6 \text{ €/kg}$$

Fig 2. Living Income Reference Price for Uganda, Source Fairtrade living income reference prices for vanilla

The prices of Vanilla are extremely volatile in the market, and does not always cover the sustainable cost of production for the farmers. As a result many farmers move away from growing Vanilla when the prices are all time low. In order to combat this problem much has to be done to increase their farm productivity such that they are able to diversify their crops and not depend upon just one crop for living income. LIPR provides necessary tools which can guide the farmers to increase their productivity sustainably.

The living reference price acts as a roadmap for Vanilla farmers in Madagascar and Uganda to "move towards sustainable livelihoods by determining a set of key conditions of viable farm productivity and the price they would need to earn a living income, when those conditions are met" (Veldhuyzen, 2019). The LIPR raises awareness among the farmers about the price they deserve for growing Vanilla sustainably and also helps the supply chain to come up with necessary strategies to fill this gap by helping the farmers gain living incomes. Similarly, the LIRP was established for cocoa farmers by FT in Côte d'Ivoire and Ghana, which amounted to 2.20 US$/Kg and 2.10US$/kg respectively (Veldhuyzen, 2019).

Even though the formation of fair prices does not resemble the formation of Just Price, but the vision of FT which "is a world in which all producers can enjoy secure and sustainable livelihoods, fulfil their potential and decide on their future", and its belief that fair trading practices can achieve the above vision, shows some similarities with the ethical and moral dimensions of Just Price.