THE NATURE OF THE BIBLICAL SUPPORT FOR 'JUST PRICING'*

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1. Introduction

This paper is about ethical norms for the economic behaviour of individuals and companies, rather than that of 'the system' as a whole. The biblical view of justice applies as much to this micro-level, of course, as to the macro-level. Chris Wright, for example, has shown this (see his chapter, 'The Way of the Individual' in (1983)) - though he notes that the Old Testament (OT) sees individual behaviour arising from corporate commitment, rather than the reverse.

The paper has two aims. One is to explore whether the notion of 'the just price' - developed especially in the Middle Ages - or, better, 'just pricing' has any relevance today. I suggest that it may have: but this is only a tentative hypothesis, requiring rigorous appraisal. The second aim is to use the just pricing idea as a case study of a particular approach to biblical ethics. One common procedure is to begin by examining biblical teaching, and then seek to apply this to the contemporary world. Whilst having no objections to this, I wish to pursue the reverse possibility. In particular, the just pricing notion has considerable intuitive appeal, to this writer at least, as an ethical way for individual firms to behave in the economy. The just price is far from being a popular idea at present. Yet it was dominant in medieval times - at least in the minds of Christian scholars. (See Dempsey, 1935.) Given this idea, I propose to go back to Scripture and look for any support that may there exist. That is, rather than using the Bible as the source of an ethical principle, the paper uses Scripture as the arbiter of ethical proposals which have arisen elsewhere.

The 'just pricing' approach would have significant implications for producers and suppliers who have some meaningful choice in the prices they set, although it is not the aim of this paper to explore those implications in any detail.

2. Just pricing: the essential idea

A firm which prices justly is one that intends to make only a reasonable, not excessive, profit or return. One might say that just pricing and 'just profits' go together. This conflicts with the popular axiom that it is perfectly and always acceptable to buy as cheaply as possible, and sell as dearly as possible. Indeed, it is my intuitive, and perhaps biblically-based, understanding, that such a guiding principle for economic dealing cannot be pleasing to God. Hence this paper.

The doctrine of the Just Price was one of the two pillars of medieval theological economics - the other being the prohibition of usury (see Paul Mills' paper in this same issue). William Temple provides some valuable comment here (1976, p53):

> [T]his principle was stated as part of a complete theology. Its interpretation and practice varied from one century to another, partly as circumstances altered, partly as men gained a fuller insight into the economic process. The principle itself is clear - that the price of an article should be fixed on moral grounds with due regard to cost of material and labour and to reasonable profit; the vendor is not entitled merely to ask the utmost that the purchaser will pay. Above all, he must on no account charge more because the buyer's need is great.

In times of stability concerning the product or service provided, the 'going price' for that item will tend to be known to all, and the just price will be more or less equal to this. In times of change, or relative instability, just pricing is less straightforward. At such times, the firm will not be able to point to some generally agreed 'going rate'. Instead, it will seek to set a price which, given the company's costs and general state of financial health, will enable a reasonable, but not excessive, return. This applies to payment for inputs (e.g. wages) as well as prices of outputs.

This idea is far from innocuous. To see more clearly its implications, we need to list some other notions, from which it differs.

(a) Just pricing does <u>not</u> mean that a given commodity has a unique 'just price' which is permanent. (Dempsey's article makes this plain.)

(b) Just pricing is <u>not</u> equivalent to charging 'what the market will bear', although on occasions the two may be the same.

(c) Just pricing is conducted by individual buyers and sellers. It is not something to be imposed by supposedly all-knowing central planners.

(d) Just pricing is a stronger principle than 'honest dealing'. (In Karl Popper's terms, it has more 'content': that is, it excludes more.) By the latter I mean, primarily, the use of honest weights and measures (e.g. Lev.19.25-26; Prov.11.1), and not misleading the customer in any way about what exactly is on offer. Honest dealing is extremely important; and modern Christians in business of course endorse it. Just pricing, however, goes further.

(e) Just pricing includes, but goes beyond, running a business in a way which infringes neither the specific laws of the land nor the specific rights of individuals - especially the poor. In terms of OT laws and rights, for example, it would be wrong for a farmer to underpay another farmer by secretly shifting a boundary stone to make the piece of land on offer appear smaller (Deut.27.17) - an economically weak farmer might have no choice but to sell, even in these circumstances. Just pricing would also rule out such behaviour, but would go further: any pricing policy which is oppressive is unjust - even if no specific command or law is broken.

This link with non-oppressive economic dealing is fundamental to just pricing. If I were confident that everyone knows what 'oppression' actually means, in today's economies, we could end here. However, the notion of oppression is not without problems, to contemporary minds at least. How does one know when one is acting oppressively? One answer is that oppression simply means breaking the OT Law (as in the above example). This is unhelpful. The Law never covered every economic eventuality - let alone all those in today's very different world - and hence all manner of exploitative behaviour would fall outside this particular definition of oppression.

A second answer, equally unhelpful, is the claim that 'we all know' what oppression, or harsh trading, or sharp practice is, even if we cannot precisely define or describe it - rather like an elephant! This view places enormous faith in a homogeneity of conscience and ethical values across all individuals, groups and cultures. Such faith is unlikely to be vindicated. We need rather more to go on.

This paper therefore assumes that it is feasible, for pricing policy at least, to put some flesh on the bones of what it means to behave justly. The assumption may be wrong, of course: that is one of the matters for appraisal.

3. Just prices compared with competitive market prices

The next section focuses on the biblical teaching which may be relevant to just pricing. Before examining that material, however, a clearer idea is needed of what just pricing would look like in practice. In particular, how would it differ from the pricing outcomes of competitive markets? A response is also required to the libertarian argument (put most strongly by Hayek) that, in free markets, oppressive behaviour is by definition impossible. These two points are covered in this section.

A necessary condition for 'oppression' to occur - at least in my understanding of the term - is that the oppressor has some power advantage over the one who is oppressed. In the static, competitive markets of economic theory, this condition can never be met, because there are, by assumption, many buyers and many sellers, none of whom has any significant influence on market price. (The many theoretical and logical questions raised by this analysis are not a topic for the present paper.) Price is automatically set by the interaction of demand and supply.

In reality, however, few markets fit that theoretical picture. In many cases, producers and sellers appear to have some scope to choose their selling prices. Many producers also have scope to influence and negotiate over their buying prices.

Nevertheless, market forces clearly exert a powerful influence on the direction of prices and of the amounts bought and sold. Where:

(a) the economic climate is stable (i.e. the demand and supply curves are not shifting)

and

(b) there is a strong degree of competition (such that no firm is able to make excess profits),

it would be foolish to suggest that the just price could depart from the prevailing (equilibrium) market price.

Where the above two conditions hold, 'the market' is indeed a socially useful thing. (And, as President Gorbachev has recently said, it long predates capitalism, being rather an invention of civilisation.) To 'buck the market', under these conditions, would serve only to create excesses of demand or supply, which would sooner or later, officially or unofficially, be removed through individuals' behaviour.

When the above two conditions are not met, however, just pricing becomes more distinctive. First, let us relax assumption (a). Consider, for example, the market for petrol, and suppose there is a large and unexpected reduction in supply. The market will, eventually, settle down at a new, higher, price - the 'equilibrium' price moves up. The just price cannot buck this new equilibrium, once it is reached.

Where ethics do enter is in the <u>dynamics</u> of the process of moving to the new equilibrium. The situation under discussion is an ideal one for arbitrage: those who are able to buy petrol at the initial, lower price - be they retailers, or even car-drivers - can hold stocks until the price has risen, and then sell, hence making a substantial, and almost guaranteed, profit. Do things simply <u>have</u> to be this way? I suggest not.

If the process does occur as outlined, then petrol is allocated solely on the basis of the highest bidder. Consumers who can afford to, buy as much petrol as possible. Those who can afford less, or who cannot get to a garage in time, lose out. The profit-maximising traders (arbitrageurs) help to reinforce this. Suppose, however, that producers and retailers desired what we might term a 'fairer' outcome. They might seek to ration petrol in a different way, i.e. by raising the price by only a small amount at first - hence limiting their profit - and, at the same time, restricting the quantity any one person can buy. (Queues would help prohibit 'cheating' repeat buyers!) The result would be an orderly move to the new equilibrium price, rather than an instant and 'socially inequitable' leap. This is morality in the market place.

In analytical terms, price changes would be smoothed, compared with those resulting from purely profit-maximising behaviour. (1)

Suppose now that we relax condition (a) rather than (b), i.e. we assume that competition is relatively weak: precisely, that firms are able to achieve excess profits (more than sufficient to repay the minimum required return on the investment in the firm). This is probably the more common, and more important, of the two cases. What would just pricing mean for these companies? Will it be any different from the profit-maximi sing pricing which is generally taken to be acceptable?

To a free-market economist, it might seem perverse for such a firm to do anything other than maximise its own income. If some consumers are willing, for example, to pay a price well above the production costs for a luxury yacht, then it is only by setting this price that other entrepreneurs will see the profits to be made in this particular sector. As a result, the supply of yachts will increase, the market price will fall, and even more consumers will enjoy a new perspective on the Mediterranean. (2)

It would certainly be strange to talk of <u>anybody</u> oppressing Messrs. Maxwell and Murdoch! In this example, indeed, the buyers are quite likely to have as much power, in the relevant respects, as the sellers; hence just pricing may have little to add to the negotiated outcome between the 'countervailing powers' (Galbraith). Not that their behaviour is therefore automatically commended: pricing is only one aspect of ethics in economics.

The just pricing principle is more applicable where a lack of inter-firm competiton has the potential to give firms power over consumers and/or employees. As stated earlier, this is a necessary condition for oppression - which is often closely linked in the Bible with the poor, weak and needy in society. The absence of choice which characterises the poor means they are often desperate in their economic behavour. For example, the unemployed man must either take a particular low-paid job, or remain without employment indefinitely. This gives the employers - especially in an area of high joblessness - tremendous power to drive down the wage still further, and take the benefit in increased profit. Surely just pricing would mean <u>not</u> dropping the wage still further?

Our free-market economist would again question the wisdom of individuals choosing to suspend the rules. For example: only if the firm cuts the wage will it make sufficient profit to attract additional entrepreneurs to this location; only then will the market wage rate be bidded up to a 'more acceptable' level, as employers compete for increasingly scarce labour.

The fundamental problem with this objection is that it completely misses the point. Markets are <u>not</u> perfectly competitive - for all sorts of reasons. Our example started with that very feature. In such situations, what is moral? The suggestion of this paper is that paying a decent, rather than oppressive, wage, is the only just option. (3)

The final point in this section concerns the libertarian argument that market forces are entirely impersonal, and hence no moral judgments can be levelled at individuals who simply act in line with those forces. It should be clear that the preceding paragraphs have already dealt with this view. Except in markets which (as a minimum) are stable and enjoy strong competition, market participants do face choices. They cannot evade moral responsibility - whether for pricing or for other behaviour. If we think that the prices of goods in the local supermarket, for example, are - like the weather - determined outside of meaningful human choice, then we seriously delude ourselves.

4. Biblical material relevant to just pricing

The discussion here is by no means intended or believed to be an exhaustive study of the biblical material. The approach adopted is to do little more than to list a number of points which have emerged in my own study of the Scriptures. This is an initial exploration, by someone who makes no claim to have theological expertise, but which may yet contain some matters of interest.

(i) 'Gain' as a result of trading - which seems closely related to what we might term 'profit' - is in itself acceptable, rather than disapproved. E.g. Solomon's import/export business (1 Kings 10. esp.vv26-29); Prov.31.18; James 4.12-16. (We should not read this into Scripture, however: I have heard a Christian businessman, in a talk on ethics in business, state that Joseph made a profit through his storage of grain, selling it dear during the famine years. My reading of Gen.38-40, however, finds no mention of any such gain, explicit or implicit.)

(ii) The notion of 'prosperity' in the OT seems to relate much more to growth in the quantity of output than to individual profit through shrewd trading. This comes through especially in Deuteronomy.

(iii) Diligence, rather than bargain-hunting, is emphasised as the underlying source of 'gain'. E.g. Prov. 10.4-5; 13.4; 12.11,14,24.

(iv) Scripture encourages people to see their material wellbeing grow gradually, rather than seeking a rapid rise to riches. Prov.11.1 says that wealth gained hastily/by vanity will diminish; but he who gathers little by little will increase it. (4) Also 20.21: 'An inheritance quickly gained at the beginning will not be blessed at the end' (NIV).

(v) There is great stress on the avoidance of deceit and of oppressing/taking advantage. On deceit, e.g. Prov.11.18; Lev.6.1-7; on not taking advantage, esp. Lev.25.14-17; 25-28; Deut.24.14-15. The latter emphasis surely points to an approach to business which aims to be compassionate as much as it aims to make a profit.

(vi) One powerful strand of teaching cautions against too much concern to 'get rich'. E.g. 1 Tim.6.6-19; Prov.30.8. There may even be some kind of trade-off between righteousness, on the one hand, and riches, on the other. Prov.16.8: 'Better a little with righteousness than much gain with injustice' (NIV).

(vii) What we might term 'sharp' or 'shady' trading seems to receive rebuke rather than approval. Prov.20.14: '"It's bad, it's bad", says the buyer; then off he goes and boasts about his purchase' (combining RSV and NIV). Such trading hardly squares with the Bible's stress on honesty.

(viii) Prov.11.26 clearly rebukes a type of trading deliberately designed to make extra profit by artificially forcing up the price:

'People curse the man who hoards grain, but blessing crowns him who is willing to sell' (NIV). Kidner comments: 'Here the witholding...is a calculated act to force up the price - not ... mere miserliness.' (Tyndale Commentary on Proverbs, IVP). This is particularly strong support for an approach to pricing in which profit cannot take precedence over justice. (5)

(ix) In Lk.19.46 Jesus drives out those who were selling, explaining that they had made it a 'den of robbers' (quoting Jer.7.11). Since this was a monopolistic market (people could not go elsewhere for their sacrificial victims), perhaps the sellers were overcharging, i.e. not selling at a just price: this may be the basis on which Jesus accuses them of robbing, thereby breaking the sixth Commandment not to steal.

5. Conclusion

This appraisal of just pricing in the light of biblical teaching suggests two tentative conclusions. First, there are no quantitative measures of 'just' gain or profit. No automatic equivalence exists between less profit and more justice. Gain can be a sign of careful rather than exploitative behaviour. Secondly, however, justice is to constrain pricing decisions. Taking advantage of others - which can arise where one party has economic power over another - is wrong, whether enabled by dishonesty, or the driving of harsh bargains, or deliberately forcing up prices to make extra gain at the expense of others. The notion that justice clearly restrains pricing behaviour and the quest for profit can in no sense be said to be falsified by the biblical material examined above. Moreover, the opposite view - that, when it comes to pricing decisions, 'business is business', therefore always 'buy cheap and sell dear' - receives distinct rebukes from the Scriptures presented here. We are not to lay down what counts as a 'reasonable profit'; but some such constrained profit level is strongly implied by the biblical principles we have analysed.

Notes

* I am grateful to Michael Schluter for his suggestions following the presentation of this paper at the Tyndale Ethics conference.

1. There are many details which would need adding in a complete economic analysis - but not here, therefore!

2. Again, this is not the place to discuss technical matters such as pricing policies designed precisely to prevent new firms from entering this type of market.

3. In the long-run, this may indeed have more effect than our free-market economist's proosal in bolstering the local economy. E.g. it boosts the spending power of the local community, which of itself may attract more retailer business and hence more jobs.

4. A slight paraphrase of the RSV translation - two different readings are available ('gained hastily'/by vanity'): see Kidner.

5. This case should not be confused with the petrol example earlier, where the shortage of supply was objective rather than creadted artificially.

References

Dempsey, J. (1935), 'Just Price in a Functional Economy', American Economic Review, 1935.

Temple, W. (1976), Christianity and the Social Order, Shepheard-Walwyn.

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