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What Is a "Just Price"?

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Introduction

"Solidarity products" are now in vogue: Coffee, honey, chocolate—available in all Swiss Coop and Migros supermarkets—play an active role in the promotion of these products for "fair trade." These goods, identifiable by their packaging, bring to mind images of tropical plantations and foreign workers. *Amigos*—a popular brand name in Switzerland—emphasizes its exotic origin and seeks to impart a feeling of conviviality. However, the drawback to these brand names is that they are far more expensive than their competitors' products. Swiss retail chain *Max Havelaar*—the distributor of these "ethical" products—explains that the higher cost sets a positive moral example since the profit margin is diverted back to the poor small planters of South America and Africa. The company alleges that because the surplus profit ends up in the pockets of the workers, the higher prices are just.[1] But in what sense precisely are these prices "just?" Is there an indisputable criterion to differentiate the just from the unjust in pricing goods? If so, what is it?

Definition of Justice

The question of just prices cannot be analyzed if there is no agreed-upon definition of justice. Too many discussions of "social justice," for example, remain sterile because this definition has not been taken into account. The classical concept of justice consists in giving to each their due. It is symbolized by a female figure holding a balance with her eyes blindfolded so she cannot see who is being judged. Thus, a good judge renders an impartial decision. In fact, justice is independent of our feelings, preferences, or passions. Nevertheless, we may want a certain player to win and find it "unfair" when he loses, yet if the

game is played according to the rules, the outcome must be considered just, regardless of the amplitude of the defeat or the disappointment experienced. Justice is a matter of following agreed-upon rules, not of ensuring results.[2]

Within the framework of society, the confusion between the rules of justice and our "feelings" about justice must be cleared up. For instance, economic poverty, which often moves us emotionally, is not necessarily a consequence of personal or societal injustice. That is why, when one person in a dire situation merely appeals to another person's implicit sense of justice, nothing has been corrected. Instead, the person should appeal to other values—such as mutual aid, voluntary solidarity, and so forth—to redress human suffering not caused by legitimate cases of injustice. It is essential to establish the distinction between justice and feelings about justice because judicial impartiality is at stake. If justice does not satisfy objective criteria, it will then become subject to the whims of the judge, which may lead to fines, penalties, lynchings, or executions but not to justice.

Before moving on, we should also note that the idea of practicing "collective responsibility" is dubious at best. If someone does something wrong, it is up to him, and not to the members of his family, clan, neighbors, or fellow countrymen, to make reparations. The exercise of justice consists in identifying precisely who has perpetrated a prejudice, in assessing compensation, and in ensuring that it is the victim who is paid damages. There is no justice when reparations are exacted from innocent people .

These definitions will help us sort out more clearly the issues involved in determining a just price. In the first instance, we shall analyze the mechanism of price-setting, moving from there to an examination of the conditions under which it can be argued that an established price is just, and finally, concluding with a brief description of commitments that can be made to curb future injustices.

Already Aristotle …

It was hardly one hundred years ago that economists found satisfactory an answer to a question that had puzzled thinkers since antiquity; namely, how to determine the relationship between the value of goods, the prices paid for them, and the cost of their production.[3] The Greek philosophers were surprised (like any good philosophers should be) at not finding a significant correlation between the value of an object and its use. Most human beings cannot afford to own a diamond, but no one can live without water; yet a diamond necklace, even of the poorest clarity, is worth much more than a liter of water, even if that water comes from the purest mountain spring.

In view of this paradox, it has been maintained that it is not an object's usefulness but its scarcity that determines its price. Diamonds are expensive because they are rare. But here, again, this hypothesis does not stand up to analysis. My self-portraits, which I occasionally dare to paint, are much rarer than those of Rembrandt, but they are worth (considerably) less. First-year philosophy students have long settled this problem of the correlation between the scarcity and the value of a good with this famous syllogism: Anything that is rare is expensive; a one-eyed horse is rare; therefore, a one-eyed horse is expensive.

In the *Nicomachean Ethics*, Aristotle proposes an original formulation of the problem. He inquires whether it is possible to discover an attribute in the very nature of a thing that determines its price. Aristotle's strategy for determining prices raises important issues that must be considered in settling upon a just price. Specifically, if the price of a thing derives from its nature, then the question of justice regarding its price would necessarily take on another meaning. "Just" should no longer be understood in reference to objective standards of justice but to standards of accuracy, thereby moving from a moral question to that of a simple calculation exercise. The price of an object would then be measured according to physical attributes such as weight, dimension, and density. In this way, then, economics would assume the methods and standards of a "hard" science.

… And Now Marx

The famous English economist David Ricardo, who was later followed by Karl Marx, thought that price setting was derived from the amount of work it took to manufacture the good. Thus, when individuals exchange goods, in fact, they exchange the work "incorporated" in these goods. So, to determine a "just" price, one would only have to evaluate the good in terms of the number of man-hours it took to produce it.

However, to believe that work, alone, imparts value to things is to neglect the diversity of creation. The extraction of high-quality coal or metal ore requires less work but yields more value than the extraction of less concentrated ores. Whatever care the wine-grower of Hérault brings to his vineyard, he will in no way produce a vintage Bordeaux.[4]

Like the resources of nature, the capacities of human beings are also diverse. The engineer who, perhaps in a few hours, designs a new manufacturing process, brings as much value to an item of merchandise as the employee who, for days on end, has only carried out a simple function. In the previous example especially, it is more the quality than the quantity of the work that must be

taken into account. The difficulty of establishing the value of a product strictly on the basis of the amount of work required remains an issue, however. A poor-quality product spurned by consumers, for example, may have required as much labor to produce as a high-quality product.

In his formulation of the labor theory of value,[5] Marx lost sight of the fact that economic activity is at the service of human beings. Thus, if an object is not of use and does not bring satisfaction, it will not be purchased. In fact, the item's price would settle around zero, regardless of the amount of work it initially took to produce and distribute it. All of the unmarketable products of the socialist economies and the failures of numerous capitalist industrialists testify to this fact.[6]

In some ways, then, Aristotle answered his own question by wisely concluding that the idea of setting prices based on the nature of things should be abandoned,[7] for prices no longer refer to the labor it took to produce the good than the need, demand, usefulness, or scarcity of the good. A price reflects nothing more than an agreement between a buyer and a seller with respect to an exchange. We will return to this definition shortly, but it is important to recall that the sixteenth-century Jesuits of the University of Salamanca in Spain were the first to propose this definition and to have studied the mechanism of price setting.[8]

No Prices Without Exchange

Prices exist only in and for the purpose of exchange. Prices are necessarily formed in relationships with others.[9] Robinson Crusoe knew his costs ("It will take me one hour's porterage to bring back this bundle of firewood"), but setting a price made no sense for him (from whom could he ask for two kilos of fresh fish for the payment of one hour's porterage?). Prices are set on the basis of a social relationship between two persons. Therefore, our question of determining a just price can take on its true meaning only within this relationship: *just* for whom? For, strictly speaking, a price, label, fistful of francs or dollars, is not either just or unjust in themselves any more than grams, kilometers, or any other unit of measurement is. The property of justice can be referenced only in relationship to human actions. Therefore, it is not the price of a good that interests us, but whether the price—whatever it may be—conforms with the buyer's or seller's demand for justice.

Let us note, first of all, that every person who purchases coffee in a coffee shop voluntarily consents to the assigned price. Of course, if asked, every consumer would prefer coffee either to be less expensive or free. The observable, objective fact is that consumers do not settle for less expensive herbal teas in

lieu of more expensive coffee. In the real world, say, where barbers or coffee shop attendants cannot work for free, buyers pay the predetermined price or go without these services or products.

A similar phenomenon occurs on the producers' side. It is a well-known fact that the economic situation of producers is often fraught with risks. For the moment, let us just review some facts: If, despite low prices, coffee has not disappeared from the market, it is because producers have not given up the enterprise of growing coffee, which means that it still turns a profit. Obviously, producers prefer coffee to fetch the highest possible price, but they, too, living in the real world, accept the price that it brings on the open market.

For much of world commerce, matters are really no different from the example above: Those who buy and sell goods do it because they agree on prices. Let us observe that in this case it is not a judge, a tribunal, or a commission of experts who set prices. However, if such a tribunal of “price judges” did set prices, they would necessarily produce an arbitrary verdict. As we have seen, they would not find anything objective in the nature of the goods that would enable them to establish the price. The only legitimate function of these judges would be to forge an agreement between parties on the price of the transaction. In the practice of our economy, this assessment-type function is not carried out by a panel of judges. It is the commodity stock exchanges in the big financial centers such as London and New York City and such news agencies as Reuters and Bloomberg that officially register prices paid for raw materials and disseminate this information throughout the world.

Once again, if a price is paid, it is not necessarily the one that the buyer or the seller had expected to obtain at the start of the negotiation; thus, as in any social relationship, the wishes and the interests of others must be acknowledged. (Regardless of what the buyer may think, coffee cannot be free). However—and this is the main point—neither the buyer nor the seller can legitimately maintain that he or she has been treated unjustly because of the price paid for a good in the open market. What buyer or seller who believes he or she is being taken advantage of would continue with the transaction? Each party, having declared through an entirely peaceful and voluntary exchange the receipt of its “fair share,” therefore, should conclude that the transaction upholds the requirement of justice described at the outset of this article. We may now propose a definition of a just price: *A just price is the one on which both the buyer and the seller agree.*[10]

Objections to the Definition of a Just Price

It is possible to anticipate significant objections to our definition. Certain

types of exchanges can be imagined that conform to the terms of the proposed definition but which, nonetheless, clash with our moral sensibilities. Can it be said that all parties to an exchange truly consent of their own free will? What is the meaning of “to be in agreement” when the bargaining power of one party is infinitely superior to that of another? These are strong objections that, if not adequately countered, will undermine the proposed definition of a just price.

The first objection to our proposed definition has to do with a lack of information. In any exchange there is a contract, even if the terms are only implicitly defined. If, in the course of an exchange, one party were either intentionally or unintentionally to deceive the other, then the offended party has legitimate recourse to legal means for canceling the exchange. A person may purchase goods and then realize that those goods are either useless or could have been obtained on more favorable terms. In this situation, however, where either a wrong choice was made, or upon further reflection, the agreed-upon price was too high, we must nonetheless consider the price to have been justly determined. While it is true that the buyer lacked crucial information at the time of the sale, the seller cannot be held liable for the lack of disclosure. Both parties acted in good faith. Open markets, advertising, and solicited advice from friends and experts, can all help buyers to make informed decisions. The theory of pure and perfect competition, where market participants display a degree of omniscience, exists only in the imagination of classical liberal economists.

The second objection centers on disparity in the terms of exchange. If two human beings were identical and placed in the same situations, they would necessarily produce the same goods and would not have anything to exchange. Fortunately, this is not the case. Human beings are different because of their creative capacity and aspirations, as well as the environments in which they live. These differences not only make exchanges possible but ensure that they are profitable to everyone involved.

In order to comprehend this relationship, we must acknowledge that the link between value, price, and cost is unequal by its very nature. If a consumer craves a *Max Havelaar* chocolate and finds Fr 2.30 in his pocket, his craving must be worth *more* than Fr 2.30 for him to desire this chocolate enough to locate and purchase it, otherwise he would keep his money. Furthermore, if *Max Havelaar* has set the price of the chocolate at Fr 2.30, this means that the price represents the cost of production plus the profit margin. Therefore, the general rule governing exchanges can be represented as follows:

Value for the Buyer > Price > Seller’s cost.

The inequality *Value for the Buyer* > *Price* indicates the buyer's satisfaction. The inequality *Price* > *Seller's cost* shows that the seller makes a profit, which is necessary for survival. In what sense, then, may an inequality—from which each party benefits and that each party accepts—constitute an injustice?

By misunderstanding the meaning of this fundamental inequality between value, price, and cost, some economists have incorrectly maintained the exchange itself is unequal because it necessarily wrongs one of the parties that never benefited from it. This is a logically absurd position since, if the exchange was freely agreed upon, it must have been favorable to both parties, otherwise it would not have taken place. Thus, contrary to Marxist theory, commerce is indeed a productive and mutually beneficial process.

An exchange creates value. The buyer, like the seller, obtains goods that have more value than the goods that are given in return. It is a well-known fact that life circumstances often compel us to make economic decisions that we wish would never arise. For instance, a shopkeeper who—either because of unfortunate circumstances or mismanagement—is forced to liquidate his stock in order to satisfy creditors, would certainly not prefer to sell his inventory at slashed prices. Nevertheless, consumers may make the most of an opportunity without experiencing guilty consciences. In fact, if they would refrain from buying, the shopkeeper's finances would be in an even worse state. They may feel sympathy for the shopkeeper's situation, but they ought not feel any remorse for taking advantage of it, as in the case of being promoted because of a colleague's untimely death. No one is to be blamed for this deplorable situation.[11] Clearance prices to satisfy legitimate creditors do not result from either physical violence or unjust coercion. Thus, we must logically conclude that they are just prices.

On the other hand, if a deal is not accepted freely by each party—i.e., if it results from an act of coercion—it should no longer be regarded as an exchange but as extortion, theft, or enslavement. Therefore, it is no longer the exchange that is unequal but the capacity of imposing oneself upon others through physical violence. Coerced acts of exchange exist outside the proper bounds of a market economy, where goods circulate through exchange and donation, and thrust one into a regime of extortion or planned economy, where goods are redistributed through governmental edict.

The third objection to the proposed definition of a just price concerns the issue of monopolies. A monopoly is a concept that few economists seem to understand adequately. Simply put, a monopoly occurs when an entity is the sole supplier of a given product. According to classical liberal economic theory, monopolies must be avoided at all costs because they can exact the most

exorbitant prices for their products. Monopolistic situations eliminate competition among firms, which means that in some cases consumers have no other alternative but to accept the exigencies of a sole supplier. Governments perceive here a dysfunction of the liberal system of price setting, and they have therefore built up a legal arsenal to prevent the creation of any monopoly—except, of course, when government agencies manage public utilities, safety procedures, environmental hazards, and so forth.

But it is worth investigating whether a non-governmental monopoly is actually harmful to the consumer. When entrepreneurs assume risks of which the public approves, they immediately create demand for their products. Yet, as we know from past experience, innovators do not remain without competitors for long. In a free-market economy, therefore, a monopoly can exist only when one producer manufactures a product so efficiently that competitors are discouraged from even entering the market. However, in such a situation, the consumer pays the just price for a good, since no one can produce the item for less money.

The guarantee of a just price for the consumer lies not in the fact that there is competition but in the very *possibility* of competition. For if a producer's extraordinary efficiency squelches competition, he knows that in a free-market economy, if he raises prices or lowers quality, competitors will immediately spring up to attract the disappointed customers. The sheer threat of this competition is incentive enough for the monopolist to keep prices low.

The possibility of competition need not affect the same product for it to be dissuasive; it may also apply to substitutes. This is why nature, even in its diversity, is not conducive to establishing monopolies. The clichés still found in textbooks on "geographic" or "natural resource" monopolies imply that we are all bereft of common sense. The owner of a desert oasis can charge exorbitant prices for his water only once, for as news spreads of this rapacity, thirsty nomads will take additional stocks of water, or will follow other routes to avoid obtaining fresh supplies from this oasis.[12]

If a monopoly persists, it is either deemed to be satisfactory to all parties offering "just prices," or else it is imposed by force through the legal prohibition of competition. Most monopolies that exist today are imposed by governments in order to withdraw a sector of activities from the pressure of competition. These sectors vary from one country to another but are generally found in the central banks, the railways, the telephone services, the post office, education, and the natural gas and electricity supply. The principal criticism of government-protected monopolies is that it is no longer possible to determine a just price based upon our earlier definition: Since competition has been

eliminated, it is impossible to determine whether a competitor could deliver better services for less money.

Prices: A Dialogue Between Persons and Nature

Frequently in debates over just prices, arguments are constructed in the name of humanity and nature. But why not let those directly concerned express themselves through the instrument of the market? What economists call *the market* is none other than a dialogue that human beings establish between themselves over scarce resources. There are numerous ways for human beings to build relationships between themselves—through love, friendship, family ties, and cultural affinities—and as many other ways of being linked to nature: through work, contemplation, or celebration. The market is one form of communication that human beings establish when they want to produce and distribute, without coercion, the goods they need.

This communicative and informative function of the market is rejected by those who aspire to political power because it denies them the self-appointed role of social engineers, capable of anticipating the "real needs" of people and of managing natural resources.[13] A society of free people would never acknowledge that such an elite could know better than they what is best for them. With respect to the market, it is up to each individual to determine both where and how to exercise his or her creative and productive activities. Furthermore, it is the evolution of prices set by supply and demand—and not the judgments of civil servants or scholarly committees—that will inform us of whether our activity meets the expectations of others and utilizes natural resources effectively.

How does the evolution of prices alone indicate to us that our activity goes hand in hand with nature and meets the needs of human beings? Let us consider what happens when a product is abundant in relation to demand: Its price remains relatively low. It is as if consumers receive from nature and from the producers a message that can be translated thus: "Use as much as you want; there will always be enough for everybody." The availability of this product at a low price will encourage everyone to substitute it for more expensive products in order to find new uses for it. Let us imagine now that this increase in consumption exerts pressure on prices. This increase itself is a new incentive to boost production because it is now addressed to the producers who would have been discouraged by the low prices. Thus, the increased supply will stabilize prices, depending upon whether the producer's capacities and natural resources will allow it to do so. However, if natural resources have been ravaged, then higher production costs will be reflected in the selling price. The increased cost

of the product is a message addressed to consumers that invites them either to conserve or to look for substitutes.

Prices Are Nothing More Than Information

Prices are signals that show consumers whether a producer's action meets their needs, fits smoothly into their environment, or works to undermine it. Of course, information is reliable only if it is not censored or manipulated. Prices reflect accurately the state of world resources, provided the authorities do not falsify them by providing subsidies and imposing price controls and quotas that maintain artificial shortages, for example. Tampering with the thermometer will not provide doctors with accurate information about a person's health, and, furthermore, certainly will not cure that person. The more severely prices are controlled, the more consumers will be cut off from reality. Those who give up the system of free trade for a centrally controlled economy will lose vital information; they will be reduced to the arbitrary advice of specialized government agencies because the objective reference points of consumer preference and the availability of natural resources have been obscured.[14]

We protest, and for good reason, when a government agency tries to censor a newspaper. Yet, price control is similar because it censors information, and, as with any act of censorship, it deserves to be denounced. However, price control has other more serious consequences than merely providing faulty information. As we have seen, prices are set when human beings exchange the goods indispensable to their lives and when governments use price-setting mechanisms to control citizens.

Remuneration for Work

Is being remunerated for work a case in which individual consent does not apply? Some think so. In fact, many governments have introduced laws prohibiting people from taking employment that does not carry a minimum salary or that compels them to work beyond a set number of hours. It does not matter whether the employer or the applicant has agreed on other terms.

Yet, as we have seen, the price of work, like all prices, is information. Rich people's money is likewise a signal. Many people, but not all, await the material prosperity of their occupations. They observe those who have succeeded in producing wealth and attempt to emulate their example. This quest for personal profit, focused on the high prices derivable from their work, is beneficial to all producers.[15] Eventually, competition from these newcomers lowers the selling price of products, increases product performance and reliability, and enables the greatest number of consumers to procure the desired good.

Likewise, the relative prosperity and poverty of social groups teaches us which behavior to adopt in order to achieve our objectives. If economic prosperity is sought over other values such as traditional village life, the pertinent information we encounter is found in the behavior of people who live in places such as Hong Kong or Silicon Valley. Competition is a process of discovery, which not only informs us of our choices for consumption but also of the consequences resulting from the support of such values.

It is often commonly supposed that people should be remunerated because they work, which was mentioned above under the notion of "value-work." But work, in and of itself, does not hold any value. When human beings are free, it is never work that they remunerate but a product or a service. It so happens, however, that in most circumstances this product or service cannot be delivered apart from working, but this is merely accidental. (If someone could mow my lawn while he or she was sleeping, I would be paying that person to sleep.) Thus, what imparts value to work is not that it has been done but that it results in a desired product—so much so, in fact, that the person will use his resources, among all the options opened to him, to buy that specific product.

Since remuneration for work is a price, which, like other prices, is fair if it is accepted by all parties, the employer is not being unfair when he pays the same salary to workers who come in during the last hour of the day, in relation to those who have been working since the morning. The risk this employer runs is simply that he will find no one willing to begin work tomorrow morning.

Furthermore, since it is not really the worker but the service or product delivered that is actually remunerated, it follows that remuneration does not distinguish between the worker's skin color, sex, religion, political sympathies, and so forth. The market, like the good judge mentioned earlier, operates "irrespective of persons." It is governments who, over and above the products themselves, take into account the racial and national identities of the producers in order to exclude some and grant privileges to others. Had they been free to carry out their business, German citizens living under the Third Reich and South Africans living under Apartheid would certainly have been able to transact business with competent and enterprising Jews and Blacks and to grow rich with them. Those who, in the name of their convictions, refused such commerce with the representatives of another race would have found themselves excluded from this prosperity. It is understandable, therefore, why racists and nationalists are so critical of a free-trade economy—principally because the market does not adjust well to the arbitrary lines and prejudices that people construct in their minds.

To say that the worker is not remunerated means that an evaluation is made

of his work—the quality of his production—and not of his person. The salary rewards neither the merit nor the virtue of the employee.[16] There are plumbers who are good husbands and fathers but are vocationally incompetent; however, when the kitchen is flooded, most people will call the skilled plumber who, though he may be unfaithful to his wife, knows how to seal off leaks.[17]

Far from being an automatic generator of wealth, work exhibits a destructive tendency by draining human energy and natural resources. This destruction finds its sole justification in the production of goods and services that are sufficiently attractive for consumers to show, through their readiness to pay, the value they ascribe to them.

Conclusion

We have defined a just price as one that is agreed upon in the course of a voluntary transaction. *Voluntary* must not be understood to imply *chimerical* price-setting mechanisms, meaning that goods could be obtained by buyers at low prices but ones where sellers would reap high dividends. A transaction is voluntary when one of the parties does not use or threaten to use physical violence toward the other. Any other definition that would try to measure, for instance, the "influence" that one party exerts on the other, or the "information" available to each, or their ability to judge, would tend to be arbitrary.

When they are not imposed by authorities, prices constitute the most reliable information available to guide us in productive relations with others and with natural resources. Prices are established because human beings exchange the products of their work for the goods they need to live. Controlling prices, therefore, is a way for governments to control our lives.

Justice consists in giving to each one his due; therefore, we pay the agreed-upon price for a service or as compensation for a prejudice of our own doing. It would not be just to force someone to pay for goods he did not buy or to set straight a prejudice for which he is not responsible. There are situations, however, in which people are not able to provide any service that would lead to payment simply because of age, handicap, illness, or an unfortunate accident. Of course, a great deal of the financial consequences of these situations can be redressed by voluntary insurance contracts. Nevertheless, we can imagine a person finding himself totally destitute, without any agent being the direct cause of it and having to make reparations, while through lack of foresight or for any other reason, he is uninsured. Thus, in this case it is not justice that is questioned; yet, recourse must be made to other values that do not maintain the objectivity of justice but that evidence our personal commitment toward others in the form of solidarity, charity, and so forth. This is why, if a seller grants a

discount or a buyer pays higher prices in order to help the poor—as in the case of *Max Havelaar*—the prices paid are not only just but praiseworthy acts of moral solidarity.[18]

On the other hand, if these same discounts or higher prices are imposed by government—regardless of whether they are beneficial to the poor—they cannot be in compliance with justice because those consenting to them do not redress any wrong that they would have personally caused to the beneficiaries. Furthermore, these financial sacrifices have dubious moral value, since they are imposed by violence.

Notes

1. My intent is not to criticize *Max Havelaar* enterprises, about which I am unfamiliar. The publicity surrounding the launch of its new line of tropical products has merely been the occasion for reflecting on the old problem of just pricing.

2. See Friedrich von Hayek, *Law, Legislation and Liberty*, vol. 2, *The Mirage of Social Justice* (Chicago: University of Chicago Press, 1973), chap. 8.

3. Ludwig von Mises, *Theory and History* (New Haven: Yale University Press, 1957); Murray Rothbard, *Economic Thought Before Adam Smith: An Austrian Perspective on the History of Economic Thought*, vol. 1 (Hants, U.K.: Edward Elgar Publishing Company, 1995).

4. Ricardo, like Marx, acknowledged that the labor theory could not apply to all productions: “There are some commodities, the value of which is determined by their scarcity alone. No labour can increase the quantity of such goods, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality which can be made only from grapes grown on a particular soil, of which there is a limited quantity, are all of this description. Their value is wholly independent of the quantity of labour originally necessary to produce them and varies with the varying wealth and inclination of those who are desirous to possess them.” As quoted in George Reisman, *Capitalism* (Ottawa, Ill.: Jameson Books, 1996), 487. In a peculiar sort of way, Ricardo states correctly that the price of these specific goods will vary with the “wealth and inclination” of potential buyers, without realizing that this applies to *all* goods, not just rare works of art and vintage wines.

5. Marx reworked his labor theory of value several times during his lifetime, which he developed principally in *Capital*, vol. 1 (New York: Charles Kerr, 1906), part 2, chap. 4. Refutations of this theory abound in the literature. For example, see George Reisman, *Capitalism*; and Thomas Sowell, *Marxism* (New York: Quill, Williams, Morrow, 1986. James A. Sadowsky has this to say about Marx’s labor theory of value: “... it relies on a totally false supposition:that by transforming an object we can increase its value. There is no such thing as value in the object. Objects are valued by people; what is valued by people is the physical reality. People do not value values! The only way to increase another’s valuation of what I have is by hypnotism.” “Private Property and Collective Ownership,” in *Property in a Humane Economy*, ed. Blumenfeld *et al.* (LaSalle, Ill.: Open Court, 1974), 89.

6. The idea that work necessarily imparts value to things goes against common sense and common experience. Work can indeed *destroy* value. It has even been argued that the Russians would be wealthier if they had restricted themselves during the Soviet era to selling materials without processing them, instead of attempting to convert good-quality copper or petroleum products into electric wires and lower-grade plastic products.

7. Aristotle, *Ethique de Nicomaque* [*Nicomachean Ethics*], trans. Jean Voilquin (Paris: Flammarion, 1965), vol. IX, chap. II.

8. Already Thomas Aquinas had observed that the amount of work required by a farmer to produce a bushel of wheat is more or less the same year in and year out; however, depending on the harvest, the price of a bushel of wheat can vary dramatically. A complete theory explaining this phenomenon was not available until the end of the nineteenth century with Carl Menger's research that took into account the relationship between cost, price, and value. Nevertheless, the Jesuit academics of sixteenth-century Salamanca provided a preliminary but coherent answer to this question. Cf., Alejandro A. Chaufen, *Christians for Freedom: Late-Scholastic Economics* (San Francisco: Ignatius Press, 1986). They observed that prices were dependent upon both the value people ascribed to certain goods and on their cost of production. In other words, the Jesuit theologians understood well that an exchange is, on the one hand, a meeting between desire and, on the other hand, creativity and work that has shaped natural resources. The work of these theologians—Francisco de Vitoria, Domingo de Soto, Tomas de Mercado, and Luis Molina—on such topics as the theory of money, private property, value, prices, and the role of trade and banking have been nearly forgotten. Yet, over against Weber's thesis, H. M. Robertson insists: "It could be maintained without any difficulty, that the religion which has favoured the spirit of capitalism was that of the Jesuits, and not that of the Calvinists." *Aspects on the Rise of Economic Individualism* (Cambridge: Cambridge University Press, 1933).

9. Ludwig von Mises, *Human Action*, 3rd ed., rev. (Chicago: Regnery, 1966), chap. 16.

10. This basic rule for determining a just price has been phrased in a variety of ways. For instance, Clarence B. Carson writes: "A price in a free market is the amount that a willing seller will take and willing buyer will pay." *Basic Economics* (Wadley: American Textbook Committee, 1988), 118.

11. This same misconceived feeling of guilt pervades relationships between rich and poor nations. See, for example, Peter T. Bauer, *Equality, the Third World and Economic Delusion* (London: Weidenfeld, Nicolson, and Company, 1981); and Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1982). Also, cf., Pascal Bruckner, *Le sanglot de l'homme blanc* [*The Tears of the White Man, Compassion As Contempt*] (Paris: Editions du Sevil, 1983).

12. For a discussion of monopolies, see Isabel Paterson, *The God in the Machine* (Palo Alto, Calif.: Palo Alto Book Service, 1943), especially chapter XVI, where the author analyzes the first imposition of antitrust legislation in the United States. See also Murray Rothbard, *Power & Market* (Kansas City, Kans.: Sheed, Andrews, and McMeel, Inc., 1977), 59; and *Man, Economy and State* (Los Angeles: Nash Publishing, 1962), vol. 2, chap. X.

13. This pretension is the "fatal conceit" that Friedrich von Hayek denounced throughout most of his published work. See notably *The Fatal Conceit* (Chicago: Chicago University Press, 1988); and "The Errors of Constructivism," in *New Studies* (London: Routledge, Kegan, and Paul, 1978). Also, cf., Doug Bandow, *Beyond Good Intentions* (Wheaton, Ill.: Crossway Books, 1988), 58, who contends that "Man is not perfectible through human means."

14. On the theory of the market as a discovery procedure, see Friedrich von Hayek, *Law, Legislation and Liberty*, vol. 3, *Political Order of a Free People* (Chicago: Chicago University Press, 1979), chap. 15.

15. On the utility of the rich for attaining the common good, see Novak, *Spirit of Democratic Capitalism*, Part 2, chap. 2, IV.

16. The freedom that people exercise when they pay only for work that renders a valuable service is offensive to those who esteem their capacities highly but do not know how to use them to serve others. These people prefer to be on the side of political authorities where they do not have to be useful in order to be paid. All that is needed is the exercise of a "public service" function, which is to say, rendering a service for which the public is forced to pay because it would not choose to if it were otherwise free.

17. While the market economy leads people to value competency and efficiency, it should be acknowledged that not everyone will value these traits to the same degree. Some people will voluntarily pay a higher price or accept a lower standard of quality because they prefer to exchange with persons of the same race, creed, nationality, and so forth. There is nothing objectionable to this state of affairs, provided that these consumers are the only ones to pay for their preferences.

18. Other initiatives claim to be based on personal interactions rather than on what is perceived as a dehumanizing money-based system. Typically, such initiatives would include some form of barter: "You teach me Russian and I'll paint your house." Such a network exists in the United

Kingdom ("Local Exchange Trading System," or LETS) with offshoots in Canada, Switzerland, and so forth. The French Tax Administration is fighting a similar local organization ("Système d'Echanges Locaux" or SEL), because, of course, you do not pay VAT and income tax when you barter personal services. As part of this general trend, we should also mention "ethical funds" or "ethical banks," which may serve a lower return but will invest only in enterprises the directors deem praiseworthy. The paradox here is that the leaders of these movements generally profess their aversion to "the capitalist market," when what they and their followers do—engaging in voluntary transactions without controls or subsidies from the state—is the essence of capitalism.