A Short History of the "Just Price" Controversy in the XII-th and XIII-th Centuries

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This paper analyzes the contributions of some of the pre-scholastic and scholastic writers on the doctrine of the "just price". According to their perspective it is difficult to establish an objective method for discovering the "just price" of goods on the market. On the contrary, they portrayed a theory in which the only instance that ultimately determines the price of goods is the subjective evaluations of those involved in the process of buying and selling. Moreover, the "justice" of an exchange of goods or price, results directly from the absence of fraud or violence. Therefore, a price is "just" if it is voluntarily set and accepted by parties.

Key words: *just price, scholastics, morality, marginal, subjective*

JEL Classification: *B11, B53*

Introduction

The modern approaches on the nature of prices such as monopoly or the dumping price and their formation cannot be separated from the old ones. Starting with the Greek philosophers, continuing with the works of the Roman jurists and reaching the late Spanish scholastics a very disputed and attractive debate is growing having as essence the

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"just price" that should be paid in a certain transaction on the market. In this article I choose to focus on only a small part of the period mentioned: the thoughts and theories concerning the "just price" of the twelfth and thirteenth century's scholastics. This includes the main contributions of Thomas Aquinas and his predecessors who had a great influence on numerous works of other economists and theologians that came later. I considered helpful to present also some early theories that gave birth to the scholastic interpretations of the "just price", rather than to point only their views. Thus, the paper is structured in three parts, starting with the early interpretations of the doctrine of the "just price" where I briefly mention basic influences on the doctrine dating back in the first centuries A.D. The second part contains the Catholic Church vision regarding the morality of being a merchant or charging interest on loans, and the third part states the case of the twelfth and thirteenth century's scholastics, a time which remained a starting point for many researchers in the history of the "just price".

Early interpretations of the "just price" doctrine

From the time of Ancient Greece the problem of the "just price" had a special position in the history of economic thought. Perhaps the cause for this is the very nature of the problem, very hard to define. The impossibility of identifying an objective definition of the price and of the formation of prices on the market, determined some of the "old economists" to have a positive attitude towards obscure and problematic interpretations that described the market prices, which turned out to be inexact or even wrong. This sort of price descriptions were heavily influenced by, for example, the Aristotelian interpretation of an so called equal value of the goods that make the object of an exchange:

There [in *Nichomachean Ethics*] Aristotle says that in order for an exchange to take place, the diverse goods and services 'must be equated', a phrase Aristotle emphasizes several times. It is this necessary 'equation' that had led Aristotle to bring in the mathematics and the equal signs. The reasoning was that for A and B to exchange two products, the value of both products must be equal, otherwise an exchange would not take place (Rothbard, 2006, p.16)

Aristotle's erroneous concept of equal value in a commercial exchange not only contributed to centuries of muddled economic thinking; it was revived and employed 'as a philosophical justification for the medieval doctrine of the just price (Vance, 2008)

or treating an exchange as a zero-sum game in which *by default* one is the looser and the other is the winner[1], or the suspicious faith in some limited stock of goods involved in any exchange and thereby implicitly a greater quantity of goods in one direction means a lesser quantity in all other possible directions.

Important definitions of the "just price" were given by the two code laws, *Theodosian Code* (promulgated by the Emperor Theodosius in 438 A.D.) and *Corpus Juris Civilis* (promulgated by the Byzantine Christian Emperor Justinian, in 530 A.D.). These two were the legacies left by the Roman Empire.

The codes are relevant for the economic scientific research because they are composed of theses and arguments which belonged to several notorious authors of the Antiquity and also of the last centuries of the Roman Empire. Some of them are Roman jurists like Marcus Tulius Cicero (106-43 B.C.), others are fathers of the Eastern Church, like Joan Chrysostomos (347-407 A.D.). If we are to classify the legacies left by the Roman Empire we will put Cicero and other Roman jurists works at the Roman Law and those of Joan Chrysostomos and other important fathers of the Eastern Church, papal decretals and decrees of the church councils at the canon law. However, the important

[1] It is the case of Jerome (340-420A.D.), a follower of the myth according to which in trade what ones win others lose. "One's man gain must be achieved by means of the other man's loss", Rothbard, 2006, p. 33

aspect is their interest in studying the alleged economic existence of man. Although their works are important, it cannot be taken as non-problematic, for they contain numerous contradictions and misinterpretations. But this is the job of the economic historian. In this section I only want to reflect some of the basic ideas that furnished the scholastic thoughts of twelfth and thirteenth century.

As I said, neither the Theodosian Code nor the Corpus Juris Civilis succeed in showing the true nature of the prices and their formation. Thus, although in the problem of the "just price" the two codes give a somehow similar and logic interpretation, when establishing the correct judgment in a problem concerning property and prices, the initial logic falls. For example, in the Corpus we find that in "buying and selling natural law permits the one party to buy for less and the other to sell for more than the thing is worth; thus each party is allowed to outwit the other", and the Theodosian Code admits that "any price set by free and voluntarily[1] bargaining is just and legitimate, the only exception being a contract made by children. Force or fraud, as infringements on property rights, were of course considered illegal" and thereby "ignorance of the value of a good by either buyer or seller was insufficient ground for authorities to step in and rescind the voluntarily agreed contract" (Rothbard, 2006, p.32). According to the codes, the price is "just" if it comes from free and voluntary actions on the market. And the contradiction stems (Rothbard, 2006, p.32) when the Corpus mentions that "if a seller has sold his property for less than half 'the just price', then he suffers a 'great loss' (*laesio enormis*) and the seller is entitled to get back the difference between the original price and the just price from the buyer, or else get property back at that original price" (Rothbard, 2006, p.32). But this implies a sort of mystical *ex ante* technical knowledge of that "just price" which we already define it as the price set freely and voluntary. This means that

[1] This absence of aggression or violence is a crucial aspect which the Theodosian Code inserted in the debate on the "just price" and we will see latter how it was perceived by the scholastics

for calling the just price to describe future state of things (like, for example a future transaction between two people) it is necessary to know exactly and before the transaction, what precisely this is[1]. But the codes do not refer to any knowledge of the just price, but to a price that is just if it is free and voluntarily agreed upon.

A look at works from the seventh and eighth century will reveal that the "just price" doctrine was defined for example by the Carolingian authorities[2] as "every arbitrary price decree of the officialdom" (Rothbard, 2006, p.37). Was this the market price, or a coerced price? As long as it was decreed, perhaps it could hardly be a market price, considering the impossibility of the authorities to know or to observe a market price. As Rothbard puts it "probably this coerced price was often near what had been a customary or current price in the neighborhood; otherwise it would be difficult to conceive how the Carolingian officials would discover what price was supposed to be just" (Rothbard, 2006, p.37) but even assuming that the "just price" was obtained through some past observations of the market price, this is still coercive because it would mean "a futile and uneconomic attempt to freeze all prices on the basis of some past market *status quo*." (Rothbard, 2006, p.37)

The scholastic descriptions of prices were also marked by the economic thought accumulated by then, concerning the prohibition of usury[3]. The reason for this was a rudimentary approach on the nature and the function of money. It was considered that the seller of the money should obtain in turn from the buyer the same sum thus

[1] "There is no way to observe an existing price and declare it just or unjust", from Jeffrey A. Tucker, Is there a Just Price?, Mises Daily, June 06, 2008

[2] The Carolingian Empire burgeoned in western Europe in the eighth and ninth century

[3] The hostility against usury and any kind of interest starts with the first Church Council, in Nicaea in 325, where only the clergy was prohibited from charging interest on a loan. Emperor Charlemagne rewrites the definition of usury in 789 considering it as "an exchange where more is demanded back than what is given", Rothbard, 2006, p. 44. Other prohibitions of usury will be pleaded by monk Anselm of Canterbury (1033-1109) when the interest officially becomes an act of "theft", and in 1139 when another Church Council declares it as "infame"

avoiding the fact that, in reality the seller of the money has a risk when he lends the money. Moreover, according to the concept of time preference[1], the seller of money is lending money so the buyer could buy present goods, and in turn he expects the sum lend plus an amount which covers the risk associated with the lending period. Time preference induces the rate of interest that should govern the relation between the buyer and the seller. Money today for the buyer and money in the future for the seller means that the buyer has to pay more because of his lack of capital, and the seller to receive more in turn for the availability of his capital. This is the economic problem of usury which most of the theologians and philosophers didn't discover. But, according to Rothbard they could at least observe the natural tendency of the market. "Where the scholastics were gravely lacking was in not realizing that if interest was paid as well as charged voluntarily, that in itself is sufficient moral justification. And further, that there *must have been* an economic explanation, even though economic science had not yet discovered" (Rothbard, 2006, p.46). This was the ground on which the scholastics of the twelfth and thirteenth century built their doctrines of the nature of prices.

Trade, tradesman and the problem of morality

In fact this was the most fundamental problem that was to be found in every polemic raised by the scholastics. It was the problem of honesty that preoccupied their minds. Is it *legal* for a merchant to sell at any price he sets for his good? Whether the merchant was selling goods or money, the same problem appeared. Is there a moral standard to judge the merchant who raise a price above the cost of production, and to ask for a profit? What if he is selling money and he asks for an interest?

[1] Developed later in the nineteenth century by the Austrian economists

The moral standard was written in the patristic works of the fathers of the Church[1]. Here is to be seen a negative attitude towards the excessive love of money which can be decrypted (mainly) from St. Paul's famous "the love of money is the root of all evil" (I Timothy 6, 10). And the love of money was considered an immoral and sinful act. But "fulminations against excessive love of money do not necessarily imply hostility to commerce or wealth" (Rothbard, 2006, p.32). This means that the trade or the money is not evil *per se* Spiridon, 2002). According to the fathers, evil is when the love of money substitutes the love of God, thus creating the path for other evils.

It is important to mention that the activity of a merchant is supported by one of the most influential fathers of the Catholic Church, Augustin (354-430 A.D.) which, according to the same Rothbard can be considered the source for the theory of subjective value, a powerful insight of the nineteenth and twentieth century Austrian economists. Interpreting Augustin, Rothbard mentions that he "definitely and presumably independently of Aristotle, arrived at the view that people's payments for goods, the valuation they placed on them was determined by their own needs rather than by any more objective criterion or by their rank in the order of nature. This was at least the basis of the latter Austrian theory of subjective value" (Rothbard, 2006, p.34). Although apparently, both trade (as an activity) and the trader may be condemnable by the Church Fathers, Augustin successfully points the correct interpretation of trade issue: "They [the merchants] perform a beneficial service by transporting goods over great distances and selling them to the consumer", and if it is something to be blamed in this activity it is not the activity *per se* but the one who is engage in it. "To the common charge that of endemic deceit and fraud in the mercantile trades, Augustine cogently replied

[1] "Many of the early Church Fathers regarded greed to be the basis of commerce. Immoral means were considered the rule rather than the exception when it came to commercial activities", Vance, 2008

that any such lies and perjuries were the fault not of trade but of the trader himself." (Rothbard, 2006, p.34)

Moreover, a very helpful phrase is to be found in the Bible where Jesus says that "the laborer is worthy of his hire" (Luke 10, 7) which can be interpreted in the favor of the laborer, which receives his price as "deserved compensation for his activities and labor." (Rothbard, 2006, p.34) The attitude towards business risks and profits becomes a more positive one in the thirteenth century and here should be Pope Innocent IV (1195-1254) mentioned. Innocent IV first justified the risk in businesses as a consequence of increased prices which was contrary to earlier visions that condemned the profits and interests from businesses. A relevant case is that of Pope Alexander III who at the third Lateran council "condemned usury and excommunicated and denied Christian burial to all manifest usurers" (Rothbard, 2006, p.44) and Pope Urban III (1185-1187) who was inspired in his decretal, *Consoluit*, by the words of Jesus "Lend freely hoping nothing thereby" (Luke 6:35). According to Rothbard there is nothing to be found as immoral in charging interest and "the usury prohibition was the tragic flaw in the economic views of medieval jurists and theologians. The prohibition was economically irrational depriving marginal borrowers and high credit risks of any borrowed capital whatever" (Rothbard, 2006, p.45) but much more important was that "it had no groundwork in natural law and virtually none in Old or New Testament teachings." (Rothbard, 2006, p.45) In fact, it was so irrational and absurd that it took less time until the usury was hidden under the pretext of an ordinary gift. This was the contribution of the last thirteenth century canonists, Cardinal Hostiensis (1200-1271) who allowed the debtor to give a gift to the creditor thus "the making of a fake gift became an important mechanism in allowing the *de facto* charging of interest." (Rothbard, 2006, p.47)

Thomas Aquinas and the doctrine of the "just price"

Thomas Aquinas (1225-1274) is a reference point in the literature on the "just price" doctrine[1]. His ideas were based on the contributions made by canonists and Romanists authors that lived before him. Aquinas's essential work is *Summa Theologica*, written between 1265 and 1273 and it is the most influential work that, according to some historians, "was to establish Thomism as the mainstream of Catholic scholastic theology in centuries to come."(Rothbard, 2006, p.51)

Aquinas's vision on the "just price" was preceded by other theologians, some of them teaching at the University of Paris, which brought together popular theologians and philosophers of the time. Peter Cantor (d.1197) for example was one of them. Cantor believed that "the just value of goods is their current price". From this we can deduce that the value is something that is formed freely on the market. Alexander of Hales (1168-1245), a Franciscan theologian at Paris explains the "just price" as being a "just estimation of the goods" which is "as it is sold commonly in that city or place in which the sale occurs". We can easily conclude that Hales was thinking at a market price which determines the sale of the goods. The mentor of Thomas Aquinas was Albert the Great (1193-1280), a German-Dominican professor at the University of Paris. Albert the Great makes an *adagio* at the "just price" doctrine, by saying that "a price is just which can equal the value of the goods sold according to the estimation of the market place at that time". Albert's adagio is enough to restate that the "just price" is the one the market "fixes" at a certain point in time.

Although the scholastics were supporters of free trade and liberty, on the problem of the "just price", unfortunately they didn't succeed to put an end to the existent controversies. First, it should be mentioned that the same error of considering equal values in exchange populated their writings. Aquinas was not an exception. Proceeding in the same

[1] "Until recently historical studies of the just price typically began with St Thomas", Rothbard, 2006, p. 51

manner as his mentor (Albert the Great), Aquinas built a confuse theory of the "just price" on aristotelianism (which assumes that A and B are exchanging goods of equal values), but admitting at the same time the profits which result from businesses. Aquinas used "labor plus expenses" formula to justify the profits of the merchants, but he didn't consider it of great importance in determining the economic value, which according to him "is that which comes into human use and is measured by a monetary price, for which purpose money was invented." (Rothbard, 2006, p.53)

In discussing the problem of justness in the formation of prices, Aquinas gave an example which clarified why it is hard to establish the "just price":

A merchant is carrying grain to a famine-stricken area. He knows that soon other merchant are following him with many more supplies of grain. Is the merchant obliged to tell the starving citizenry of the supplies coming soon and thereby suffer a lower price, or is it all right for him to keep silent and reap the rewards of a high price? (...)Since the arrival of the later merchants was a future event and therefore uncertain, Aquinas declared justice did not require him to tell his customers about the impending arrival of his competitors. He could sell his own grain at the prevailing market price for that area, even though it was extremely high. Of course, Aquinas went on amiably, if the merchant wished to tell his customers anyway, that would be especially virtuous, but justice did not require him to do so. There is no starker example of Aquinas's opting for the just price as the current price, determined by demand and supply, rather than the cost of production. (Rothbard, 2006, p.53)

We can deduce from this Aquinas's perspective on the possibility of having a just price on the market. First, selling at a higher price (although the seller has inside information) doesn't have anything to do with the matter of justice. Thus, we can say, as Rothbard puts it, that if you wish to sell a good at a smaller price (than the market price) then you should do that, but if you sell the good at a higher price (than the market price) this act would not be an act of *injustice*. "Thomas Aquinas himself recognizes that the just price cannot be determined with precision, but can vary within a certain range, so that minor deviations do not involve any injustice." (Roover, 1958)

An important contribution to the doctrine of the "just price" is brought by one of the Aquinas's and also Albert the Great's student and disciple, the Dominican Giles of Lessines (d. 1304), who taught at the University of Paris. His insights in the matter of prices stressed the idea of voluntary exchange or the absence of aggression. Lessines describes the "just price" in terms of goods which are "properly worth as much as it can be sold for without coercion and fraud." (Rothbard, 2006, p.53) Thus, any good can be sold at any price as long as this implies no coercion or infringements on the preferences of the parties (Popa, 2002). In this way the parties involved in exchange will benefit from it.

A short deviation from the basic approach of the "just price" doctrine is made by the late thirteenth century scholastics. One of them was John Duns Scotus (1265-1308) who wrote that the "just price" could be understood as the cost of production plus "compensation for the industry, labor and risk involved in bringing his product to market" (Rothbard, 2006, p.59). So, the seller must be compensated for his activities on the market, because these imply *uncertainty*.

Pierre de Jean Olivi (1248-1298), a Provençal Franciscan friar lector at Florence, in one of his treaties on purchases and sales delivered his views concerning the nature of prices. He considered that the economic value was determined by three elements: scarcity (*raritas*), usefulness (*virtuositas*) and desirability (*complacibilitas*). From these, scarcity was directly affecting the supply of a good, thus a good was more valuable the scarcer it was (high price) and less valuable the abundant it was (low price). Usefulness meant the capacity of the good to satisfy human needs, or the objective utility, and desirability was the subjective utility or the utility to the individuals. All these three, according to Olivi, determined the economic value and prices on the market.

Conclusion

The "just price" doctrine, as we could see above had important supporters and also opponents in the pre-scholastic and scholastic period. It is true that none of them succeed in showing or explaining how exactly prices appear on the market and what functions they do perform. But for sure they have been very helpful for the future economists, portraying for them the theoretical and practical aspects of various economic activities of the time. In fact, I can say that the debate around the "just price" initiated by the scholastics foreshadowed the nineteenth and twentieth century controversies between the advocates of the objective theory of value (cost of production or labor theory) and those of subjective theory of value (the marginalist revolution). Each one sought to give a more appropriate definition of the formation of value and prices. The objective theory of value states that *value* is something that exists in the nature of *objects* and can be recognized as *objective*. Accordingly, objects have a somewhat *intrinsic value* attached and this determines their prices. This was a common view of many writers regardless to any period. The important thing is that this view paved the way for economists like Adam Smith, David Ricardo and Karl Marx to mistakenly believe that the prices on the market can be determined either by the production costs or by the number of labor-units involved in the production process, calculated considering the costs of the materials used, omitting the fact that *costs are prices, too* and that we cannot apply this to the non-reproducible goods (Murphy, 2006). It will be the mission of ones like Carl Menger, Leon Walras, William Stanley Jevons and Ludwig von Mises to put in order the meanings of the concepts of value and price and to give a valid and credible interpretation of them. This was called the 'marginalist revolution' which brought the subjective theory of value in the economic science which insists that objects don't have any *objective value* but a *subjective value* which the individuals attach. Thus the value of an object becomes relevant only if humans are interested in that object. The theory holds that prices appear from the subjective valuations of the individuals relative to marginal units of goods (in contrast with the objective theory of value that stressed the idea of 'class of goods'). Therefore prices are built on the marginal utility approach which asserts that the utility of a good will increase along with a decrease in its stock, and the utility of a good will decrease along with an increase in its stock. The subjective theory of value, for explaining the nature and formation of prices, clearly put an end to the 'value paradox' and delivered a significant clue to Ludwig von Mises for an important critique of the socialist system based on the impossibility of calculus in the absence of private property and exchanges (Hülsmann, 2002).

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