THEORY OF THE JUST PRICE

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A Historical and Critical Study of the Problem of Economic Value

by

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CONTENTS

either material goods (accommodation, food, clothing, etc.), or immaterial advantages (education, company, etc.), or both.

In principle, it is the head of the family who decides what is to be given and received by each participant. The decision is taken arbitrarily, unless its freedom is restricted by law (as in the case of maintenance dues, for instance) or by tradition (hospitality usages). Sometimes a contract is concluded with an individual member of the household guaranteeing him, for example, the use of a particular room, or stipulating the exact nature of the food to be supplied to him, in exchange for specified services; but agreements of this kind, which belong to the economy of exchange, will be disregarded for the moment, since only societies organized entirely without exchange are at present under consideration.

There is not necessarily any fixed relation between the total goods and services furnished and received by the members of the community, or any detailed scheme of *quid pro quo*. At meals, for instance, the father and mother may reserve the best morsels for themselves, giving the children only what is strictly necessary; or they may, on the contrary, deliberately go hungry in order to leave them as much as possible. Accommodation may be allotted in a variety of ways. In short, the distribution of every kind of commodity is arbitrary, and may differ from household to household; it is not generally determined, at any rate exclusively, by the precise amount of each individual's contribution to the common pool, but rather by the requirements of the individual member and

the extent to which the head of the family appreciates them and desires to meet them. In the final analysis, the essential question is the status occupied by each: the parents take what they think right, simply because they are the parents; the eldest son, perhaps, receives more attention than his younger brothers and sisters, because he is the eldest; or perhaps it is the youngest child who is given preferential treatment, because he or she is the favourite; and special attention is given to the guest, simply because he or she is the guest.

What has always been the rule in the family community,[1] and is still today so usual that it is everywhere taken for granted—indeed, the reader is perhaps wondering why it is here considered worth while to analyse the relations between the members of the domestic circle—is characteristic also of the wider economic units which existed in primitive societies.

Man's economic life has not always been based upon exchange. Before it came to be organized in this way, as it is at the present day, not only families, but whole villages, tribes, and indeed communities of all sizes satisfied their common requirements in respect of economic goods through the co-operation of all their members. The entire product of this joint labour was generally devoted exclusively to the satisfaction of the members' needs, while exchange with other groups, if it occurred at all, was more or less accidental and of

[1] "In Russia and in Rome, alike, the father of a family, or patriarch, exercises a despotic authority over those who are subject to him. He regulates the order of labour, and apportions its fruit." (Emile de Lavaleye: *Primitive Property*, translated by G. R. L. Marriott, London, 1878, p. 175.)

minor importance.[1] The ancient economic units based on slavery, and the socage-farms operated by the labour of bondsmen, which throughout the Middle Ages gave European economic life a fairly uniform character, were based on principles analogous to those still found in the family today.

In the slave enterprises of antiquity there was sometimes—though by no means always—a very great difference between the standard of living permitted to the slaves and that enjoyed by their masters; at times—as, for instance, during the Roman classical period—this disparity was positively inhuman. Moreover, the conditions offered to the various categories of slaves and others belonging to the *familia*, say, of a wealthy Roman, differed according to the rank occupied by each category, and varied even between individuals according to the degree of respect enjoyed by each. On the mediaeval socage-farms these differences were generally much less marked, at any rate during the first few centuries, and particularly where the farms had developed out of the old district and village communities. Nevertheless, it is precisely in Germany that the custom existed, from the earliest historical times,[2] of dividing up land held by the district and village communities (then still free peasant

[1] "The individual owns what is assigned to him by the district or village co-operative community—house, yard, garden, ploughland, etc. He pastures his beasts, cuts his wood, fishes and hunts by permission of the same authority, and sows and harvests his crops in obedience to its desires and instructions. He is hardly allowed to enter into intimate contact with persons who are not members of the community to which he belongs." (Schmoller: *Umrisse und Untersuchungen zur Verfassungs-, Verwaltungs-, und Wirtschaftsgeschichte*, Leipzig, 1898, p. 4.)

[2] Cf. Tacitus: *Germania*, ch. 26.

communities) *secundum dignationem* (according to social rank). Throughout the entire duration of this process of land distribution, differences of power, prestige, birth, office, and wealth were certainly taken into account.[1] As time went on, both the freemen and the bondsmen gradually fell into an increasing number of sharply demarcated orders—the various ranks of the nobility, the common freemen, and the clergy on the one hand, and the bondsmen and the copyholders on the other. These differences of rank found their most striking expression in the institution of wergild, the expiation demanded for homicide, whose severity was generally graded in accordance with the rank of the person killed; the gradation from order to order was sometimes very steep, whereas within each order a single rate of fine was usually applied to all. The degree of differentiation between the orders varied according to the size of the economic unit; sometimes this unit was very large indeed, vast territories being controlled by secular or spiritual lords who were both their political governors and their owners. The rank of the individual within such a unit determined not only the importance of the share of the total property to which he was entitled, but also, in the main, the nature and amount of the services required of him by the community or the landlord.[2]

An entirely different picture is presented by modern society, organized on the basis of exchange between inde-

[1] Cf. Inama-Sternegg: *Deutsche Wirtschaftsgeschichte*, 1879, vol. 1, p. 112.

[2] Cf. Inama-Sternegg: *idem, passim*; also Ashley: *An Introduction to English Economic History and Theory*, London, 1920, vol. 1, ch. 1.

pendent persons and employing money as its medium. Here, too, of course, at any rate in the countries adhering to the capitalist economy, the family still retains, in the main, the character of an association of consumers. But the *typical* form of economic activity in the capitalist countries of the present day, as opposed to the "family system" of earlier times, is the individual, independent pursuit of a calling, whether in agriculture, industry, commerce, or a liberal profession, within a system of exchange. Here the individual's income is determined not by a scheme of distribution applied by some large economic unit to which he belongs as a subordinate, but by a series of private contracts which he has concluded with other persons. The particular services rendered or goods supplied by the two parties to a contract are always interdependent. The nature and amount of the goods and services provided by one party are determined by the nature and amount of those supplied by the other. The total income of the individual, therefore, corresponds to the goods and services which he offers on the market in exchange for the goods and services of others. Value is dependent no longer upon persons, as in the more primitive communities of earlier times, but upon things—i.e. upon that which persons offer or supply; it has become *impersonal*. The person's ability to earn an income has been split up, so to speak, into his several capacities in respect of the provision of particular goods and services. Every commodity and service which can be offered in exchange by one economic agent to another would thus seem to possess the ability to call forth a counterpart, as it were, and attract it to itself.

This ability or property is the value in exchange (market value) of a service or an article. Throughout the remainder of this book the simple term "value" will be used, but it will denote the ability of a commodity or service to provide, in the form of a price, an income or part of an income to the person who offers it to another.

In all contracts concerning goods and services to be supplied and received, the question of the rank and personal merit of the parties usually remains quite in the background; often—as when a contract is concluded by an agent on behalf of an undisclosed principal, for instance—one party knows nothing whatever about the identity of the other. It is no longer *status*, but *contractus*, that governs the relation between what is offered on either hand.

The foregoing brief description of the primitive or "family" economy and the pure exchange (money) economy is intended to reveal, with exaggerated emphasis, the contrast that exists between the two systems with regard to the distribution of income. But it must be remembered that historically there was no sudden or final transition from the one to the other, and that the earlier system persisted over a wide field—much wider than that of the family—not only after its successor had arrived on the scene but long after it had attained supremacy. This resulted in a multiplicity and confusion of phenomena which must be ascribed some to the one, some to the other phase of development. Most important of all, the idea of the community's responsibility for the distribution of goods among its members lived on into the epoch of the money economy, in which such distri-

bution was coming to be regulated increasingly by private contracts regarding goods and services to be provided and received directly by the contracting parties. The consequence was that these two quite different principles of distribution tended to merge and to influence each other.

The most important instance of such compromise between the family and exchange economies was the idea of the "livelihood" as understood at the time of the gilds.

It was the principle of the fair livelihood that had characterized the family system. The guiding thought in the distribution of goods under that system had been that every peasant family should dispose of sufficient land (in one or several pieces), and land of sufficient fertility, to supply its own needs. This idea, which originated in the peasant mind, later passed over into the sphere of industry and trade, where it persisted, as long as handicrafts and the gild system prevailed, in essentially the same form: a man's craft should provide him with a living. With the coming of the exchange economy, however, the individual's income had begun to be determined by his own professional activity, that is, by the amount and quality of his work and the measure of success that he obtained in marketing his produce; from the legal point of view, a person's income was the result of all the private contracts concluded by him with his several customers. The compromise between the two principles took the form of a control of prices by means of rates, imposed from above and based upon the principle that every member of a gild should obtain, as a result of his

trading activity—i.e. from the total payment received for his products—an income sufficient to meet his needs or guarantee his "livelihood."

But the old influence of status or rank upon the distribution of income survived, by a long time, the coming of the new system. When it became customary to charge money rents for property held in fee, long after the advent of the money economy, these rents usually varied according to the status of the tenant. Generally speaking, it was not until the later phases of the money system that rents came to be calculated according to the character (in particular the yield, or potential yield) of the land. And until quite recent times the law of many countries provided that in distraint proceedings the so-called allowance of the bankrupt—that is, the amount of property that must be left to him as his means of livelihood—might vary very widely according to his position in society. Further evidence of the same kind of survival is offered by many of the privileges formerly granted to the nobility and higher clergy, in various countries, with regard to taxes and tolls of different kinds. Such preferential measures today appear strange in the extreme, and can be understood only in the light of the primitive principle of distribution described in the foregoing pages, with its emphasis on rank as the determinant of price. The degree in which the existence of class differences, even in the sphere of property and income, seemed normal and just in this early epoch, is revealed in the characteristically frank allusions made to them by the scholars, to which attention will be directed at a later stage.

The contrast between the primitive economy and the exchange or money economy is not a purely theoretic one, of importance only to the economic historian; it involves an opposition of interests which is of great practical significance at the present time.

The coming of the money system necessarily led to a conflict between those persons whose income was determined by the early principle, from which exchange was excluded, and those for whom the exchange economy introduced a different regulative principle. As the new system developed, the sense of danger grew among those to whom tradition or the law had hitherto assured an income consisting not of direct remuneration for services or goods furnished, but of payment of a due claimed in virtue of status. Those, on the other hand, who were forced by the new system into a situation in which they must either hire out their labour or sell their products in the open market in order to obtain a livelihood, found their security endangered by the uncertainty attending these operations. The amount of their income became dependent upon accidental movements of the market. Sometimes things would turn out satisfactorily, or even very well; but sometimes business would be poor or very bad, and the worker or employer whose lot was bound up with these fluctuating conditions would have to go hungry. This state of affairs, whose dangers became more and more evident as the evolution of the money economy proceeded, contradicted the traditional belief, still alive in men's minds though the old patriarchal system was dead and gone, that every individual was a member of an all-embracing economic community

which was somehow responsible for seeing that he received a fair livelihood.

This conflict gave rise to the problem of the just price (*justum pretium*), that is, to the question how the prices of goods should be fixed in order to satisfy men's sense of justice. It also led inevitably to the demand that the authorities should do all in their power to enforce such just prices, even in the face of opposition. This question and this demand constitute the essence of all the economic thought of the Middle Ages.

An attempt will be made, in the following pages, briefly to indicate the phases through which the problem of the just price—as a part of the economic problem of value—has passed in the course of history, and the influences which have affected the attitude of economic science towards it.

Index

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