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The Just Price: Three Insights from the Salamanca School

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ABSTRACT. In the sixteenth and seventeenth centuries, members of the Salamanca School engaged in a sustained and sophisticated discussion of the issue of just prices. This article uses their contribution as a point of departure for a consideration of justice in pricing which will be relevant to current-day circumstances. The key theses of members of this school were that fairness of exchanges should be assessed objectively, that the fair price of an article is one equal to its 'value', and that the best indicator of that value is the price that article commonly fetches in an open market. This article tries to bring to light the attractiveness of those views in order to guide current practice by contrasting them with alternative views, showing their connection with intuitively attractive basic standards, and linking them to commonly shared intuitions.

KEY WORDS: fair price, just price, pricing, Salamanca School, marketing ethics

The objective of this article is to elucidate basic principles of justice in pricing by taking as a point of departure the work of the Salamanca School. Even though several writers have remarked on the lack of treatment of normative issues regarding pricing in the business ethics literature (Buckley and Ó Tuama, 2005; Spinello, 1992),[1] some people may feel that there is no need for the task which I am undertaking here, as the principles of pricing ethics would already be well understood. Most contemporary ethicists have no doubt that practices such as price fixing, predatory pricing, or deceptive pricing are wrong. They are also likely to be clear in their own minds on how to link these judgments to more general ethical principles. This being the case, they may be wondering what this article is all about.

However, when we examine the literature we find that price fixing is usually condemned because it defeats the rules of the competitive system rather than because it leads to a price that is itself unfair, and which would still be unfair even if it did not result from anti-competitive behaviour. Similarly, predatory pricing is typically considered to be unethical because it is a way to attain a monopolistic position, not because charging ultra-low prices is considered unethical in itself. And, of course, the ethical problem with deceptive pricing is deception; however deception is unethical whether it is in respect of prices or of any other issue.

In other words, to know that price fixing, predatory pricing, misleading pricing, or many other practices related to pricing which are commonly condemned, are wrong does not entail that we have a clear positive conception about what is a fair price. The basis of many people's condemnation of the great majority of such price-related practices can be found in their involving uncompetitive or deceptive behaviour.

But, as I will try to show in this article, beyond issues of competition and deception, there are still practical pricing challenges that make it imperative that we have a positive conception of just prices in order to address them in a principled way. The problem is that an examination of the contemporary business ethics literature shows clearly that the discussion of that theory is seriously underdeveloped. I offer a review of the relevant literature in the appendix to this article.

The lack of current discussion of issues of pricing ethics could also be due to the assumption that in the immense majority of cases, when it comes to setting prices we are all price takers and have no option but to submit to the dictates of the market. Of course, if it were true that there was no room for choice, there would be no need either for principles – ethical or otherwise – to guide that choice.

However, the experience of many managers contradicts this assumption. They often do have to make decisions about prices; this is so much recognized that there is an extensive literature in the field of marketing which offers them guidance on how to go about such decisions. On reflection, this does not contradict standard economic theory. While it is true that in a perfectly competitive market there is no room for participants to make decisions about prices, it is widely acknowledged that real markets differ in various ways from the perfect competition model. Many real markets have monopolistic or oligopolistic structures and, more interestingly, even in markets in which there are numerous firms, many customers have imperfect information and are prevented by high search costs from putting a remedy to this situation (Diamond, 1971; Glazer, 1984).

Another factor that may have deterred contemporary ethicists from trying to develop a theory of justice (or fairness) in pricing is skepticism that sound principles can be developed in this area. But although several writers have commented on the difficulty of this task (Buckley and Ó Tuama, 2005; Spinello, 1992; Walton, 1969), to the best of my knowledge nobody in recent times has tried to articulate a defense of its *impossibility*. This being the case, it seems to me that the best way to counter a diffuse feeling of skepticism that a certain task is possible is to attempt the task; at the very least this will provide skeptics with a concrete target for their criticism.

It may also be as well to make it clear at the outset that this article is written at the level of very general principles and does not pretend to provide immediate answers on the ethics of many controversial pricing practices such as price skimming, differential pricing, BOGOF (buy one get one free), and loss leaders, to name only a few. In my view, without elucidating sound basic principles like the ones examined in this article it is simply impossible to discuss rigorously the pricing practices mentioned above. On the other hand, once the necessary work on the more general principles has been done, it is relatively easy to assess ethically concrete pricing practices. The objective of this article is to discuss some fundamental principles of justice in pricing and I leave for another occasion a detailed discussion of more specific problems.

This article is written thinking primarily of managers who have to make pricing decisions. Accordingly, I adopt most of the time the point of view of the seller. However, it will become apparent that the principles I propose apply both to sellers and buyers and in some of my arguments I adopt the point of view of the person purchasing a product or service.

Principles of justice in pricing in the Salamanca School

An attempt to investigate principles of fairness in pricing does not need to start from zero. Greek philosophers, Roman jurists, and Church Fathers already treated this issue, and it was also a staple topic for discussion among Scholastic philosophers and theologians.

For the purpose of obtaining help and inspiration for a contemporary study of this issue, I believe that the best source among the writers to which I have made reference is provided by the leading members of the Salamanca School. This term is usually employed to make reference to a large group of theologians who worked during the sixteenth and seventeenth centuries in different places in Spain and Portugal, not only in the University of Salamanca. One of their most significant areas of the activity was the realm of economic ethics. They produced a large number of works devoted to discussing in great detail issues like the just price, the morality of charging interest, ethical issues in relation to different financing arrangements, and many other such matters.[2] I know of no other group of authors in the history of ethical thought who have devoted so much attention to this issue. It would be surprising if the efforts of several dozen writers who worked over one and a half centuries on the task of developing and refining a body of common principles on (among other issues) the ethics of pricing had failed to produce any ideas worth attending to.

In my view the leading authors of the Salamanca School can contribute three key ideas to a modern discussion of justice in pricing. They used a substantive standard for assessing the justice of exchanges; they claimed that the fundamental standard of commutative justice is equivalence in value; and, finally, they argued that the best indicator of the value of a good is the price that it fetches in an open market.

Price fairness as a substantive standard

Many people will say that a price is unjust if it seems too high *and* the buyer agreed to pay it moved by a threat, as a consequence of being deceived by the other party, or because of a lack of options caused by the fact that the other party was in a monopolistic position. In other words, such people believe that for a price to be unfair there has to be some defect in the circumstances affecting the *agreement* of the parties which vitiates the voluntariness of that agreement.

An interesting feature of the teachings on price fairness of the members of the Salamanca School is that, in their view, injustice or unfairness is predicated primarily of the price paid for a good, not of the assent given to that price by the buyer or of the process which led to that assent. Of course, they would not have denied that most often a party will agree to pay an unjust price precisely because there is something defective in the process which leads to his agreement. But the important point is that, according to their principles, the injustice of the price can be established without needing to investigate the events that led to the agreement.

The following statement of Domingo de Soto, one of the most influential members of the School, illustrates this point:

> I will not grant easily what some state, namely that it is lawful for a business person, because of his trade, to sell more dearly than other people, in the same place and at the same time, because the justice of the price does not depend in any way on the person, but is assessed 'per se', absolutely. (Domingo de Soto, 1968, p. 545)

A comparison may help to appreciate the practical implications of using a *substantive* standard of fairness. Kaufmann et al. (1991) define a fair price as "one that is just and both honestly and impartially determined and conveyed" (p. 131). The members of the Salamanca School would disagree. In their view how the price is determined is not essential. As Domingo de Soto states, the price has to be assessed '*per se*', *absolutely*.

The feature of prices which in the view of the authors of the Salamanca School is determinant of their justice is their 'equality.' I introduce that concept in the next section.

Justice as equality

Aristotle first stated that 'equality' or equivalence is the main requirement that has to be met for an exchange to be fair (Aristotle, 1976, p. 181). He introduces this concept in some cryptic passages and there is continuing discussion even today on what he actually meant in them. However, my main interest here is not what exactly the true thought of Aristotle was, but what Scholastic writers made of it.

Scholastic authors accepted the basic idea that commutative justice, that is to say, justice in dealings among private parties, is based on there being (or on restoring) equality between what is given and received in a transaction. Of course, many of those authors realized that in practice a rough equality is the best that can be required. Thus, for instance, Aquinas is careful to state, 'the just price of things is not fixed with mathematical precision, but depends on a kind of estimate, so that a slight addition or subtraction would not seem to destroy the equality of justice' (Aquinas, 1981, p. 1508). Subject to this proviso, Aquinas articulates what was going to be a strongly dominant position up to the time of the Salamanca School when he stated:

> Therefore, if either the price exceed the quantity of the thing's worth, or, conversely, the thing exceed the price, there is no longer the equality of justice: and consequently, to sell a thing for more than its worth, or to buy it for less than its worth, is in itself unjust and unlawful (Aquinas, 1981, p. 1507).

The members of the Salamanca School agreed unanimously on this point. Thus, for instance, Tomás de Mercado says, 'dealing in a just manner is to ensure equality and equity in contracts' (1975, p. 112) and Bartolomé de Albornoz concurs, 'if the price is equal to the [worth of the] thing sold, neither higher nor lower, it will be its just price' (1573, p. 63).

Exchange value understood as the price obtainable in an open market

The issue that most divided Scholastic writers was how to determine the 'worth' (or 'true value') of a product or service. While some, like John Duns Scotus, believed that for exchange purposes the

value of a product should be determined on the basis of the costs that have to be incurred in producing it and making it available to the consumer, others believed that the economic value of a good is best indicated by 'the common estimation of men,' that is to say, the price it fetches in an open market (Roover, 1958).

With very few exceptions, the writers of the Salamanca School came down on the side of the market as the best indicator of the value of a product, and therefore of its just price. Francisco de Vitoria, a great jurist and the founder of the School, set the tone for other writers in his discussion of the just price. He was as clear as one could desire in his choice of the market theory of value and in his explicit rejection of the cost theory:

> Wheat, for instance, is usually sold for four *reales* and not just by one seller, but by many. In order to buy or sell it in accordance with justice one has only to consider the price at which it is commonly sold, and not the expenses, the effort and so on. The same is to be said of a merchant who sells fabric, if the value of a yard of fabric is usually one ducat, one does not have to take into consideration anything else, but this price only (Francisco de Vitoria, 1934, p. 120).

There is an important consequence of this position of Vitoria, which he himself brings up clearly and in which other members of the Salamanca School later follow him. If the standard of justice for a price is the amount obtainable in an open market, it not only follows that it is right to charge the price obtainable in an open market even when one's own costs are much lower, but also that it is unjust to charge a higher price if one's costs happen to have been significantly higher. Among many authors which argued in that way, it will be enough to show here, as an example, what Domingo de Soto has to say on this issue:

> In fact, if a merchant ignorantly buys some article at more than the proper price, or if he suffers ill fortune (for instance, if the goods he has bought unexpectedly become abundant), he cannot justly extort the costs which he had incurred. (Domingo de Soto, 1968, pp. 547–548)

As the concept of an open market will play an important role in the rest of this article, I will discuss it briefly at this point.

'Open market', as I use the term, does not mean a perfectly competitive market. The members of the Salamanca School had never heard of a perfectly competitive market; in fact, nobody did for two hundred years after them. They are clear that a market price which results from hoarding, collusion or any other effort to restrict artificially the goods offered in the market, does not provide a standard of fairness; but at the same time many of the examples they offer as instances of just prices refer to situations in which there are few vendors or even only one.

I should also make it clear that the authors of the Salamanca School do not use themselves the term 'open market.' I use it, however, because it is the best way I have found to convey synthetically their ideas. They themselves usually refer to the 'common estimation' of people and the examples and arguments they put forward make it plain that they do not think of this as a 'common opinion', far less as the result of a formal poll. What they have in mind is the price at which a certain article is commonly sold, provided that there has been no collusion or artificial restriction of supply.

I will make some additional comments on the concept of an open market later in this article, but for now the main idea to retain is that, for our present purposes, the essential characteristic of an open market is that it is one in which it is possible for additional buyers and sellers to join even if at a given point in time there are only a few buyers or sellers, or even only one.

Towards a better understanding of the common price in an open market as a standard of justice

Up to this point, I have presented the bare outlines of the position of the members of the Salamanca School in relation to the issue of fairness in pricing. For the rest of this article, I will be putting forward my own arguments in order to try to bring to light what I perceive as the strong points of the basic ideas of the Salamanca School. When I do not indicate explicitly otherwise, the reader should not assume that any of these arguments comes from a member of that school. I do not contend that the basic theses of the Salamanca School are correct in

all particulars, that the way they were argued and defended would meet contemporary standards of scholarship, or that the differences between the circumstances of that time and our current economic conditions and relationships can be safely disregarded. My point is simply that these theses can provide a useful point of departure for contemporary reflection on the main principles of the ethics of pricing.

In this section, I will try to explain the reasons why I find the conception of fairness in pricing outlined in the preceding section ethically attractive. In my experience, this attractiveness is more easily perceived when that standard is compared to other principles which have been proposed by academic commentators or which guide implicitly or explicitly the decisions of actors in the marketplace. However, I will leave that task of comparison for the next section of this article. For now, I will simply advance some points which may make the position of the Salamanca School more plausible.

Objective standards

As I suggested above, some people have no objection to considering a price unfair, provided that it can be shown that the agreement to pay it was not truly voluntary. But there is widespread reluctance to concede that a price truly agreed to by the buyer can be unjust. However, the latter is precisely the position of the members of the Salamanca School.

I think that a strong factor behind that generalized attitude is the specter of paternalism; a fear, which I fully share, to open the door to officious judges who would have the task of deciding whether there are reasons to interfere with my agreements. Let us note, however, that the primary issue at stake here is to find principles to guide us in deciding whether a certain price is fair or unfair, not the separate question – for which very different considerations are relevant – whether other parties should have a power of supervision over the agreements freely entered into by competent adults.

So, is the fairness or unfairness of a price purely a matter of whether there was genuine agreement? I do not think so. Consider the following scenario:

> A has been lost in the desert for two days and has exhausted his reserves of food and water. By chance B finds him and offers to give him a ride to the nearest village, which is 30 km away, for $200,000. Not having any other alternative, and unable to reach that village on his own, A accepts B's offer.

Was there anything unethical in B's behaviour? Is A now under a moral duty to pay B the $200,000 he promised in exchange for the ride? Many people's intuitions would lead them to answer positively the first question and negatively the second. When asked to justify such intuitions some might say that A's consent was vitiated by lack of freedom. As he was forced to agree to B's proposal, now he is not bound to perform his side of the bargain.

However, this explanation is not satisfactory. To understand why, consider now the following example:

> C is diagnosed with a deadly disease. The only treatment likely to be effective involves repeated use of very expensive equipment and requires many hours of work of highly specialized doctors and technicians. The cost of this treatment is $150,000. C agrees to undergo the treatment and is cured.

Was C's decision any more free than A's? However, very few people would wish to argue that the hospital which treated C did something immoral or that C does not have now an ethical duty to pay the hospital bills.

My point is that having recourse to the concept of lack of 'true' freedom of consent to diagnose the ethical shortcomings of the agreement between A and B is an artificial device resorted to by people who feel uncomfortable with the notion of substantive unfairness of an agreement.

More generally, having a concept of substantive unfairness of prices is useful in situations in which one party pays too much because he lacks important information (without having been deceived by the other party), is under pressure to agree (but not a victim of duress), or simply has acted without enough consideration. In all such cases it would be possible to justify our moral intuitions of the overall unfairness of the situation by manipulating our concepts of deception, duress, or consent so as to get them to fit the needs of the case. I think that the job can be done less artificially and more effectively

using the objectively grounded concept of fair price of the Salamanca School.

Prices obtainable in an open market

The moralists of the Salamanca School used the prices obtainable in an open market as an indicator of value. What can be said in defense of this choice?

Prices obtainable in an open market are a value standard, as opposed to a cost standard. A strong reason for not using a cost standard for defining a just price is that not all activities which add costs add also value. If there are good reasons (which I will examine later) to accept Aristotle's suggestion that justice requires equivalence between what one party to an exchange receives and what he gives, the buyer should not have to pay the seller for those costs he incurred which have not added value to the product.

Still, prices obtainable in an open market is not the only possible value standard. Why use it rather than, say, the personal utility of each individual buyer? I think the main reason is that market price is the best indicator of value *in a given society* while personal utility is strongly subjective; different people derive very different utilities from the same product, depending on their individual circumstances.

Market prices reflect (i) the value that many different people place on a product (which more nearly will reflect its inherent usefulness for satisfying human needs in a given social context); (ii) the abundance or scarcity of that product and the cost of producing it efficiently (these two factors determine its 'opportunity cost', that is to say, the value in that society of the things that have to be given up in order to enjoy that product); and (iii) the expectations of all active participants in the market about circumstances which may affect the previous factors in the future. Precisely because a market price reflects sensitively all of these factors, there is no better index of the value of that product at a given time and place.

Also, when challenged to justify why I am charging a certain price for a product, if I am charging the price obtainable in an open market I can always reply that if my buyer were to resell it immediately after buying it, he could get back the same amount I am charging him. And if there are several sellers of the same product, if he were to buy from any of them instead of from me, he would have to pay the same amount I am demanding of him.

By contrast, the utility of a given buyer depends strongly on the personal circumstances of that buyer. Normally, I get a very small utility from a bottle of soft drink, but the day *I* (and perhaps only *I*) happen to be very thirsty that utility can be very great indeed. The person who sells a soft drink to me that day cannot claim that what he is giving to me is more valuable than what he gives to the next buyer (who is not especially thirsty). He gives something equally valuable to the two of us, but it has much greater utility for me than for the other buyer. The seller cannot argue either that by selling it to me at the price he charges to the generality of his customers, he will be prevented from selling it to another person at a higher price (others who are not in a situation of special need would be ready to pay only the usual price).

Equivalence in value

The above paragraphs try to explain the advantages of prices obtainable in an open market as a standard of value. But is there a good reason to demand that prices should be set according to a principle of *equivalence* in value?

Not surprisingly for a principle that traces its lineage to Aristotle, this requirement embodies an attractive 'just middle'. On the one hand, it avoids the purely selfish idea of being ready to take advantage of the ignorance, special need, or carelessness of the other party to extract from him as much money as possible. On the other hand, however, it does not demand that sellers forget completely about advancing their own interests and those of people who are especially near and dear to them, in an all-out effort to give the best possible deal to their customers. The principle of equality only asks for mutuality; this can be put negatively as requiring that one party does not gain precisely by the loss of the other; it can also be formulated positively as requiring that the transaction makes the two parties better off. Therefore, there is nothing in this principle that precludes one party from making very high profits; all it requires is that he makes those profits by creating very high value for his customers

while keeping his costs as low as possible. If he succeeds in doing this, it will be possible, in strict conformity with this principle, for him to contribute a lot of value to others and to do very well for himself and for those to whom he bears special responsibilities.

Why not aim higher and, say, set a standard of fairness which demands that one sell one's products at the cheapest possible price (for instance, cost plus a small profit) in order to contribute as much value as possible to the other party to the transaction? This may sound good and generous at first sight, but on examination it turns out not to be such a good idea. It seems to be based on the premise that 'beneficence' (giving away to others as much as possible) is the ideal principle of behaviour. However, beneficence is not the only, and in the great majority of occasions not even the best, way of showing concern for the wellbeing of others. Generally speaking, *co-operation for mutual advantage* will be a more appropriate principle of interaction between competent, self-sufficient people, who are the typical actors in modern, developed, market-oriented economies. Pricing according to the value of what one sells embodies precisely this principle of co-operation for mutual advantage.

A second reason against a blanket requirement of beneficence as a general principle of justice in pricing is that it leaves no room for recognizing a reasonable order of priorities in our responsibilities. People who sell at the lowest possible price will be doing very well for many strangers, but very likely will fail to make enough money to take care of some of the special needs of people (such as their employees, their investors, their relatives, and the members of their communities) towards whom they bear a greater and more immediate responsibility.

After having explained to some degree the reasons behind the ideas of equivalence in exchange and measuring value according to the price set by an open market, I can now try and convey what to my mind is the main reason behind the Salamanca School's conception of just prices. Try to visualize an imaginary isolated and relatively small community in which there was a trader who was called 'The King of Traders.'

> The King of Traders was the sharpest negotiator who had ever lived in that community. Throughout his long trading career he had managed to sell consistently above the current market price – in every single transaction in which he participated!
>
> The day he retired everybody rejoiced and celebrated; at long last a significant drain on the community resources had come to a stop.

Of course everybody celebrated! The net effect of the professional activities of this great trader on his community was that what he had contributed to it (what he had sold) had significantly less value than what he had obtained from it (the prices he had been paid), and this measured precisely *in terms of the prices which that very community put on what he contributed to it and what he took away from it*. He had been a parasite.

This example tries to make clear the point by projecting it over a lifetime of transactions. However, the number of transactions is not decisive. If it is wrong to be a net parasite in one's community over a lifetime, it is also wrong (although, of course, less so) to be a parasite in a single transaction. This is what the standard of the Salamanca School captures.

Fair prices in context

Before proceeding to compare the principle defended by the Salamanca School with other principles, I would like to make another general point. Issues of pricing intersect in many ways with more general issues relating to the property system of a given society. Thus, for instance, when I argue for a certain way to price an item, it is always possible to offer rejoinders such as 'But how right is it for A to be the 'owner' of that item to begin with?' or 'Had it not been for the help that A received in innumerable ways from the people in her community, she would not have been able to produce that item. Should she not now share with that community the value she created?' Of course, such arguments could be multiplied indefinitely. The only reply that can be offered within the limits of this article is that in most modern market societies there are systems of property law and of taxation that, in my estimation, address the concerns indicated by such questions in ways which are by and large reasonable, although they are not the only reasonable ways in which such issues could be solved, and certainly are not perfect.

My point here is that I am arguing in this article for the appropriateness of a certain standard of justice for prices *in the context of a given economic and property system*, which in its main lines I regard as reasonable. If somebody does not share my assessment of the wider system, he should not try to argue with me about standards of pricing, but about much more fundamental issues.

Alternative principles

Perhaps, the best way to appreciate the strengths of the principle we are studying is to compare it with others. This is what I will do in this section.

No principles (by default)

This is not a standard which is often defended explicitly, but is the position that one is forced to assume the authors of many business ethics books hold by the fact that they make no effort to articulate different principles. Of course, most of these authors make it clear that they reject anti-competitive behaviour, compulsion and deception, but beyond this, it is difficult to find in their books any principled grounds to restrain a seller from charging as much as he can get away with.

As this position is equivalent, even if only by default, to the one I am about to discuss under the heading 'Free Agreement,' I will make no comments on it at this point. Whatever I say below applies also here.

Free agreement

A popular alternative to the principle I am proposing – indeed one that, outside of extraordinary emergencies, many people seem to take for granted nowadays – is the belief that in so far as two parties agree on a price and their consent is genuine, that is all that can be demanded of that price from the point of view of ethics. Michel provides a good example of this position. He defines a just price as 'one that is agreed upon in the course of a voluntary transaction.' He is helpfully explicit as to what he means by *voluntary*:

> *Voluntary* must not be understood to imply chimerical price-setting mechanisms … A transaction is voluntary when one of the parties does not use or threaten physical violence towards the other (1999, p. 193).

To be fair to Michel, at other points in his article he also excludes transactions driven by force or in which one party either intentionally or unintentionally deceives the other. But provided that there is an agreement between two parties that is not prompted by force (or threat of force) or deception, Michel considers the exchange morally unobjectionable.

Perhaps, the best way to bring out the problems with this principle is to think of situations which comply with the conditions laid out by Michel but which, however, many of us are likely to consider morally wrong. Consider the following scenarios:

> A has a crucial job interview. On his way to it he has a small accident and his jacket is torn. B, who is working in his shirtsleeves in an office adjacent to that in which the interview is to take place, offers to lend him his own jacket for one hour in exchange for $1,000.
>
> An illiterate and inexperienced villager has just arrived in a big city in a developing country. He has sold his farm and other property at home and carries a good amount in cash. Somebody meets him and convinces him that he needs badly a bicycle in order to move freely in the big city. As the villager is not acquainted with the prices of bicycles, his new 'friend' succeeds in getting him to agree to pay a price at which the villager could have bought a motorcycle.

In which sense is the conduct of the sellers in the above scenarios less than ideal ethically? In both of them the seller takes advantage of some vulnerability or weakness in the buyer (his special need in the first scenario and his ignorance in the second) in order to get from him as much money as possible. The attitude of the sellers is one of exclusive concern with their own interests and, in order to advance them, of readiness to take advantage of the weaknesses of others. That attitude is the core of what most people mean by being unethical. Once that basic attitude is there, there are no reasons – except purely prudential ones such as fear of jail or concern with one's reputation – to refrain from even more obviously anti-social behaviours like defrauding or stealing. Because, as the above examples show, a price can

result from free agreement while still taking advantage of the weakness of the other party in ways which are harmful to him, free agreement is by itself not sufficient as a standard of justice in pricing.[3]

Cost plus a reasonable profit

There have always been people for whom a fair price is one that allows the producer to cover his costs and obtain a 'reasonable profit.' An example of this position is provided by Hanly in an article in which he articulates a thoughtful defense of rent control. His arguments aim at showing that it is unfair for landlords to make windfall profits from the rents paid by tenants and he describes such windfall profits as

> [L]andlords receiving an increase in rents which is: (i) not attributable to any increase in landlord costs; (ii) in which even with a lesser rent the landlord would be receiving a 'decent' or 'fair' return on investment.
>
> …
>
> The Windfall Profits argument claims only that it is unfair that landlords should benefit from a situation where they are able to make a rate of return much in excess of a 'fair' return and where this excess is in effect paid for by renters (1991, pp. 191–192).

I think that very strong arguments can be put forward against this position. Such arguments are clearest when considered against the background of some scenarios.

> Your company has just developed a product that increases a car's petrol mileage, saving $300 in petrol per can of the product. Your company has a secure patent on this product which will remain valid for 15 years. The Marketing Director has recommended a retail price of $200 per can, as she feels certain that significant volumes of the product can be sold at that price. Your company can produce and distribute a can of this new product for $10.

In the context of my more general argument, if significant volumes of the product can be sold at $200 per can, then that will be a viable 'price in an open market' of that product. I am using here an example in which there is only one vendor because in practice it is differentiated products which can be sold at a price significantly above their cost.

This scenario is useful for our purposes here because it simplifies drastically the issue of value for the buyer. When the value of a product lies in its enabling users to reduce their costs, as is the case in this example, then the value the product provides to the buyers is exactly the money it saves them, in this case $300 per can. In this scenario, we are told that the cost of manufacturing the product is only $10 per can, and in order to keep matters as simple as possible, let us assume that that figure includes all costs.

One way of framing the issue as clearly as possible is to try to think of the most ethical person we can imagine, somebody full of love and active interest for others; somebody, for instance, like St. Francis of Assisi. Well, would it be reasonable for St. Francis to sell the product at a price of, say, $12 per can ($10 cost plus a 'moderate markup' of 20%)?

We can think more clearly of that question by considering a second scenario:

> Walking along the beach during a holiday you discover a valuable sixth century gold coin. Legally, it is yours, and you decide to sell it. Its value among knowledgeable collectors is $1 million. Mr. Bill Gates, of Microsoft fame, is one such collector.

(It should go without saying that the example is purely imaginary. I have no idea whether Bill Gates collects coins, but I rather suspect that he does not).

In this scenario, the 'cost' of finding the coin is essentially nil. But would it make sense for St. Francis to 'sell' this rare coin to Bill Gates for, say, $20? The fact that St. Francis is full of charity for his fellow human beings does not mean that he cannot see some obvious economic truths and one such truth would be that if he were to sell the coin for that price, he would be, in effect, making a gift of $999,980 to Bill Gates. Granted that, because of his great charity, St. Francis will not be interested in keeping that money for himself. Still, does it not make much better sense for him to sell the coin for its generally accepted price to Mr. Gates (who certainly does not need a gift of this type and will still be quite happy to buy it at that price) and then donate the money to people who really need his help?

If you agree with this conclusion, similar considerations would apply to the earlier scenario. If the

price of a can of that wonderful product were to be set at $12, the seller would in effect make a $288-per-can gift to each buyer of the product. Now, assuming that one wanted to give money away, are car drivers as a group the people most needy, the most deserving, those to whom the business person in the example has the greatest responsibilities?

Speaking more generally, if somebody manages to come up with a cheap way to make a very valuable product, why should he be *necessarily* under a duty to sell his product to everybody at a very low price (commensurate with his costs)? Should he do so even if his customers are very rich themselves? Even if many of his dependents and relations are in great need? If that type of product is sold for a price close to its cost there will be a large element of gift implicit in the transaction. But what reason can there be for it to be morally imperative that most of the value generated by an innovation end up with the customers (who perhaps do not need any gifts and would be quite ready to pay a price that reflects the product's value, and who in any case are bound to benefit from what economists call 'consumer surplus') while the innovator only captures enough value to secure for himself a 'moderate profit' (and remains unable to come to the help of people towards whom he has more pressing obligations)?

In my view, when significant economic value is created, the creator – whether a single person or a group of people – has a much better title to it than the buyers of his goods. For as long as the price the buyers are requested to pay is lower than the value they are given, I cannot see that they have any cause to complain.

To prevent misunderstandings, I would like to stress that I am not advocating that it is right for anybody, even for a successful entrepreneur who comes up with a way of creating very high value at relatively low cost, to spend all his money on little whims and extravagances. I am fully aware that we live in a world in which many people are stunted in their fulfilment because they lack a minimum of economic resources. But it seems to me that the logical course of action of people who are attentive to their responsibilities will be to get paid in proportion to the value they provide to their customers and then use the resources they will accumulate to attend to their own needs and those of their families, and also to help other needy people according to their needs and to their special responsibilities towards them. In most cases, the buyers of their products, who often enough will be people who are quite well-off by any standards, or at least relative to the situation of other people, will not be the neediest people or those closest to them. Of course, in some cases the customers may be 'the neediest,' or at least very much in need. In such cases, which I discuss later in this article, additional considerations are relevant.

It is possible to approach this same issue from a different, but complementary, point of view. Arguing that a fair price should not provide more than a 'reasonable' margin of profit, is equivalent to placing a 'moral cap' on the profits of business people. Whether this cap is set on a product-by-product basis, or on the overall profitability of their businesses, very significant problems will arise. As Maitland (2002) has pointed out, for this to be fair, losses would also have to be capped. As in the context of our current economic system there is no workable way of doing this, the predictable result will be that conscientious business people will have to shun more risky areas of activity, no matter how socially attractive they might be. Risky business projects, in which profits are capped but losses are not, inevitably will have uneconomic expected rates of return. Areas of activity which thus would come to be closed to conscientious business people would include, among others, development of new life-saving drugs, lending to higher risk borrowers, and marketing in economically depressed areas. This line of argument illustrates the general point I made above: pricing for value is fairer than a cost-plus formula *in the context of the property and economic systems which are in place in present-day market economies*.

Utility to the buyer

Still another alternative that readily comes to mind when trying to decide the price at which to sell a certain good is to make the price depend on the utility the buyer will derive from consumption of that good. I have been unable to find an articulated defense of this position from the ethical point of view, but when discussing cases with my students, some of them are sure to defend such position.

Once again, a scenario may be useful here.

> While spending your holidays in an isolated small village, a night your son wakes up with a strong pain in the abdomen. It is acute appendicitis. The only doctor in the village refuses to operate if you do not pay him an amount ten times his usual fee for that type of operation.

The utility to a parent of saving his son's life is higher than the price he is asked to pay for the operation, and this is precisely what makes his eventual decision to agree to that price rational. But, of course, as I already pointed out above, this very high utility depends on the special need of somebody who finds himself in a special situation; it is not something that was provided by the doctor.

Considering this type of case, Domingo de Soto concluded four and a half centuries ago: 'One can only sell what belongs to him' (1968, p. 550). In other words, the doctor in the above scenario cannot claim to be operating according to the dictates of the principle of equivalence: he is not trying to get a value equivalent to what he gives. He happens to find himself in a strategically favourable position and he is taking advantage of it to get as much as he can from a very worried parent.

Objections

I trust that having compared the principle of pricing according to the price obtainable in an open market with alternative pricing principles may have helped the reader to get a more nuanced understanding of it. I will proceed now to examine some objections that can be presented to this principle and try to respond to them briefly.

Can the price obtainable in an open market be fair when special market situations allow lucky people to make extraordinary profits?

Many people will complain about the extra profit of the merchant who bought a product at $1,000 and now, because of an unexpected external event which he has done nothing to bring about, finds that he can sell it at $5,000. On examination, it is not clear, however, that the complaint is justified. If the merchant had bought at $1,000 and the price had dropped afterwards to $200, would anybody have agreed to pay him $1,000 for his product? What this rhetorical question shows is that the merchant has actually done something to earn his windfall: *he has accepted to bear a risk*. Precisely because he accepted to bear the risk of any events that could have depreciated the value of his stock, it was not unfair for the merchant to benefit by the windfall. Speaking more generally, *in accordance with the rules of our current property system*, property items decrease in value to the detriment of the owner and increase in value for the benefit of the owner, and this principle operates also when the increase or decrease results from chance events; thus for instance, finders are allowed to keep what they find (assuming that nobody with a better title can be found). It seems special pleading to accept the general principle and the majority of its applications (which seem to work well enough for society as a whole) and then scruple only at its consequences for pricing when it benefits business people.

In any case, it is appropriate to remember here that on most occasions extraordinary profits do not result from extraordinary external events, but from the fact that the seller has found a way to create great value at relatively low cost. Is it not fair that now the seller benefits from the value he has created? Who should be better entitled than him to that value?

Pricing in accordance with value in an open market takes no account of issues of distributive justice

Up to this point in my argument I have moved exclusively within the ambit of what Aristotle (1976) called corrective justice and Aquinas (1981) commutative justice; that is to say, I have assumed all along that in determining what are fair terms of exchange we only need to take into account principles of fair relationships among parties which essentially are on an equal footing.

The main thrust of my argument has been that it is unreasonable to demand that a firm sells its products for less than what they can fetch in an open market. However, all along a silent assumption in the argument has been that the buyers are not especially needy people. In fact, I referred above to

'interaction[s] between competent, self-sufficient people, who are the typical actors in modern, developed, market-oriented economies.' But what happens when the buyers are poor and need badly what the seller has to sell? Would conscientious business people not have a special obligation to sell to them at a price they can afford, especially when their costs allow them to do so without incurring losses? In order to take account of such issues, some writers have brought to bear considerations of distributive justice on the topic of fair prices.

Thus, for instance, in an article in which he discusses the ethical obligations of pharmaceutical companies to charge fair prices for 'essential medicines,' Spinello (1992) concludes that concern for distributive justice should be a critical factor in the equation of variables used to set prices for pharmaceuticals.

I cannot discuss in detail here Spinello's arguments. For my present purposes, it should be enough to remark that even if it is accepted, as I have no problem in doing, that there are certain ethical criteria which are relevant to the overall distribution of goods among members of a society, it is a very different matter to argue that, outside of situations of urgent need, the burden to provide to the disadvantaged what they need should fall on specific individuals rather than being shared among all the members of that society. Thus, to refer to the same example that Spinello used, even if one accepts for the purposes of argument that AIDS patients were entitled to receive AZT treatment at prices which they could afford, it is far from clear, and Spinello did nothing to justify this conclusion, that *the whole burden* of making this treatment available should have fallen on Burroughs Wellcome rather than being spread among all citizens through individual charitable contributions and the social security and tax systems.

The point I have just made was already advanced, almost 500 years ago, by Luis de Molina, a member of the Salamanca School. He argued that if, for reasons of equity, there is need to help some people, justice requires that 'all tax themselves in proportion to their capacity and condition, and contribute in the measure demanded by equity.' (1615, p. 198)

The same point is made well in a contemporary context by Maitland who, like Spinello, also uses the example of Burroughs Wellcome and AZT:

> Just because Burroughs Wellcome discovered AZT … does not mean that the company has a special responsibility to make the drug affordable, even at the expense of its own profits. Burroughs Wellcome is no less entitled to its profits on AZT (if they were earned fairly and playing by the rules) than the Ford Motor Company is to its profits on its line of pick-ups (or a tenured professor of business ethics is entitled to his salary). It is morally irrelevant that the company developed and produces AZT. If people with AIDS are entitled to an affordable price, then that is an obligation all of us share equally, and one best met by taxing us all according to some fair formula. The auto manufacturer, no less than the drug maker, shares that responsibility. To demand that Burroughs Wellcome shoulder a burden that rightly belongs to all of us is compassion on the cheap. It makes moral free-riders of all the rest of us (2002, p. 460).

A similar argument is presented by Zwolinski (2008, p. 350), and Block (2002) in relation to proposals for rent control.

Unlike Maitland, I accept that being the producer of AZT places a special responsibility on Burroughs Wellcome to help AIDS victims who cannot afford the drug. But, as I explain below, I think that this fact only affects the direction of the philanthropic efforts of the company (to help AIDS sufferers in preference to, say, subsidizing symphonic orchestras), not their intensity. In other words, I do not think drugs manufacturers have an obligation to spend on philanthropy more than the rest of us.

A more moderate proposal than that of Spinello has been advanced by Sirgy (1996). In an article in which he advocates the Quality of Life (QOL) concept as an overarching marketing philosophy, he explains that QOL-marketing objectives should be formulated along four key dimensions. The first of them is 'Enhancement of a dimension of consumer's well-being by offering consumers an *affordable* product that facilitates a healthful focal behavior.' Later in the same article he stresses that 'it is imperative for the QOL organization that its offering is indeed affordable to consumers.' I say that Sirgy's proposal is 'moderate' both because he refrains from prescribing that a QOL organization should make its products available at affordable prices to *all* those who could benefit from them, and because he explicitly states that in making pricing decisions

QOL organizations should balance consumer affordability desiderata with long-term profitability objectives.

It is not difficult to agree with Sirgy that firms have *some* responsibility to try to make their products affordable to their target customers, at least in relation to certain products and certain customers. The more contentious issue is likely to be what the force of that responsibility is. Sirgy himself leaves that issue open; he just asks that firms make some effort in that direction. This is a very complex question, but for the purposes of this article, I think that it should be sufficient to remark that analytically it falls within the sphere of corporate social responsibility and it is better approached in the context of the question of how far it is proper for a business organization to assume additional costs, and therefore reduce its profits, in order to contribute to solving some general social problem that the firm itself has not contributed to create with its own activities. The fact that in this case the cost is incurred in the form of the foregone profits which result from deviating from a pricing policy that seeks full payment for the value created for the customer seems to me to be merely incidental to the substance of the issue.

For the reasons I have advanced earlier in this subsection, I believe that the measure of this responsibility should be that firms should not be required (legally or morally) to sacrifice profits to a greater extent than the generality of firms are required (legally or morally) to sacrifice their own profits by contributing to other social causes.

How can this standard be applied in situations of monopoly or oligopoly?

This objection would seem to assume that I (and the members of the Salamanca School) advocate that a fair price is a price set in a perfectly competitive market. However, this is not the case. In this article we have been speaking of open markets, not perfectly competitive markets.

The kernel of the standard I have discussed in this article is that equivalence in value is the main requirement of ethical exchanges. The idea of price in an open market is used only as an indicator of that value and as a protection to the buyer in situations of ignorance or special need. Therefore, the core of the standard is still operative even in situations in which there is only one or a few sellers, provided that the buyer or buyers are not handicapped by ignorance or by a compelling need which forces them to buy the product irrespective of its price. If the buyers are well informed and not compelled by need, and they think that they are getting value for money in a transaction, there are very good reasons to expect that is actually the case. As a matter of fact, many members of the Salamanca School contemplated explicitly such cases and in substance this is the solution they advocated for them. They spoke of the 'conventional price' and referred it especially to unique and luxury goods.

How can market-determined prices which do not allow producers lead a decent life be fair?

Some people may work very hard and still produce only an output which, if paid for in accordance with strict criteria of market value, will give them an income which is insufficient to provide for themselves and their families a minimally dignified life. This reality is at the root of current concerns with 'fair trade.' (Maseland and de Vaal, 2002; Moore, 2004)

I think, the basic answer to this 'objection' is similar to that offered to the preceding one. The price obtainable in an open market provides a sound standard of pricing for transactions between competent, self-sufficient individuals. However, when we are confronted with individuals or entire communities who, because of the inadequacy of their knowledge and skill bases, are unable to earn enough to have a dignified livelihood, it is too easy a solution to assert that the people who might be interested in buying their products have the exclusive responsibility to provide them with a suitable standard of living by paying above-market-level prices for their products. To say the least, such a proposal leaves off too easily the rest of us.

Beyond this, if one were to take this objection seriously and endeavour to determine a just price which would take into account the needs of producers, one would immediately run into practically insurmountable difficulties. As Barrera has pointed out:

> Given the dispersion of suppliers worldwide, how does one arrive at a living wage [to be used in the calculation of the just price of a commodity] that takes into account a wide variety of living conditions?.... Setting the moral price floor for the commodity requires data on its net labor content. Given the more complex production processes of contemporary goods, identifying and breaking down the net labor content for each commodity becomes an interminable task [footnote omitted]. And as if these problems were not enough, all these calculations will have to be constantly redone in a dynamic setting where relative prices for resources and commodities keep shifting as new products, new resources, new technologies, and new methods of work organization arise. (1997, p. 112)

In view of these problems, I think Barrera is being realistic when he bows before the challenges of determining specifically a moral price floor which will take into account the right of producers to a dignified life and settles instead for "making a moral appeal for greater consumer sensitivity to the fairness of the prices at which people buy the goods and services produced by others in the community." (1997, p. 112).

Conclusion

The main purpose of this article was to address what in my view is a glaring omission in the contemporary business ethics literature: the lack of treatment of any principles or criteria capable of providing ethical guidance for managers confronted with the need to make pricing decisions.

In spite of their modern neglect, the principles propounded by the major exponents of the Salamanca School seem to me to be sound enough to guide us in this difficult terrain. The main such principle is that prices set in an open market are fair or just. I have tried to flesh out this stark thesis, provide some more detail about its implications and defend it against the more obvious objections which can be addressed to it. It is already almost 40 years since Clarence Walton observed, "no other area of managerial activity is more difficult to depict accurately, assess fairly, and prescribe realistically in terms of morality than the domain of price" (1969, p. 209). Unfortunately, little significant work seems to have been done in this area since Walton wrote those words. My main claim is that, while there is need for much additional work to consider the many sides of this most complex issue, the principle presented in this article provides the most promising starting point for a new conversation about it.

Notes

[1] The AIDS epidemic brought to the fore the issue of the appropriate pricing of life-saving pharmaceuticals and much has been written on this specific topic. Important as it is, however, this is only a small aspect of the wide subject matter of fairness in pricing.

[2] Del Vigo (1979) has pointed out that during the sixteenth century six books devoted *exclusively* to a discussion of ethical issues relating to contracts were published in Spain. Many more books treated extensively, although often not exclusively, issues of economic ethics.

[3] All I need to establish for my present purposes is that charging a price to which a buyer freely agrees may still be ethically objectionable. As I think that the brief discussion in the text is sufficient for this limited purpose, I do not pause to discuss the existing, and very interesting, literature on exploitation: Arnold (2003), Mayer (2007), Meyers (2004), Sample (2003), Wertheimer (1996), and Zwolinski (2007, 2008).

Appendix

The just price in the contemporary literature of business ethics

In this appendix, I will review in turn several recent books on marketing, business ethics and marketing ethics. My objective is to identify the ideas they contain about justice in pricing.

On reviewing recent popular marketing textbooks, it is striking that in spite of the fact that they uniformly devote a lot of space to the issue of pricing, they just have nothing to say about the ethics of pricing. Thus, for instance Pride and Ferrell (2008) devote Part 8 (pp. 575–629) of their book to pricing decisions, but no ethical issue is discussed there; in the chapter the book devotes to environmental forces, social responsibility and ethics (pp. 56–117), price fixing, predatory pricing, failure

to disclose the full price of a purchase, exorbitant pricing of pharmaceuticals and quantity surcharging are mentioned but not discussed. Similarly Lamb, Hair and McDaniel (2008) also devote a Part of their book (pp. 534–597) to pricing decisions and even include in it a short section titled ''the Legality and Ethics of Price Strategy'' (pp. 572–575), but only legal issues are discussed in it; they also devote a chapter to social responsibility, ethics and the marketing environment but in it they make no reference to pricing issues. Finally, Kotler and Keller (2009) devote a chapter (pp. 375–407) to developing pricing strategies and programmes but they also fail to discuss any ethical issue in it. One suspects that if there were a well-developed theory on the ethics of pricing available, marketing textbooks would have drawn on it.

Still, perhaps, the authors of marketing textbooks are just not interested in the ethical aspects of pricing decisions. Unfortunately, also the authors of textbooks of business ethics have very little to say on the subject and the little they say is in most cases disappointingly vague. This judgment comes from many years of reading books of business ethics and searching for material on the ethics of pricing for teaching purposes. However, for the purpose of this article I did not want to depend on general impressions and I examined a number of recently published textbooks of business ethics.

Shaw (2008) has a section titled ''Prices'' (pp. 366–370) in which he discusses manipulative pricing, price fixing, and price gouging with a wealth of examples. Coming closer to our present concerns, he states, ''In the end, the question 'what is a fair price?' probably defies a precise answer. Still, one can approach an answer by assessing the factors on which the price is based and the process used to determine it.'' (p. 370). In carrying out this proposal Shaw states that ''factors such as the costs of material and production, operating and marketing expenses, and profit margin are relevant to price setting.'' This is very vague. Does the reference to costs, expenses and profit margins imply a cost theory of fair prices? If so, the authors of the Salamanca School repudiated such theory and, as I have argued in the main body of the article, there are very good reasons for doing so. However, it is difficult to be certain of Shaw's meaning as he immediately adds that ''[p]product price, of course, reflects in part the consuming public's judgment of the relative value of the article'' It is not clear whether this is intended in a descriptive or a normative sense. If the former, it is unexceptionable, but not relevant to our present concern. If the latter, it is not clear how it fits with the previous references to cost and profit factors and it would not seem unfair to conclude that there is need for much more clarity and definition in Shaw's ethics of pricing.

DesJardins (2009) does not throw more light on the issue. He has a section titled ''Ethics and Pricing'' (pp. 183–187) in which he briefly discusses the issues raised by prices that are too low, rather than too high; price gouging; monopolistic pricing and price fixing. About the core issue of fairness between buyer and seller he just states, ''[a] fair price would be a price that [the buyer and the seller] both agree to'' (183). As we have seen in the main body of this article, this is too simple and the members of the Salamanca School would argue that there can be situations in which there is mutual agreement but the price is still unfair. It is true that later on Desjardins adds that informed consent is also necessary (p. 184) and links this to the issue of pricing of necessaries such as prescription drugs, but all this does not add up to a satisfactorily worked out conception of fairness in pricing.

Velasquez (2006) discusses issues like price fixing, retail price maintenance agreements, and price discrimination (pp. 184–187). Beyond this, he makes an effort to offer a more general theory of justice in exchanges in the sections he devotes to ''Ethics and Perfectly Competitive Markets'' (pp. 172–175) and ''Monopoly Competition: Justice, Utility and Rights'' (pp. 180–181). From the point of view of a theory of justice in pricing the main problem with Velasquez's contribution in this book is that it is too restricted. He argues that a perfectly competitive market leads to exchanges that are just – at least in a certain sense of justice. I think that there are serious problems with his discussion of this issue, but for our present purposes the main problem with Velasquez's account is that it results in a standard of justice according to which a price is only perfectly just (in a certain sense of justice) if it equals the price that would be established in a perfectly competitive market; that is to say (although Velasquez does not make this point explicitly), if it equals the marginal cost of producing that good effectively.

The interested reader will find my objections to this position in the main body of this article when I explain the concept of ''Equivalence in Value'' and later in my discussion of the principle ''Cost Plus a Reasonable Profit'' in the section ''Alternative Principles''.

The other four most recently published textbooks of business ethics which I have examined are Newton and Ford (2006), Treviño and Nelson (2007), Hartman and DesJardins (2008), and Carroll and Buchholtz (2008). None of them discusses the ethics of pricing.

One could think that perhaps textbooks of business ethics are not more specific about justice in pricing because they do not have the space which would be necessary for a proper discussion of a complex subject which is nevertheless well understood; or because they do not think that the subject is accessible to their intended audiences. But an inspection of the main books on marketing ethics published in the past 15 years tends to show that those explanations are not plausible.

Smith and Quelch (1993) is a seminal book in marketing ethics. However, on examining it, it turns out that it contains no useful discussion of justice in pricing. In p. 13 of the book we find a list of what the authors consider to be the major ethical issues in marketing, around which the book is organized. In regards to pricing, they list horizontal/vertical price fixing, price discrimination, predatory pricing, price gouging, and misleading pricing. Once again, we find a number of issues in which the unethical element is not pricing as such. This statement is less true of price gouging, but this practice is not discussed in the book.

The book contains a useful bibliography on pricing with 37 entries. The majority of the works cited fall under the headings of general anticompetitive pricing (price fixing – horizontal and vertical, predatory pricing, and discriminatory pricing), unit pricing, and misleading prices. There is also the general category ''Fairness in Pricing'' that would seem more relevant to our interest, but even here it turns out that only one of the articles under this heading (Kaufmann et al. 1991) refers to normative issues. I will refer below to this article in greater detail.

The section of the book that is headed ''Fairness In Pricing From the Consumer's Perspective'' (pp. 400–402) only discusses the empirical studies by Kahneman, Knetsch and Thaler on the type of pricing policies that customers view as fair, not entering into the normative issues these policies raise.

Chonko (1995) devotes a chapter to ''Ethics and Pricing Decisions'' (pp. 206–224) which opens with a section promisingly titled ''Fairness'' (pp. 207–210). Disappointingly, however, the only guidelines it offers to determine fairness in pricing are a general reference to the Golden Rule and a statement that ''[i]mplied by fairness is that manufacturers should attempt to set prices in a way that communicates fair value to resellers and consumers alike'' (p. 208). The rest of the chapter addresses specific issues such as nonprice price increases, price discounting, price advertising, price fixing, predatory pricing, resale price maintenance, discriminatory pricing, unit pricing, and misleading pricing, without offering any further contributions to a general theory of fair prices.

Schlegelmilch (1998) contains a section on ''Ethical Issues in Pricing Policy Decisions'' (pp. 87–94). This section also fails to address the basic concepts of a theory of justice in pricing as can be seen from a review of the titles of its subsections: misleading pricing, anti-competitive pricing, price fixing, price discrimination, and predatory pricing. The only conclusion a reader can draw is that in the view of Schlegelmilch, in the absence of any of those specific practices a price could not be so high as to be unethical.

Murphy et al. (2005) refer to what in my view is the single most tantalizing idea in the contemporary business ethics literature in relation to a possible principle of justice in pricing: what they call the concept of proportionate reason. They explain it as follows:

> Here the price set by a firm should be either equal to or proportional to the benefit received. Greater benefits, for example in terms of the lifesaving services of some surgeons, then would dictate higher prices. (p. 140)

These lines are suggestive, but as they stand they could mean almost anything. Besides, the authors immediately proceed to undermine their own principle. They question whether ''the perceived benefit of a product morally justifie[s] charging a higher price'' (p. 140) and whether ''[it is] wrong to charge a price that yields an extraordinary profit

margin merely because customers are willing to pay the price (e.g. women's perfume or designer watches)'' (p. 140). At this point, one wonders what is left of the original principle if it is subjected to these restrictions. In my view they finally and irretrievably deny the principle they had suggested when they also add that ''[i]n theory, competitive conditions, risk, the amount and cost of capital, and predictable volume of sale would all go into calculating a 'fair price''' (p. 140). In terms of the concepts I have used in the main body of this article, the authors of this book are using at the same time value and cost elements without defining precisely how they should be combined. If there is a coherent theory behind this, they fail to explain it. At any rate, it is clear that it would be different from the one defended by the authors of the Salamanca School.

Brenkert (2008) also addresses topics like the information regarding prices that a marketer is responsible for providing, deception in relation to prices, pricing during special circumstances (e.g. natural disasters) and pricing of new products, pricing issues within companies, pricing issues with competitors, and social issues (pp. 111–122). In discussing such issues, no general conception of justice in pricing is deployed. However, at a later point, Brenkert makes a statement with which I fully agree: ''the fundamental issue here, and in this entire section, concerns what constitutes a fair price.'' (p. 117). In trying to flesh out this idea he considers the concept of ''proportionate reason'' to which I have just made reference, and simply states that ''[a]n appeal to this idea of 'proportionate reason' *might make sense*'' (p. 117, italics added); a few lines later he still adds that ''the fair price of a product would be the price that must, from a marketer's standpoint, take account of the producer's costs…'' Once again we meet a reference to different principles without indication of how they should be reconciled.

Finally, I have also made an effort to search the most important journals in the field of business ethics. Besides conducting a number of general searches in various databases, I have consulted all articles which made reference to normative issues in pricing in the *Journal of Business Ethics*, *Business Ethics Quarterly*, *Business Ethics: A European Review*, *Business and Professional Ethics Journal*, and *Business & Society Review*. The articles which were relevant to my subject are referred to in the main body of the article and their ideas discussed.

The conclusion I draw from this investigation may seem stark, but I think it is well justified. As I stated in the main body of the article, an examination of the contemporary business ethics literature shows clearly that the discussion of a theory of just prices is seriously underdeveloped.

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