Fair Price Subjectivity   
Opposition Brief by Joel Erickson



Virtually all standard definitions of fair trade include the nebulous and seemingly innocuous idea of “fair price” as an essential component. The few who bother to explicate its meaning voice vague platitudes about impoverished workers receiving a robust living wage. What if, however, the very assertion of an objective, fixed fair price is fraught with problems?

This brief establishes “fair price” as necessary for fair trade, demonstrates its economic implications, provides contradictory economic theory and details the detrimental ramifications of assuming an objective fair price.

Fair Price Subjectivity

**1 – Definition Consensus Demonstrates Fair Trade Includes Fair Price**

Fair Trade: Merriam-Webster Definition

“Fair Trade,” Merriam-Webster, 2019. <https://www.merriam-webster.com/dictionary/fair-trade>

“A movement whose goal is to help producers in developing countries to get a fair price for their products so as to reduce poverty, provide for the ethical treatment of workers and farmers, and promote environmentally sustainable practices.”

Fair Trade: Oxford Definition

“Fair Trade,” Oxford Dictionaries, 2019. <https://en.oxforddictionaries.com/definition/us/fair_trade>

“Trade between companies in developed countries and producers in developing countries in which fair prices are paid to the producers.”

Fair Trade: Collins Definition

“Fair Trade,” Collins English Dictionary, 2019. <https://www.collinsdictionary.com/dictionary/english/fair-trade>

“Fair trade is the practice of buying goods directly from producers in developing countries at a fair price.”

Fair Trade: Vocabulary.com Definition

“Fair Trade,” Vocabulary.com, 2019. <https://www.vocabulary.com/dictionary/fair%20trade>

“Trade that satisfies certain criteria on the supply chain of the goods involved, usually including fair payment for producers; often with other social and environmental considerations.”

Fair Trade: MacMillan Definition

“Fair Trade,” MacMillan Dictionary, 2019. <https://www.macmillandictionary.com/dictionary/american/fair-trade>

“A system by which farmers and producers in developing countries (=poorer countries with less industry) who trade with richer countries are paid fair wages, receive fair prices for their goods, and are encouraged to take care of the environment.”

**2 – Fair Price Entails Government Price Controls**

Definition of Price Controls

“Price Controls,” Investopedia, 2019. <https://www.investopedia.com/terms/p/price-controls.asp>

“Price controls are government-mandated legal minimum or maximum prices set for specified goods, usually implemented as a means of direct economic intervention to manage the affordability of certain goods. Governments most commonly implement price controls on staples, essential items such as food or energy products. Price controls that set maximum prices are price ceilings, while price controls that set minimum prices are price floors.”

Fair Prices Involve Price Controls

David Schmidtz [Kendrick Professor of Philosophy at University of Arizona, Director of Center for the Philosophy of Freedom at University of Arizona], “Are Price Controls Fair?” Supreme Court Economic Review, vol. 23, no. 1 (2015). <https://www.journals.uchicago.edu/doi/full/10.1086/686479>

“If we are in the grip of a mirage that prices must be low to be fair, we will think we have reason to impose a price ceiling to keep prices from rising to a level that exceeds some people’s ability to pay. If we extend this concern to its logical conclusion, we cap prices at $0, because for any price above zero, we can imagine a desperate would-be consumer unable to afford that price.”

Philosophical Analysis: **Government Actor.** Because the resolution mandates a government actor, the government is the entity implementing the aforementioned fair trade policies, which means the government is the one determining the fair prices. **This preempts private organizations**. Some might argue that the “fair price” is reached between the producer corporation and its employees. However, this conflicts with the government actor point.

**3 – Economic Theory**

Defies Laws of Supply and Demand

“Price Controls,” Investopedia, 2019. <https://www.investopedia.com/terms/p/price-controls.asp>

“As a government measure, price controls may have been enacted with the best of intentions, but in actual practice, they don't work. No attempt to control prices can overcome the basic economic forces of supply and demand for any significant length of time. When prices are established by commerce in a free market, prices shift to maintain the balance between supply and demand. However, when a government imposes price controls – precisely because it refuses to accept the free market equilibrium price – then the eventual, inevitable consequence is the creation of excess demand in the case of price ceilings, or excess supply in the case of price floors.”

Disrupts Supply and Demand

Fiona Morton [Professor of Economics at Yale University], “The Problems of Price Controls,” Regulation, vol. 24., no. 1 (Cato Review of Business and Government, 2001), <https://www.cato.org/publications/commentary/problems-price-controls>

“The determining of market prices through the dynamic interaction of supply and demand is the basic building block of economics. Consumer preferences for a product determine how much of it they will buy at any given price. Consumers will purchase more of a product as its price declines, all else being equal. Firms, in turn, decide how much they are willing to supply at different prices. In general, if consumers appear willing to pay higher prices for a product, then more manufacturers will try to produce the product, will increase their production capacity, and will conduct research to improve the product. Thus, higher expected prices lead to an increased supply of goods. This dynamic interaction produces an equilibrium market price; when buyers and sellers transact freely, the price that results causes the quantity demanded by consumers to exactly equal the supply produced by sellers. But when government adopts a price control, it defines the market price of a product and forces all, or a large percentage, of transactions to take place at that price instead of the equilibrium price set through the interaction between supply and demand. Since supply and demand shift constantly in response to tastes and costs, but the government price will change only after a lengthy political process, the government price will effectively never be an equilibrium price. This means that the government price will be either too high or too low.”

Philosophical Analysis: **An object’s value is reflected in its price**. **Price occurs at the intersection of supply and demand**, meaning that something is worth as much only as the seller is willing to sell it and the buyer is willing to pay for it. Ultimately, an object’s worth is therefore subjective and cannot be coherently fixed as objective.

**4 – Problematic Implications**

Rent Control

Fiona Morton [Professor of Economics at Yale University], “The Problems of Price Controls,” Regulation, vol. 24., no. 1 (Cato Review of Business and Government, 2001), <https://www.cato.org/publications/commentary/problems-price-controls>

“Rent control provides a classic example of the distortions created by price controls. There are various forms of rent control, but they all take the shape of legally imposed below-market rates for rental housing. The results are well documented and perverse. First, a shortage of rental units arises as landlords become less interested in renting at below-market rates. Instead, the landlords choose to live in the units themselves, rent them to relatives, or sell them. This shortage leads to a host of related distortions. For example, since there is a queue of people willing to rent each apartment and landlords are not permitted to discriminate based on price, the landlords will discriminate on whatever characteristic they please. Landlords may also ask for under-the- table payments from tenants or require renters to hand over an initial fee in order to sign the lease. Moreover, landlords have little incentive to maintain apartments; it is more difficult to recoup the cost of improvements through the government- established price and, at the same time, there is a strong demand for apartments regardless of their condition. Consequently, the quality of housing stock declines and the area may come to attract less affluent residents. This hurts neighborhood businesses. New housing stock is less profitable to construct if government controls rental prices; thus fewer investors will engage in that activity and economic development will slow.”

Surplus

Fiona Morton [Professor of Economics at Yale University], “The Problems of Price Controls,” Regulation, vol. 24., no. 1 (Cato Review of Business and Government, 2001), <https://www.cato.org/publications/commentary/problems-price-controls>

“When the price is too high, there is an excessive amount of the product for sale compared to what people want. This is the situation with many U.S. and European farm programs; government, in an effort to increase farm incomes, purchases the output that consumers do not want. This, in turn, prompts farmers to raise more cows and convert more land to pasture or cropland. However, the higher prices discourage consumers from buying farm products, causing an excess of supply (e.g. a “butter mountain”). Government then exacerbates this situation by continuing to purchase the excess crop at the set price.”

Deficiency, Waste, and Unemployment

D. T. Armentano [Professor Emeritus of Economics at the University of Connecticut in Hartford], “The Economics of Price Fixing,” Foundation for Economic Education, 1967. <https://fee.org/articles/the-economics-of-price-fixing/>

“The confusing consequence of selected price fixing is a combina­tion of shortages on the one hand and price increases on the other. Although ration cards may be used to link available supply to demand, they neither eliminate the excess demand nor increase the deficient supply. Only a free­ing of the fixed price can induce the proper economic responses from both buyer and seller. Whether the subject is a water shortage (the price has been fixed at zero for decades), an apparent shortage of city apartments (rent controls), or a money shortage (interest rate regulation), the consequence of fixing prices below their equilibrium values is only too obvious. Similarly, prices fixed above equilibrium generate surpluses. The inescapable consequences of a farm program or a minimum wage bill are farm surpluses and labor surpluses. Nor is this the end of the mischief; there are deeper and more intangible eco­nomic consequences beneath the surface. Unwanted farm surpluses are composed of scarce economic resources or factors of production, and these could have gone into the production of something that con­sumers really wanted. Likewise, unemployed labor is totally unpro­ductive; if employed, no matter what its wage or productivity, it could have contributed to the pro­duction of needed output. Both artificial surpluses are an econom­ic waste; in a world of unlimited human wants and limited factors of production, they are an econom­ic tragedy of the first order.”

Moral Argumentation

David Schmidtz [Kendrick Professor of Philosophy at University of Arizona, Director of Center for the Philosophy of Freedom at University of Arizona], “Are Price Controls Fair?” Supreme Court Economic Review, vol. 23, no. 1 (2015). <https://www.journals.uchicago.edu/doi/full/10.1086/686479>

“Yet Western nations tend to shy away from comprehensive systems of wage and price controls. Why? One answer is that if prices can- not rise, then buyers cannot signal producers that demand exceeds supply. Thus they cannot signal to producers that increasing supply would be profitable. But if there is no signal, and if producers do not have the kind of information that would lead them to increase supply, then rising demand results in shortages rather than in gains from trade and economic growth. We infer this from standard economic theory, and from sad experience. The most fundamental moral argument for market society is that a society where people are free to trade will be a cooperative venture for mutual advantage. So long as there is a window of opportunity for mutual advantage created by the phenomena of downward sloping demand and upward sloping supply (so long as people have something real to offer each other and so long as transaction costs are not prohibitive), there will be gains from trade.”