Business Ethics Journal Review

SCHOLARLY COMMENTS ON ACADEMIC BUSINESS ETHICS

businessethicsjournalreview.com

Cite as: **Bus Ethics J Rev** 5(4): 22–27, http://doi.org/10.12747/bejr2017.05.04

Edited by **Chris MacDonald** *&* **Alexei Marcoux**

ISSN: 2326-7526

Exploitation and Just Price Theory

William Kline[1]

A COMMENTARY ON Schleper, M., C. Blome, and D. Wuttke, D. (2015), "The Dark Side of Buyer Power: Supplier Exploitation and the Role of Ethical Climates," ***J Bus Ethics*** 140(1): 97-114, http://doi.org.10.1007/s10551-015-2681-6

ABSTRACT

Schleper, Blome, and Wuttke attempt to use just price theory to define exploitation. According to the authors, a competitive market equilibrium defines a just price. When certain asymmetries in bargaining power exist, trading at any lower price constitutes unethical exploitation. I argue that a competitive market equilibrium does not provide a price that could be considered just by their own standards, and thus fails to ground a theory of exploitation.

THROUGH THE APPLICATION of just price theory Schleper et al (2015)[2] attempt to develop criteria of supplier exploitation in supply chain management. While the authors mention many types of exploitation, they focus on price concessions resulting from power asymmetries to make their argument (99, 100). In general, a buying firm possesses power over a supplier when the buying firm can extract concessions from the supplier that the supplier would not normally agree to. This power asymmetry exists when, for a variety of reasons,

[1] University of Illinois Springfield. Email: wklin2@uis.edu

[2] Page references not otherwise attributed are to Schleper et al (2015).

the supplier is overly dependent on a single buyer and this dependence is not mutual. Unethical price concession, exploitation, occurs when buying firms use their "mediated power," in these unbalanced relationships to extract concessions. There are three types of mediated power: the power to grant rewards by buying more, the power to withdraw rewards by buying less or terminating the relationship, and the power to affect contractual details favorable to the buyer (103).

> If a supplier depends on a single buying firm and these options endanger its existence to some degree, it is apparent that mediated power sources have the potential for unethical supplier exploitation. Reward and coercion are thus sides of the same coin (102).

Power, though, only tends to cause exploitation, it does not fully define it. To complete their argument of what defines exploitation, the authors use just price theory to advance what they call "the moral point of view" (97).

The moral point of view requires justice in transactions and demands giving people "what they deserve through equal exchanges of value" (101). Exploitation occurs when the price of a good or service is lower than its objective value whereby powerful buyers extract more value than they should at the expense of suppliers. To determine this value baseline, the authors advance a theory of just price to determine when exploitation occurs. Following Mayer (2007: 145) they identify a just price "as the price that 'a non-disadvantaged party would accept'"(102). Defining "disadvantaged" and "objective value" is no easy task, but the authors do provide a salient definition:

> A buying firm's (trans-)action is deemed unethically exploitative if the firm gains undeserved benefits at the supplier's expense through unjust prices that would not come about in a hypothetically competitive market (102).

Just prices are the baseline for exploitation and just prices are based on objective value and it is this objective value that a competitive equilibrium price is meant to capture. However, there is ambiguity as to what the authors mean by "objective value" and there are at least three possible meanings of objective contained within the argument:

(1) it is the value of the object itself,

(2) fairness, or

(3) it is an impartial benchmark that all parties could observe.

I will show that the competitive market price is not equivalent to any of these conceptions of objective value.

The interpretation that objective value resides in the thing itself is supported by the authors' citation of both Deirdre Golash and St. Thomas Aquinas. Golash (1981: 321, quoted in Schleper et al: 101) argues, "What is at stake in exploitation . . . is not only the methods used but also the actual result of the bargaining process—that is, the exchange of a commodity at less (or more) than its objective value." While Golash (1981: 321) believes some definition of objective value is necessary, she explicitly gives no specific definition. Rather, Golash (1981: 323) maintains there are "elements in subjective value which are separable from the objective value of the commodity." Aquinas (1274: 2-2, q. 77, art. 1) argues similarly in that contracts ". . . should proceed on the principle of equality of thing to thing." This is why Aquinas separates the condition of the buyer from the just price of the good or service, such that it is unjust to charge more to, say, a desperate buyer because they are desperate. Both sources cited by Schleper et al identify objective value as contained within the objects sold, not the parties buying or selling it. If this is the criterion for exploitation, it is difficult to see how a competitive market yields a just price.

We need two points of comparison to judge whether an exchange is exploitative—the objective value and the equilibrium price in a competitive market. Beyond asserting its existence, Schleper et al do not provide even a working definition of this type of objective value. In ignorance of this baseline we possess radically insufficient information to make the moral judgment of exploitation. Without knowing what the objective value is there is no way of seeing whether the two match. Let us assume though, for the sake of argument, that such a definition were given such that a comparison were possible. Even with this assumption, a competitive market is nothing more than many buyers and sellers competing with each other, and the resulting equilibrium price reflects nothing more than those subjective valuations. There is no guarantee, cannot be a guarantee, that this price will reflect the supposed objective value of the underlying good or service. It may, or it may not. The contingency here does not rest on the definition of the objective value of the good, but on the arbitrary nature of the preferences of the agents in the market. If market actors do not wish to accord a good or service its objective value, then they will not. Let us assume health is an objective value. Agents in a competitive market may pay more for ham and cheese sandwiches than healthier alternatives thus affecting the equilibrium price of each. While the resulting prices may be in equilibrium, there is no guarantee that competitive prices will be in equilibrium with something's purported objective value, no matter what we posit as the objective value. Therefore, even if we could define inherent objective value the equilibrium price in a competitive market does not necessarily represent something's inherent objective value. On this interpretation of "objective," the formulation of the moral point of view given by Schleper et al cannot be the baseline for determining just price and exploitation.

Alternatively, by citing Mayer (2007), Schleper et al may be referring to objective value as something that is objectively fair. According to Mayer, fairness is achieved when all disadvantages of both the buyer and seller are removed from the transaction. This is consonant with Schleper et al's focus on the potential perniciousness of power asymmetries and even with Aquinas's (1274: 2-2, q. 77, art. 1) claim that a seller should not profit more merely from the desperation of the buyer. Prices in extant markets reflect power asymmetries in bargaining. To remove these asymmetries the authors invoke the competitive market as a normative counterfactual: A price is just if it reflects the equilibrium price of a competitive market. We can infer that the reason for this is that in a competitive market power asymmetries are eliminated making the equilibrium price objectively fair. Indeed, a competitive market may remove such power asymmetries, but using this model raises other problems that undermine the claim to fairness.

There are two possible interpretations of "competitive market" consistent with the argument: it could mean a "perfectly" competitive market or simply a market that has multiple buyers and sellers such that no supplier depends on any single buyer. Neither conception yields the objectively fair price the argument requires to appropriately define the baseline for exploitation.

No existing market is a perfectly competitive market. Although some markets may approach this "ideal" more than others, no existing market yields a perfectly competitive price, therefore no extant market delivers a just price. Even if a perfectly competitive market were fair and objective, it would mean that every trade in every real market is exploitative and this is not what the authors are trying to argue. In fact, their argument specifically allows for the use of non-mediated power, e.g., expertise in knowledge, which would not exist in a perfectly competitive market (103). A perfectly competitive market cannot be their model for arriving at a just price.

The other alternative is that a "competitive market" must meet the minimal requirement of alleviating supplier dependence on a single buyer. In this case, perhaps, simply postulating more buyers may sufficiently alleviate power asymmetries that can lead to exploitation. Unfortunately, this interpretation makes the number of suppliers and buyers in the model ad hoc since there is no salient answer to "How many is enough?" To the extent that the equilibrium price depends on the number of buyers and sellers in the model, this makes the "just price" arbitrary, vitiating its claim to objectivity and fairness. The baseline "just price" achieved by either model of a competitive market is not fair in that the model will either yield a price that makes all actual trades exploitative or yields a price that rests on an arbitrary determination of the number of buyers and sellers in the model.

In fact, questions concerning the number of competitors in a competitive market leads us to reject the final interpretation of just price: the notion that a competitive market provides an impartial benchmark that all parties could observe. A competitive market model is employed because the current status quo is in fact not a competitive situation. We have seen that modeling a competitive market requires positing an additional number of buyers and sellers. Hypothesizing additional buyers and sellers however affects a host of other economic variables in the model. Filling in all these unknown variables would require a knowledge that no single individual has (Hayek 1945). No one could say what the actual competitive equilibrium price would be since no one knows the information it takes to make this determination. To bypass this knowledge problem we could hypothetically fill in values, but then the resulting "price" loses its normative force as not being the impersonal outcome of competitive dynamics under conditions of equal power so much as the assumptions of the person filling in the variables. Furthermore, different people, even experts, would fill in the variables differently based on their opinion and this would, in turn, result in a multiplicity of different equilibrium price projections. A single salient price for everyone disappears. Defining a morally salient equilibrium price in a competitive market is thus just as elusive as defining the concept of objective value in the thing itself.

A competitive market does not yield a price that is the equivalent of something's objective value. Neither does it yield a price that is either fair or salient. A competitive market price is therefore not the equivalent of a just price. Schleper et al's formulation of the moral point of view as defining exploitation is untenable within the scope of the argument they provide.

Received 7 March 2017 / Posted 7 August 2017

References

Aquinas, St. T. 1274. ***Aquinas Ethicus: Or, the Moral Teaching of St. Thomas. A Translation of the Principal Portions of the Second Part of the Summa Theologica, with Notes by Joseph Rickaby, S.J.*** London: Burns and Oates (1892), http://oll.libertyfund.org/titles/1967

Golash, D. 1981. "Exploitation and Coercion." ***J Value Inq*** 15(4): 319–328, http://doi.org/10.1007/BF00136965

Hayek, F. A. 1945. "The Use of Knowledge in Society." ***Am Econ Rev*** 35(4): 519–530.

Mayer, R. 2007. "What's Wrong with Exploitation?" ***J App Phil*** 24(2): 137–150, http://doi.org/10.1111/j.1468-5930.2007.00360.x

Schleper, M., C. Blome, and D. Wuttke. 2015. "The Dark Side of Buyer Power: Supplier Exploitation and the Role of Ethical Climates." ***J Bus Ethics*** 140(1): 97–114, http://doi.org.10.1007/s10551-015-2681-6