



True Price and Just Income

A research contribution

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What is a price?

Economic values can be described. For example, we say a piece of bread feeds somebody for a certain period of time. This refers to an economic value but not a price. Prices are, however, expressed with figures and make the values of different goods comparable. Prices generally point to price relations.

Let us suppose that 1 litre of milk costs 2 Francs and a pair of shoes 200 Francs. Both prices are characterised by their relation. The pair of shoes is a hundred times more expensive than 1 litre of milk. A price is never isolated, but with every single price we express its relationship within the whole price system.

All prices are linked together by the value of money. Prices are expressed in monetary terms. Therefore in order to understand the essence of price we have to speak about some characteristics of money. Money measures economic values and therefore needs to be a measuring unit (unit of account). We can fix this unit by the price of any single commodity and deduce from it all other prices.

Gold played an important role in the history of money and even today it is often proposed as the basis for currencies because it does not rot and can be stored at will. Gold can very well be used for accumulating wealth. Defining money by the value of gold, we emphasize its wealth aspect (store of value). But we can easily live without gold, apart from certain applications such as in electronics. For money to pertain to our daily life it has to be linked to something everybody needs: food, clothes, home. As we no longer need to feed ourselves by hunting but by farming, we can link the price system to the price of grain (wheat, rye, rice, millet, corn). Thus, the price of corn becomes the value unit for all price calculations, similar to the prototype metre bar in Paris that has been fixed as a clear unit for all length measurements. One did not choose a percentage mix of centimetre, inch and Russian thumb.

A basket or bundle of commodities is often proposed as a *measuring reference for money*. This might be useful for political decisions. Between the prices in this basket however there are proportions that can change and, economically, it remains unclear which price gives rise to the *value of money*. We have to choose one single item to fix the money value clearly. Today, an amount of money consists of a number and a name like Pound, Euro or Dollar. The value of these currencies is exposed to various economic and political influences and is, therefore, like prices subject to change. Today money is treated like a price in the midst of prices and like a commodity in the midst of commodities. But it should be a link between the values of commodities. This will only be possible if its value is clearly linked to the value of *one* good. If we choose to denominate money in terms of grain, the price of grain remains consistent and all other prices derive from it in floating relations.

People who believe that prices are determined by supply and demand, claim to be able to judge a price in isolation, forgetting the whole system of prices which is active behind supply and demand. For suppliers deliberate whether prices will be sufficient to buy the things they need and the consumers deliberate whether prices are not too high for them because they have to buy other things as well.

All these considerations underline the fact that prices are value relations expressed in figures.

Can we correct a single price?

If a commodity is too cheap or too expensive, the government may fix a generally binding price. Another idea is that, instead of the state, economic associations should do this. But in thinking so, we turn the associations into state-like entities that wield a certain power by obliging decisions or recommendations on the part of their members, in the manner of cartels.

Maybe we want to correct prices because they do not give sufficient income to those who have made the products. Then we use an abbreviated expression saying: the prices are unjust. Rudolf Steiner's price formula enables us to judge prices by analysing their impact on incomes. As far as I know, Steiner used the word "just price" (gerechter Preis) only once in his lecture „Die Kardinalfrage des Wirtschaftslebens“¹. Otherwise he spoke mostly of true (correct) prices ("richtige Preise"), sometimes also of objective prices and of sound price relations², expressing by this that prices can be correct or wrong. This points to the *price system*. It is not a matter of changing single prices, but of analysing and treating all the factors affecting the price system as a whole.

How do wrong prices occur?

- Labour market, land market, capital market

In today's markets, prices are incorrect because labour and rights of use (what we call ownership of means of production) are regarded as commodities at given prices that can be exchanged for other commodities and services. Wages play the role of price in labour markets and rent and interest play that role in land and capital markets. Rudolf Steiner calls our attention to the paradox that falling capital interest does not reduce the price of land. In fact, real estate gets more expensive because one can credit more capital into land through higher mortgages. These markets falsify the whole price system. Correct prices can only arise when these markets disappear, that is, as soon as land, labour and capital cease to enter the economic process. Therefore, we have to develop new organisational models for the social organism as a whole.

- The unhealthy relationship between agriculture and industry

In the discussion of 12th October 1920³ Steiner explained that industry tends to overcapitalise, but agriculture essentially resists capitalisation. What results is "a real falsification of the basic *cell* of the economy",⁴ that is of the correct price relation

¹ 30th November 1921, GA 79 S. 261.

² GA 23 S. 131 f., GA 79 S. 261, GA 337b S. 226. The German word „richtig“ is the opposite of „falsch“ (wrong) and has no legal or moral meaning. That is why one should translate it by right, true or correct.

³ GA 337b p. 227

⁴ *ibid.* p. 226

between agricultural and industrial products. Today we can easily notice the overcapitalisation in industry. But nowadays agriculture is also capitalised, despite farmers' initial resistance to replacing human workers with machines, because they did not want to treat living creatures or the living soil as if they were machines. Older farmers still speak about this today. In the same evening discussion, Steiner points out that it is a question of quality; that in industry capitalisation creates an *insensitivity to quality intolerable* to good agriculture. *"Wherever this insensitivity occurred, infecting agriculture with the industrial way of thinking, agriculture shrivels, inserting itself in a wrong way into the whole of economic life."* (From this, it follows that agriculture has to persist in the pursuit of quality and industry has to avoid over-capitalisation. Nowadays, however, capital has ceased to serve production and become self-serving, resulting in a so-called financial economy that has adopted a life of its own, emancipated from the real economy.)

To overcome this, Steiner argued: *"Therefore the first thing we have to do is to form associations between agriculture and different branches of industry. Indeed, the first and I would say the most abstract principle is that associations consist in arranging different branches together. But they will have the most beneficial effect being arranged between agriculture and industry in a way that through the arrangement of such associations we work towards an appropriate price condition... If associations could be created arranging industrial businesses together with farms and if it would be made in such a clever way that they could supply each other, some effects would immediately emerge..."*⁵

Steiner continued by describing the idea of "The Coming Day"⁶: *"In the first line it would have the task to bring the associative principle about between agriculture and industry... so that the consumers in one realm would be the producers in another. Thus in relatively short time many effects could be attained in creating a really correct price."* This however, as Steiner emphasises, is hampered by the impact of state laws, so the influence of the state in this area has to be eliminated.

- Money creation by governments and banks

In our time, money is created by the bank system backed by the state. Banks give credits (*loan money*) into the economy by balance sheet extension. Thus all money (legal tender) today is based on debts and connected with interest. People think that money is a thing, an object that first has to be created, before it can begin to circulate in payment transactions. They believe that money has to be created by the banking system and that only when it is borrowed can it be used as purchase money. People's thoughts are that money is not generated within the economic process but given to the economy from outside.

Yet in 1919 Rudolf Steiner postulated in his fundamental book about social problems⁷ that money ought not to be approved by the state. This means that governments should

⁵ *ibid.* p. 228

⁶ *ibid.* P. 228

⁷ Rudolf Steiner: Die Kernpunkte der sozialen Frage, GA 23 S. 129 f. Two different English translations online in rsarchive.org. The text passage is in the chapter three: Capitalism and Social Ideas.

not contribute anything to the creation of money. Today huge amounts of money are created by governments accumulating more and more debt. By this they exert important influence on the economy and, at last, on the price formation. Steiner's postulation is validated by two quite different money theories, the first arguing for the deregulation of the legal tender money monopoly and the second additionally for a money creation which is not a task of any banks:

- A. Friedrich August von Hayek, in his book "*The Denationalization of Money*"⁸, proposed free money creation by private banks. The competing currencies would come into circulation when borrowers accepted them as loan money paying interest. For banks, money creation is a business enabling them to earn money. In this system all money would charge interest. In currency competition people would choose the most advantageous money and the most used money would offer most advantages.⁹
- B. A money theory involving neither the state nor any banks in money creation merits special attention. It has been developed by two Americans. It was first described in the first half of the 20th century by E. C. Riegel¹⁰ and more recently developed and updated by Thomas H. Greco¹¹. It consists of the following: In a money system every purchase and sale is entered in the accounts of a clearing house. Thus, money as bookkeeping is the primary and basic form of money. Greco calls this money a "Mutual Credit System", because it is not created by bank credits but by the credits that all participants allow themselves in the money community because they suppose that all members do not only buy something but will also sell something. These credits are not loan money, but purchase money. We have to distinguish two completely different kinds of credit. All money consists of liabilities and assets, but in contrast to credits of loan money, the liabilities of purchase money are short-term debts and, more importantly: they refer to the whole money community and not to a single lender. Purchase money liabilities do not have to be repaid but to be evened out by selling products. Purchase money liabilities are not charged interest. In local and regional areas a lot of Mutual Credit Systems have been established and proven since the 1980s – local exchange systems, LETS, barter exchanges, etc. In discussions about money theory they are only now being recognized but even there money is not properly understood. This requires the clear distinction of purchase money and loan money and their separate administration.

How can correct prices occur?

⁸ F.A. von Hayek *Denationalisation of Money*. Institute of Economic Affairs, London 1976. Online: <https://iea.org.uk/wp.../Denationalisation%20of%20Money.pdf>

⁹ (Comment: Private currencies created by banks would tend to centralism, to monopoly and to concentration of bank power.)

¹⁰ The books of Riegel are long out of print, but one can find the texts on different Websites; see p. 216 in my book „Sustainable Society“, Floris Books 2014

¹¹ His latest book: *The End of Money and the Future of Civilisation*, first published in America by Chelsea Green 2009 and then in Europe by Floris Books Edinburgh 2010. See a short abstract in my book "Sustainable Society" pp. 197 - 207

If I discover electronic devices are too cheap I cannot say to the shop assistant: “Hey I want to pay more!” In fact, I have to ensure that in the domains of primary production and subsequent elaboration into products:

- income distribution is just,
- environmental damage is avoided,
- profits do not go to owners of land and capital standing outside of enterprises,
- state subsidies are reduced,
- monopolies of the state in education and monetary system etc. are abolished in order that free initiatives become possible. (The state may continue its schools without financing them by taxpayers’ money. State schools should get their money from the families of the children who go to these schools and from free gifts like private schools do.)

In economics, we have the possibility to negotiate fair and more or less just prices. In fact, the goal of every price dialogue is to avoid exploiting power positions by taking into account the interests of others as well as one’s own. However, correct prices can only occur when society as a whole is organised in a correct way. The following changes will have high priority:

1. Wage negotiations in labour market have to be replaced by just income distribution of the net yield available for consumption.
2. For land, Rudolf Steiner proposed an administration in the realm of spiritual life – quite an unusual idea. It could make the land market obsolete. Today we have practically no real picture of the spiritual life and of the distinctive characteristics of its administration. Steiner pictured the spiritual life as individualistic and by no means centralised. You will find more detailed explanations of these thoughts in my book “Sustainable Society”.
3. The money monopoly of the state has to be abolished. Legally it should be possible to create money as purchase money from within the economy so that by money creation nobody gets to profit or exercises power. Mutual Credit Clearing systems don’t tend to centralism but build themselves in a federalist way from the grass-roots level and can join supra-regionally by contract. They could even lead to a stable non-centralistic, but federalist world currency system.

We are far from realisation of these propositions and have even more work to do to understand them. I have tried to give insights in my book “Sustainable Society”.

The price problem shows clearly that economic problems cannot be solved in a direct way by linear thinking. We have to make detours and look at things from various sides. Price problems occur when society as a whole is organised incorrectly. In economics we can only organise correctly by working together. Price formation is an economic result

where all processes culminate. We cannot simply turn prices up and down but have to adjust all factors influencing their formation.