



Should Marxists be Interested in Exploitation?

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To work at the bidding and for the profit of another . . . is not . . . a satisfactory state to human beings of educated intelligence, who have ceased to think themselves naturally inferior to those whom they serve.

J. S. Mill, *Principles of Political Economy*

The capitalist mode of production . . . rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land, while the masses are only owners of the personal conditions of production, of labour power. If the elements of production are so distributed, then the present-day distribution of the means of consumption results automatically.

Karl Marx, *Selected Works*

I. MOTIVATIONS FOR EXPLOITATION THEORY

Marxian exploitation is defined as the unequal exchange of labor for goods: the exchange is unequal when the amount of labor embodied in the goods which the worker can purchase with his income (which usually consists only of wage income) is less than the amount of labor he expended to earn that income. Exploiters are agents who can command with their income more labor embodied in goods than the labor they performed; for exploited agents, the reverse is true. If the concept of embodied labor is defined so that the total labor performed by a population in a certain time period is equal to the labor embodied in the goods

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comprising the net national product (NNP), and if the NNP is parcelled out to the members of the population in some way, then there will be (essentially) two groups: the exploiters and the exploited, as defined above. (I say “essentially” because there may be some ambiguity; an agent may be able to purchase different bundles of goods, some bundles of which embody more labor than he worked, and other bundles of which embody less labor than he worked. This gives rise to a “gray area” of agents whom we might wish to consider neither exploited nor exploiting.¹) Thus, exploitation theory views goods as vessels of labor, and calculates labor accounts for people by comparing the “live” labor they expend in production with the “dead” labor they get back in the vessels. Exploitation is an aspect of the pattern of redistribution of labor which occurs through the process of agents “exchanging” their current productive labor for social labor congealed in goods received. It may not always be easy or even possible to *define* the content of dead labor in the vessels, as when labor is heterogeneous or joint production of many goods from the same production process exists. There is a large literature on these questions, which shall not concern me here. For this article, I assume labor is homogeneous.

It is important to note that exploitation is not defined relationally. The statement “A exploits B” is not defined, but rather “A is an exploiter” and “B is exploited.” Exploitation, as I conceive it, refers to the relationship between a person and society as a whole as measured by the transfer of the person’s labor to the society, and the reverse transfer of society’s labor to the person, as embodied in goods the person claims.

What are the uses of exploitation theory? Why is it considered the cornerstone of Marxian social science by many writers? More directly, what positive or normative conclusions might we draw about capitalism from observing that workers are exploited under capitalism? I can identify four main uses or justifications of exploitation theory:

- (1) the accumulation theory: exploitation of workers explains profits and accumulation under capitalism; it is the secret of capitalist expansion.
- (2) the domination theory: exploitation is intimately linked to the domination of workers by capitalists, especially at the point of production, and domination is an evil.

1. For a discussion of the gray area of agents, see John E. Roemer, *A General Theory of Exploitation and Class* (Cambridge, MA: Harvard University Press, 1982), chap. 4.

- (3) the alienation theory: exploitation is a measure of the degree to which people are alienated under capitalism. The root of alienation is the separation of one's labor from oneself. If one's labor is put into goods which are produced for exchange (not for use by oneself or one's community), that constitutes alienation. Exploitation occurs because some people alienate more labor than others. It is differential alienation.
- (4) the inequality theory: exploitation is a measure and consequence of the underlying inequality in the ownership of the means of production, an inequality which is unjustified.

There is another theory which is, I think, a special case of (4), and so will be numbered:

- (4') the expropriation theory: exploitation is a measure of expropriation, of one agent owning part of the product which should rightfully belong to another agent.

These four (or five) proposed explanations for our interest in exploitation theory are usually confounded. They should not be, however, because they constitute different claims. Adherents to exploitation theory tend to emphasize some of (1) through (4) when others of the list become subjected to embarrassments or counterexamples. I will argue that in the general case none of (1) through (4) can be sustained; there is, in general, no reason to be interested in exploitation theory, that is, in tallying the surplus value accounts of labor performed versus labor commanded in goods purchased. My arguments against (1) through (4) are, briefly, these: (1) all commodities are exploited under capitalism, not only labor power, and so the exploitation of labor does not explain profits; concerning (2), domination is an important issue under capitalism, but exploitation is irrelevant for its study; concerning (3), differential alienation can be measured using surplus value accounts, but I do not think such alienation is interesting unless it is a consequence of unequal ownership of the means of production. We are thus led to (4) which, I think, is the closest explanation for Marxists' interest in exploitation; but in the general case, I will show inequality in ownership of the means of production, even when ethically indefensible, is not properly measured by exploitation. In particular, it can happen in theory that those who own very little of the means of production are exploiters and those who own a lot are exploited.

Hence exploitation (the transfer of surplus value) is not a proper reflection of underlying property relations.

There is an apparent similarity between this iconoclastic posture toward exploitation theory, and the attacks on the labor theory of value which have accelerated in the past decade.² In the final section, I evaluate this similarity, and claim it is quite shallow. While the labor theory of value almost always gives incorrect insights, exploitation theory in many cases coincides with a deeper ethical position—although on its own terms it does not provide a justification for that position. My verdict will be that exploitation theory is a domicile that we need no longer maintain: it has provided a home for raising a vigorous family who now must move on.

The reader should bear in mind that throughout the article “exploit” has a technical meaning, the unequal exchange of labor. When I claim that exploitation theory is without foundation, I do not mean capitalism is just. I believe capitalism is unjust (or ethically *exploitative*) because of sharply unequal ownership of the means of production. What I show in Section 5 is that this inequality is not necessarily coextensive with the transfer of surplus value from workers to capitalists, and therefore it is inappropriate to ground an equality-based morality on the technical measure of exploitation. If I occasionally use “exploitation” in its ethical as opposed to technical sense, the word will be italicized as above.

II. DEFINITION OF TERMS: A SIMPLE MODEL

I have outlined above an identification problem with respect to the motivation for our interest in exploitation. In this section, this identification problem will be posed as starkly and schematically as possible, by exhibiting a simple model in which exploitation emerges simultaneously with accumulation, domination, differential alienation, and inequality in ownership of the means of production. This section, therefore, serves to define terms and to pose the problem more precisely.

2. See, for example, Joan Robinson, *An Essay on Marxian Economics* (New York: St. Martin's Press, 1966); Michio Morishima, *Marx's Economics* (Cambridge: Cambridge University Press, 1973); Ian Steedman, *Marx after Sraffa* (London: New Left Books, 1977); John E. Roemer, *Analytical Foundations of Marxian Economic Theory* (Cambridge: Cambridge University Press, 1981); Paul A. Samuelson, “Understanding the Marxian notion of exploitation: a summary of the so-called transformation problem between Marxian values and competitive prices,” *Journal of Economic Literature* 9 (1971): 339–431; Jon Elster, *Making Sense of Marx* (Cambridge University Press, forthcoming).

Imagine an economy with 1,000 persons and two goods: corn and leisure. There are two technologies for producing corn, called the Farm and the Factory. The Farm is a labor-intensive technology in which no seed capital is required, but corn is produced from pure labor (perhaps by cultivating wild corn). The Factory technology produces corn with labor plus capital—the capital is seed corn. The technologies are given by:

Farm: 3 days labor \rightarrow 1 corn output

Factory: 1 day labor + 1 seed corn \rightarrow 2 corn output

Corn takes a week to grow (so the seed is tied up in the ground for that long). The total stock of seed corn in this society is 500 corn, and each agent owns $\frac{1}{2}$ corn. The agents have identical preferences which are these: each wants to consume 1 corn *net* output per week. After consuming his 1 corn, the agent will consume leisure. If he can get more than 1 corn for no more labor, he will be even happier: but preferences are lexicographic in that each wishes to minimize labor expended subject to earning enough to be able to consume 1 corn per week, and not to run down his stock of capital.

There is an obvious equilibrium in this economy. The typical agent works up his $\frac{1}{2}$ corn in the Factory in $\frac{1}{2}$ day, which will bring him 1 corn at the end of the week. Having fully employed his seed capital, he must produce another $\frac{1}{2}$ corn somewhere, to replace his capital stock: this he does by working in the Farm technology for $1\frac{1}{2}$ days. Thus he works 2 days and produces 1 corn net output. Every agent does this. Indeed, 2 days is the labor time socially necessary to produce a unit of corn, given that this society must produce 1,000 corn net each week. It is the labor embodied in a unit of corn. At this equilibrium there is no exploitation, since labor expended by each agent equals labor embodied in his share of the net output. Nor is there accumulation, for society has the same endowments at the beginning of next week; nor is there domination at the point of production, since no one works for anyone else; nor is there differential alienation of labor, since there is not even trade; and, of course, there is equality in initial assets.

Now change the initial distribution of assets, so that each of 5 agents owns 100 seed corn, and the other 995 own nothing but their labor power (or, to be consistent with our former terminology, nothing but their leisure). Preferences remain as before. What is the competitive equilibrium?

One possibility is that each of the 995 assetless agents works 3 days on the Farm, and each of the 5 wealthy ones works 1 day in the Factory. But this is not an equilibrium, since there is a lot of excess capital sitting around which can be put to productive use. In particular, the wealthy ones can offer to hire the assetless to work in the Factory on their capital stock. Suppose the “capitalists” offer a corn wage of 1 corn for 2 days labor. Then each capitalist can employ 50 workers, each for 2 days, on his 100 seed corn capital. Each worker produces 4 corn in the Factory with 2 days labor. Thus each capitalist has corn revenues of 200 corn: of that, 100 corn replace the seed used up, 50 are paid in wages, and 50 remain as profits. Capital is now fully employed. But this may or may not be an equilibrium wage: only $5 \times 50 = 250$ workers have been employed, and perhaps the other 745 peasants would prefer to work in the Factory for a real wage of $\frac{1}{2}$ corn per day instead of slaving on the Farm at a real wage of $\frac{1}{3}$ corn per day. If so, the real wage in the Factory will be bid down until the assetless agents are indifferent between doing unalienated, undominated labor on the Farm, and alienated, dominated labor in the Factory. Let us say, for the sake of simplicity, this equilibrating real wage is one corn for $2\frac{1}{2}$ days Factory labor. (In the absence of a preference for Farm life over Factory life, the real wage will equilibrate at 1 corn for 3 days labor, that is, at the peasant’s labor opportunity cost of corn, since in this economy there is a scarcity of capital relative to the labor which it could efficiently employ.) Now we have *accumulation* (or at least much more production than before, which I assume is not all eaten by the capitalists), since each capitalist gets a profit of $200 - 100 - 40 = 60$ corn net, and each worker or peasant gets, as in the first economy, 1 corn net. Hence total net product is $995 + (5 \times 60) = 1,295$ corn, instead of 1,000 corn as before. We also have *domination* since some agents are employed by others, and by hypothesis, this gives rise to domination at the point of production. *Differential alienation* has emerged, since some agents (the workers) alienate a large part of their labor to the capitalists, while the capitalists and the peasants alienate no labor (although they work different amounts of time). *Exploitation* has emerged since the workers and peasants all expend more labor than is “embodied” in the corn they get, while the five capitalists work zero days and each gets 60 corn.

Hence, the four phenomena in question emerge simultaneously with the exploitation, in the passage from the “egalitarian” economy to the

“capitalist” economy. With respect to expropriation, we might also say that it has emerged in the second economy.

III. THE ACCUMULATION THEORY

The unique positive (as opposed to normative) claim among (1) through (4) is the claim that our interest in exploitation is because surplus labor is the source of accumulation and profits. Explanation (1) uses “exploit” in the sense of “to turn a natural resource to economic account; to utilize,” while theories (2), (3) and (4) use “exploit” in the sense of “to make use of meanly or unjustly for one’s own advantage or profit.”³ A current in Marxism maintains that exploitation is not intended as a normative concept, but as an explanation of the *modus operandi* of capitalism; the production of profits in a system of voluntary exchange and labor transfers is the riddle which must be explained, and which Marx posed in *Capital*, Volume I. The discovery that exploitation of labor is the source of profits answers the riddle. (Even though all commodities exchange “at their values,” a surplus systematically emerges at one point in the labor process. For the value which labor produces is greater than what labor power is worth, and hence what it is paid.) Indeed, the claim that exploitation theory should not be construed as normative theory has its source in Marx, as Allen Wood points out.⁴

The formal theorem supporting position (1) was first presented by Okishio and Morishima,⁵ and the latter coined it the Fundamental Marxian Theorem (FMT). It demonstrates that in quite general economic models, exploitation of labor exists if and only if profits are positive. The FMT is robust; the error lies in the inference that its veracity implies that profits are *explained* by the exploitation of labor. For, as many writers have now observed, *every* commodity (not just labor power) is exploited under capitalism. Oil, for example, can be chosen to be the value numeraire, and embodied oil values of all commodities can be calculated. One can prove that profits are positive if and only if oil is exploited, in the sense that the amount of oil embodied in producing one unit of oil is less than one unit of oil—so oil gives up into production more than it

3. Definitions of exploitation are from *Webster’s Dictionary* (1966).

4. Allen Wood, *Karl Marx* (London: Routledge & Kegan Paul, 1981), chap. 9.

5. Morishima, *Marx’s Economics*. Many authors have since studied and generalized the Fundamental Marxian Theorem.

requires back.⁶ Thus the exploitation of labor is not the explanation for profits and accumulation any more than is the exploitation of oil or corn or iron. The motivation for the privileged choice of labor as the exploitation numeraire must lie elsewhere, as I have argued in other articles.⁷ In trying to locate the specialness of labor which would justify its choice as the exploitation numeraire, one is inexorably led into arguments that labor is the unique commodity which can be “dominated” or “alienated”—the terrain of argument shifts to a defense of theories like (2) and (3). The dialogue goes something like this, where “Marxist” is defending theory (1):

Marxist: The exploitation of labor accounts for the existence of profits under capitalism. That’s why we are interested in exploitation theory, not as normative theory.

Antagonist: But oil is exploited too under capitalism, and its exploitation is, as well, necessary and sufficient for profits. So labor’s exploitation does not *explain* profits.

Marxist: No, you are not entitled to say oil is exploited, because oil is not dominated, oil is not alienated from its possessor in any interesting sense during production, one’s oil is not a joint product with one’s self, there are no problems in extracting the oil from the “oil power.” Only labor has these properties and hence only labor is exploited.

Antagonist: Initially you claimed your interest in exploitation theory was as a positive theory only. But you rule out describing oil as exploited for reasons that can only imply exploitation has normative content. For surely the domination and alienation of labor and the attachment of labor to the self are germane not for evaluating whether labor is or is not

6. This Generalized Commodity Exploitation Theorem has been proved and/or observed by many authors, including Josep Ma. Vega, *Economia Política y Modelos Multisectoriales* (Madrid: Editorial Tecnos, 1979); Samuel Bowles and Herbert Gintis, “Structure and practice in the labor theory of value,” *Review of Radical Political Economics* 12, no. 4 (Winter 1981): 1–26; Robert P. Wolff, “A Critique and Reinterpretation of Marx’s Labor Theory of Value,” *Philosophy & Public Affairs* 10, no. 2 (Spring 1981): 89–120; Roemer, *General Theory*, Appendix 6.1; Paul A. Samuelson, “The Normative and Positivist Inferiority of Marx’s Values Paradigm,” *Southern Economic Journal* 49, no. 1 (1982): 11–18.

7. See J. E. Roemer, “R. P. Wolff’s Reinterpretation of Marx’s Labor Theory of Value: Comment,” *Philosophy & Public Affairs* 12, no. 1 (Winter 1983): 70–83; J. E. Roemer, “Why Labor Classes?” (U.C. Davis Working Paper, 1982).

used in the sense of "turning a natural resource to economic account," but only for deciding whether labor is "made use of meanly or unjustly for [one's own] advantage or profit." You claim to be interested in labor's exploitation only because labor is exploited in the first sense, but rule out calling other commodities exploited because they are not *exploited* in the second sense. I take it, then, your *true* justification for describing labor as exploited must lie in one of the normative theories of exploitation.

I conclude position (1) cannot be supported as the reason for our interest in exploitation theory.⁸ Despite his avowed lack of interest in a normative justification of exploitation theory, the Marxist in the dialogue can only rescue exploitation theory from the jaws of the Generalized Commodity Exploitation Theorem by appealing to a special claim labor has on wearing the exploitation mantle, a claim that seems only to be defensible on grounds of the unfairness or unjustness or nastiness of the conditions of labor's utilization. As G. A. Cohen writes, "... Marxists do not often talk about justice, and when they do they tend to deny its relevance, or they say that the idea of justice is an illusion. But I think justice occupies a central place in revolutionary Marxist belief. Its presence is betrayed by particular judgments Marxists make, and by the strength of feeling with which they make them."⁹ And I would add, it is only by appealing to conceptions of justice that exploitation theory can be defended as interesting.

IV. THE DOMINATION THEORY

For the remainder of this article, my concern will be to investigate the possibility of defending an interest in exploitation theory for the light it sheds on the three issues of domination, differential alienation, and inequality in ownership of the means of production. My interest in these three issues is normative. If, for example, exploitation can be shown to

8. R. P. Wolff, "A Critique and Reinterpretation," while recognizing that the exploitation of labor cannot explain profits, offers a reason other than domination and alienation to be interested in exploitation; as I have argued against his proposal elsewhere (Roemer, "R. P. Wolff's Reinterpretation of Marx's Labor Theory of Value"), I will not repeat that discussion.

9. G. A. Cohen, "Freedom, Justice and Capitalism," *New Left Review*, no. 125 (1981). For an opposite point of view, see Wood, *Karl Marx*.

imply domination of workers by capitalists, and if we argue independently that domination is unjust, then exploitation theory provides at least a partial theory of the injustice of capitalism. (Only a partial theory, since other practices besides domination might be unjust, which exploitation theory would not diagnose.) Identifying the main evil of capitalism as domination, and even extraeconomic domination, is a theme of some contemporary Marxist work.¹⁰ It is not my purpose to evaluate this claim (with which I disagree), but rather to postulate an ethical interest in domination, and ask whether that justifies an interest in exploitation theory.

It is necessary to distinguish two types of domination by capitalists over workers, domination in the maintenance and enforcement of private property in the means of production, and domination at the point of production (the hierarchical and autocratic structure of work). The line between the two cannot be sharply drawn, but let us superscript the two types domination¹ and domination², respectively. I will argue that each of domination¹ and domination² implies exploitation, but not conversely. Hence if our interest is in domination, there is no reason to invoke exploitation theory, for the direction of entailment runs the wrong way. Domination may be a bad thing, but there is no reason to run the circuitous route of exploitation theory to make the point. In certain situations, exploitation requires domination¹, but since we cannot know these cases by analyzing the exploitation accounts alone, there is no reason to invoke exploitation if, indeed, our interest in exploitation is only as a barometer of domination¹. Furthermore, our interest in domination¹ is essentially an interest in the inequality of ownership of the means of production, for the purpose of domination¹ is to enforce that ownership pattern. I maintain if it is domination¹ one claims an interest in, it is really inequality (however defined) in the ownership of the means of production which is the issue. Thus, an ethical interest in domination¹ shifts the discussion to the validity of position (4), while an interest in domination² has as its source the moral sentiments reflected in the epigraph from J. S. Mill, in the analogy implied by the term wage slavery.

Domination¹ enforces property relations in two ways. The obvious way

10. Ellen Meiksins Wood, "The separation of the economic and political in capitalism," *New Left Review*, no. 127 (May-June 1981); Bowles and Gintis, "Structure and Practice"; Erik Olin Wright, "The Status of the Political in the Concept of Class Structure," *Politics and Society* 11, no. 3 (1982): 321-42.

is through police power protecting assets, preventing their expropriation by those not owning them. Clearly, since differential ownership of the means of production gives rise to exploitation, this form of domination implies exploitation. The second way domination¹ enters into property relations is to give property its value in the absence of perfect competition. A property right is not a physical asset, it is the right to appropriate the income stream flowing from a certain physical asset. (As C. B. MacPherson points out, it is peculiarly under capitalism that physical assets are confused with the property rights that are related to them.¹¹) In the absence of perfect competition, the value of property is not defined by the market. Under perfect competition, all agents are price (and wage) takers, no one has power to bargain or to set the terms of trade. Prices in equilibrium clear markets. Assuming the equilibrium is unique (a heroic assumption), property values are then well-defined. But in the absence of perfect competition, there is room for bargaining, and the value of one's property rights may well be determined by extraeconomic domination.¹² (It is more accurate to say values are not defined by the traditional economic data, and at present there is no accepted theory of bargaining under imperfect competition which can determine them.) This is typically the case where markets for particular assets or commodities are thin. The state or landlord which (or who) controls the irrigation canal (an indivisible commodity, with a very thin market) can exact a monopolistic price for its use, giving rise to high peasant exploitation. Due to thin credit markets in rural areas of the underdeveloped countries, local landlords are able to charge usurious interest rates to peasants for consumption loans, increasing the rate of exploitation. To the extent that one thinks incomes from different types of labor under capitalism are politically determined, in order to assert control over the work force,¹³ rather than as a reflection of relative scarcities, then

11. C. B. MacPherson, *Property: Mainstream and Critical Positions* (Toronto: University of Toronto Press, 1978), chap. 1.

12. Samuel Bowles and Herbert Gintis, "The Power of Capital: On the Inadequacy of the Conception of the Capitalist Economy as 'Private,'" *Philosophical Forum* 14, nos. 3-4 (1983) claim that even in perfect competition, if there are multiple equilibria, then property values are not well-defined and there is room for domination¹ in determining which set of equilibrium prices will prevail. This is a dubious assertion. If indeed no agent has economic power, in the sense perfect competition postulates, then which of several multiple equilibria will rule is not due to domination¹ but is simply an unanswerable question, given the information in the model.

13. See Richard Edwards, *Contested Terrain: The Transformation of the Workplace in America* (New York: Basic Books, 1979).

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domination¹ plays a role in determining exploitation. Domination¹ may determine what certificates people receive, through channeling them into different educational careers, and those certificates determine the value of the person's labor services.¹⁴ In these cases, the peculiarity of domination¹, what contrasts it with feudal domination, is its effect on setting the value of services or assets in the *market* (and thereby influencing the degree of exploitation). Although the power relation inherent in domination¹ is finally realized through markets, contrasted with feudalism, it is similar to feudal exploitation, since one agent has *power* over another which he would not have in a fully developed, perfectly competitive market economy. Thus this exercise of domination¹ is not the essence of capitalism, if capitalism is essentially a competitive system. Certainly Marx's proclaimed task was to explain capitalism in its purest form: where the values of all commodities are explained by "fair trades," that is, values commanded on perfectly competitive markets.

In certain situations, conversely, exploitation implies domination¹; I mean the trivial observation that exploitation is the consequence of differential ownership of the means of production which, in many cases, the exploited would alter were it not for police power preventing them from doing so. (Hence, if we observe exploitation, there must be domination¹.) It has been maintained, however, that exploitation need not imply domination¹; Adam Przeworski argues that in some Western European countries workers have the power to expropriate capitalists, and hence they are not dominated¹, but they do not, because it is not in their perceived interests to do so.¹⁵ Moreover, in Sections 4 and 5 below I show that exploitation can exist without differential ownership of the means of production; therefore, presumably exploitation can exist even though all agents accept as just the property rights, and so domination¹ (police power to protect property) need not attain. In summary, my claims concerning domination¹ are these: (a) with respect to the exercise of power under conditions of imperfect competition, domination¹ exists and is perhaps important in capitalism, and more so in less developed capitalism, but it is characteristically noncapitalist, that is, being due to imperfect competition and thin markets; (b) it implies exploitation, but that provides no reason to be interested in exploitation theory, if our concern

14. Samuel Bowles and Herbert Gintis, *Schooling in Capitalist America* (New York: Basic Books, 1976).

15. Adam Przeworski, "Material Interests, Class Compromise and the Transition to Socialism," *Politics and Society* 10, no. 2 (1980).

is really with domination¹; (c) in some cases, perhaps the archetypical case, exploitation implies domination¹ in the sense of police power protecting property, but in that case it is not the domination that concerns us but the unjust inequality in the distribution of the means of production. If (c) is our reason for justifying an interest in exploitation theory, we are invoking position (4) and not position (2), since domination¹ in this case is only the means to maintain the unequal distribution of assets which is the basis for our condemnation of capitalism.

The more usual conception of domination is the second one; domination² does not involve the protection or creation of value in capitalist property, but rather the hierarchical, nondemocratic relations in capitalist workplaces. Of course, this hierarchy presumably creates (additional) profits, and therefore leads to an increased valuation of capitalist property, and hence is similar to the role of domination¹; but in discussing domination² I am specifically concerned with the domination of the worker's self, the relation of subordination he enters into with the capitalist when he enters the workplace. While our moral opposition to domination¹ shares its foundation with our moral opposition to feudalism, our opposition to domination² shares its foundation with our opposition to slavery. (The analogy is inexact, since many feudal practices involved domination² over the selves of serfs; for the sake of the analogy, I envisage "pure feudalism" as a system where feudal dues are paid because of extraeconomic coercion, but the serf never sees or interacts personally with the lord.)

Although domination² can create the conditions for profitability and therefore exploitation of labor, the converse is in general not the case. Exploitation does not imply the existence of domination². I showed in my book that the class and exploitation relations of a capitalist economy using labor markets can be precisely replicated with a capitalist economy using credit markets,¹⁶ where domination² does not exist. In Labor Market Capitalism, agents optimize, given their endowments of property, and end up choosing either to sell labor power, to hire labor power, or to produce for the market using their own labor power on their own account. Agents segregate themselves into five classes, based on the particular ways they relate to the labor market. The Class Exploitation Correspondence Principle demonstrates that everyone who optimizes by selling labor

16. For a detailed presentation of this material, see Roemer, *General Theory*, pts. 1 and 2. For a summary, see J. Roemer, "New Directions in the Marxian Theory of Exploitation and Class," *Politics and Society* 11, no. 3 (1982): 253–88.

power is exploited, and everyone who optimizes by hiring labor is an exploiter. It was assumed in that analysis that agents make the decision to sell labor entirely on economic grounds; they do not calculate as part of their objective the disutility associated with being dominated², with working under a boss. In Credit Market Capitalism, there is no labor market, but a market for lending capital at an interest rate. At the equilibrium, some agents will lend capital, some will borrow capital, some will use their own capital for production. Again, agents segregate themselves into five classes defined by the particular ways they relate to the credit market. Again, the Class Exploitation Correspondence Principle holds: any agent who optimizes by borrowing capital will turn out to be exploited. Moreover, the Isomorphism Theorem states that these two hypothetical capitalisms are identical insofar as class and exploitation properties are concerned. An agent who, under Labor Market Capitalism, was a member of a labor-selling class, and was therefore exploited, will be a member of a capital-borrowing class in Credit Market Capitalism, and will be exploited. This result replays the Wicksell-Samuelson theme that it is irrelevant, for the distribution of income, whether capital hires labor or labor hires capital; the mild sin of omission of these writers was not to point out that propertyless agents are exploited in either case, whether they be the hirers or sellers of the factor. In Labor Market Capitalism there is domination², but in Credit Market Capitalism, there is not.¹⁷

Moreover, an even sharper example may be constructed of an economy possessing no labor or credit market, but only markets for produced commodities which are traded among individual producers. In such an economy exploitation will result at equilibrium, in general, if there is initial inequality in the ownership of means of production. But in this exchange and production economy, there are no relations of domination² of any kind; the exploitation can be accomplished through "invisible trade." It is possible to argue that there is exploitation without class in this economy, since all producers enjoy the same relation to the means of production: they work only on their own.¹⁸ Indeed, this example may be taken as the

17. I am speaking of a pure form of Credit Market Capitalism; in actual credit markets, lenders often supervise debtors if sufficient collateral is not available, or if there would be problems in enforcing collection of collateral.

18. For the details of this economy see *General Theory*, chap. 1; for a simple example, see J. E. Roemer, "Are Socialist Ethics Consistent with Efficiency?" *Philosophical Forum* 14, nos. 3-4 (1983): 369-88.

archetype of exploitation, or unequal exchange, between countries where neither labor nor capital flows across borders. Differential initial endowments of countries will give rise to exploitation in trade, even when no relations of domination² through international labor migration or capital lending take place.¹⁹

The previous paragraphs claim to demonstrate that the existence of exploitation does not imply the existence of domination², and hence our putative interest in exploitation theory cannot be justified on grounds of a more basic interest in domination². Here I follow Marx, in modeling capitalism as a system where there are no market frictions, but where goods exchange competitively at their market-determined prices. In particular, it seems appropriate, for this thought experiment, to assume all contracts are costlessly enforceable and can be perfectly delineated. For Marx wished to show the economic viability of capitalism in the absence of cheating: and that means contracts are well-defined and observed by all. Now the principal reason domination² exists is that the labor contract is not costlessly enforceable, nor can it be perfectly delineated. This point is usually put more graphically when Marxists speak of the problems of extracting the labor from the labor power. Indeed, the contemporary labor process literature addresses the methods capitalism (and perhaps socialism) has developed to solve this problem.²⁰ But for our thought experiment, we are entitled to assume the delivery of *labor* (not simply labor power) for the wage is as simple and enforceable a transaction as the delivery of an apple for a dime. In such a world, exploitation continues to exist, but domination² does not. And I claim Marxists would be almost as critical of such a perfect capitalism as they are of existing capitalism, replete as the real thing is with domination² due to the contract enforcement problem. Indeed, Marxists consider sharecroppers and borrowers to be *exploited* (unjustly so, that is), even when domination² is absent from those contracts. The Isomorphism Theorem I quoted was an attempt to develop this point formally, that in a world absencing deleterious domination² effects, the exploitation observed in labor markets would be

19. See J. E. Roemer, "Unequal Exchange, Labor Migration and International Capital Flows: A Theoretical Synthesis," in *Marxism, the Soviet Economy and Central Planning: Essays in Honor of Alexander Erlich*, ed. Padma Desai (Cambridge, MA: MIT Press, 1983).

20. For example, see Harry Braverman, *Labor and Monopoly Capital* (New York: Monthly Review Press, 1974) and Richard Edwards, *Contested Terrain*.

indistinguishable from that observed in credit or sharecropping arrangements.²¹

A criticism of the Isomorphism Theorem can be made as follows. If one wishes to study the relationship between domination² and exploitation, then the model of the Class Exploitation Correspondence Theorem and the Isomorphism Theorem is inappropriate, because it is there assumed that domination² is not an issue to the people involved. In reply to this point, I have worked out a revised model (which is available in detail from the author) where domination² effects exist. These are captured as follows: each agent has an initial endowment of means of production, which takes on a value as finance capital at given prices. He seeks to maximize a utility function of income and work performed. It matters to him whether the work is performed in his own shop, or under a boss. Thus, the utility function has three arguments: income, labor performed on one's own account, and wage labor performed for others. Subject to his capital constraint, determined by initial asset holdings and prices, each agent maximizes utility. The domination² postulate is that every agent would rather work on his own account than for a boss, and this is reflected in the utility function. At equilibrium, agents sort themselves into five classes:

Class 1: those who only hire others

Class 2: those who hire others and work on their own account

Class 3: those who only work on their own account

Class 4: those who work on their own account and sell wage labor

Class 5: those who only sell wage labor.

I say an agent is *dominated* if he maximizes utility subject to constraint by placing himself in classes 4 or 5, and he is *dominating* if he optimizes by being in classes 1 or 2. The theorem, which can be called the Exploitation-Domination Correspondence, states that any dominated agent is exploited and any dominating agent is an exploiter. The converse, however, does not hold. In particular, agents in class position 3 will often be either exploited or exploiting, but they are neither dominated nor dominating.

It is therefore difficult to justify an interest in exploitation if our real

21. Further discussion of some of these issues can be found in J. E. Roemer, "Reply," *Politics and Society* 11, no. 3 (1982): 375-94.

concern is domination², for two reasons. First, domination² is directly observable (simply look at who hires whom) and exploitation is not. Hence, calculating whether an agent is exploited (a difficult calculation, necessitating all sorts of technological information to compute socially necessary labor times) would be a strangely circuitous route to concluding he is dominated². Secondly, it is not true that an exploited agent is necessarily dominated or that an exploiter is necessarily dominating; the Exploitation-Domination Correspondence states the converse. Exploited (exploiting) agents who are not dominated (dominating) would have a confused ethical status if our judgment about them is made on the basis of exploitation, but our interest in exploitation is as a proxy for domination. The hard-working shopkeeper or sharecropper would have our ethical sympathy on grounds of exploitation but not domination². This does not help us provide independent reason for an interest in exploitation theory, of course, which is the task at hand. Thus exploitation is a poor statistic for domination² on several counts.

My conclusions concerning domination² are: (a) our interest in exploitation theory cannot be justified on grounds that it is indicative of or a proxy for domination², either logically, or on pragmatic grounds; (b) although domination² is prevalent in existing capitalism, it is arguably a phenomenon of second order in a *Marxist* condemnation of capitalism, being associated with the imperfections in writing and enforcing contracts, while Marxist arguments should apply to a capitalism with frictionless contracts. In addition, although not argued here (as my concern is not with the evils of domination² but with the evils of exploitation), I think the analogy between domination² and slavery is ill-founded. It is arguable that the life of the small independent producer is not so marvelous compared to that of the factory worker, that the transition from poor peasant to urban proletarian is one made willingly, even gladly, and with reasonably good information, where the erstwhile independent producer is knowledgeable about the trade-offs. I say arguable, not obvious: but it is more than arguable that no population ever voluntarily committed itself to slavery willingly and gladly.

V. THE ALIENATION THEORY

To discuss properly a possible justification of an interest in exploitation theory on grounds that it is indicative of different degrees of alienation,

we must separate alienation from, on the one hand, domination and on the other hand differential ownership of the means of production, as those issues are discussed separately under (2) and (4). An interest in differential alienation must be defended *per se*, even in the absence of domination and differential ownership of the means of production. Perhaps the most graphic vision of exploitation is as the extraction of surplus labor from the worker: the extraction, that is, of more labor from him than he receives back as social labor in what he consumes or can purchase with his wages. His labor is alienated from him not because he performs it for another (under conditions of domination²²) but because it is labor performed to produce goods for exchange, not for use. More precisely, the goods produced are traded to an anonymous final recipient on a market, and thus labor becomes alienated in a way it would not have been were there a social division of labor but the final disposition of goods was in one's "community." (See B. Traven's marvelous story "Assembly Line" for a discussion of alienation.²²) Now if everyone started off with the same endowment of means of production and had the same skills and preferences, but all agents produced goods for a market, there would be alienation of labor in this sense, but not differential alienation, since it can be shown everyone would receive back as much social labor in goods as he alienated in production for the market. Exploitation can be said to exist in a market economy when some people alienate more labor than

22. B. Traven, *The Night Visitor and Other Stories* (New York: Hill and Wang, 1973). In the story "Assembly Line," a Mexican Indian has been offered a huge sum of money, more than he has ever dreamed of, to mass-produce little baskets for a New York department store, which he has formerly made only in small quantities for the local market. The New York buyer is astonished that the Indian is not interested in the proposal. The Indian explains: "Yes, I know that jefecito, my little chief," the Indian answered, entirely unconcerned. "It must be the same price because I cannot make any other one. Besides, señor, there's still another thing which perhaps you don't know. You see, my good lordy and caballero, I've to make these canastitas my own way and with my song in them and with bits of my soul woven into them. If I were to make them in great numbers there would no longer be my soul in each, or my songs. Each would look like the other with no difference whatever and such a thing would slowly eat my heart. Each has to be another song which I hear in the morning when the sun rises and when the birds begin to chirp and the butterflies come and sit down on my baskets so that I may see a new beauty, because, you see, the butterflies like my baskets and the pretty colors in them, that's why they come and sit down, and I can make my canastitas after them. And now, señor jefecito, if you will kindly excuse me, I have wasted much time already, although it was a pleasure and a great honor to hear the talk of such a distinguished caballero like you. But I'm afraid I've to attend to my work now, for day after tomorrow is market day in town and I got to take my baskets there."

they receive from others, and some alienate less labor than they receive back. Why might alienation be a bad thing? Perhaps because one's time is the only really valuable asset one has, and production for the market is considered to be a waste of time. Perhaps because productive labor for oneself or one's community is what constitutes the good life, but the use of labor to earn revenues solely to survive, not to produce for others directly, is a prostitution of a deep aspect of the self. Thus alienation might be bad, and differential alienation might be unjust or *exploitative*. (There are certainly other forms of alienation in Marx, but this kind of differential alienation appears to be the only kind for which exploitation as the unequal exchange of labor is an indicator.)

Any ethical condemnation of differential alienation cannot be a welfarist one, in the sense of Amartya Sen,²³ based only on the preferences of individuals. For I will outline a situation where agents with different preferences start with equal endowments of resources and voluntarily enter into relations of differential alienation (i.e., exploitation) as the way to maximize their utilities. Consider two agents, Adam and Karl, who each start off with the same amount of corn, which is the only good in the economy and can be used both as capital (seed corn) and as the consumption good. We have the same technological possibilities as in the model of Section 2.

Farm: 3 days labor produces 1 bushel corn

Factory: 1 day labor plus 1 bushel seed corn produces 2 bushels corn

Adam and Karl each start with $\frac{1}{2}$ bushel of corn, and each will live and must consume for many weeks. (Recall, a week is the time period required in each case to bring corn to fruition, although the amount of labor expended during the week differs in the two processes.) Karl is highly averse to performing work in the present: he desires only to consume 1 bushel of corn per week, subject to the requirement that he not run down his seed stock. In the first week, he therefore works $\frac{1}{2}$ day in the Factory (fully utilizing his seed corn) and $1\frac{1}{2}$ days on the Farm, producing a total of $1\frac{1}{2}$ bushels, one of which he consumes at harvest time, leaving him with $\frac{1}{2}$ bushel to start with in week 2. Adam accumulates; he works $\frac{1}{2}$ day in the Factory, utilizing his seed, and $4\frac{1}{2}$ days on the Farm, producing $2\frac{1}{2}$ bushels gross. After consuming 1 bushel, he has $1\frac{1}{2}$ bush-

23. See, for a definition of welfarism, Amartya Sen, "Utilitarianism and Welfarism," *Journal of Philosophy* 76, no. 9 (1979): 463–89.

els left to start week 2. In week 2, Karl works up his own seed stock in $\frac{1}{2}$ day in the Factory producing 1 bushel; then, instead of going to the Farm, Karl borrows or rents Adam's $1\frac{1}{2}$ bushels of seed and works it up in the Factory. This takes Karl precisely $1\frac{1}{2}$ days, and he produces 3 bushels gross in the factory. Of the 3 bushels he keeps $\frac{1}{2}$ bushel, and returns $2\frac{1}{2}$ bushels to Adam (Adam's principal of $1\frac{1}{2}$ bushels plus interest of 1 bushel). Indeed, Karl is quite content with this arrangement, for he has worked for a total of 2 days and received $1\frac{1}{2}$ bushels, just as in week 1, when he had to use the inferior Farm technology. Adam, on the other hand, receives a profit of 1 bushel from Karl's labor, which he consumes, and is left again to begin week 3 with $1\frac{1}{2}$ bushels. He has not worked at all in week 2. This arrangement can continue forever, with Karl working 2 days each week and consuming 1 bushel, and Adam working 5 days during the first week, and zero days thereafter. Clearly there is exploitation in the sense of differential alienation in this story, in all weeks after the first, but its genesis is in the differential preferences Karl and Adam have for the consumption of corn and leisure over their lives. Thus exploitation cannot be blamed, in this story, on differential initial ownership of the means of production, nor can the situation be condemned on Paretian grounds, as no other arrangement would suit Karl and Adam more. They chose this path of consumption/leisure streams. Indeed during any week Karl could decide to work on the Farm and accumulate more seed corn, thus enabling him to cut his working hours in future weeks. (I am assuming he is *able* to do so; if he is not, then Karl is handicapped, and the ethical verdict is certainly more complicated.) But he does not.

Actually the above example does not quite rigorously make the point that differential alienation cannot be condemned on Paretian grounds: because if alienation is to be so condemned, then the agents themselves should distinguish between the performance of alienated and nonalienated labor in their utility functions. That is, each agent should prefer to perform nonalienated labor to alienated labor. If we now modify the story to include such a preference, then the above example fails, since Karl could have achieved the same outcome of 2 days labor and 1 bushel corn, each week, by continuing his autarchic program of working partly in the factory on his *own* seed corn, and then moving to the farm and working for his *own* consumption. Karl would perform no alienated labor (producing goods only for himself) and would hence be better off. Were this

to occur, then Adam would have to work some in the Factory each period, since Karl refused to borrow seed capital from him. But this failure of the example can easily be fixed: simply note that Adam could work a little longer in the first week, producing a little more seed capital, and then in future weeks he could lend his seed to Karl at a sufficiently low interest rate that Karl would be compensated for his distaste in performing alienated labor by the savings in overall labor he achieves by borrowing from Adam. Thus both Adam and Karl can strictly benefit from cooperation, even if each has a distaste for performing alienated labor, so long as there is a trade-off between that distaste and the taste for leisure. Hence the claim is true: that even if alienation matters to people, an outcome of differential alienation cannot be condemned on Paretian or welfarist grounds, nor on grounds of inequality in the distribution of assets, since an example has been constructed where agents who start off with identical endowments choose to enter into relations of differential alienation. And if alienation, as I have defined it, seems unrealistic in a society of two people, then replicate the economy one millionfold, so there are a million each of Karls and Adams. Moreover, we can introduce many goods into the economy so that there is a real social division of labor, and some Adams make car fenders all day long and other Adams make pin-heads all day long. But the same result can be constructed: starting from the same endowments, agents with different preferences for the various goods, leisure, and nonalienated labor, may well choose to enter into relations of differential alienation.

So if we are to conclude that differential alienation is *exploitative*, in the sense of ethically condemnable, that verdict cannot be arrived at on Paretian grounds. Indeed, the above example enables us to speak of “the impossibility of being a differential-alienation-condemning Paretian” in exactly the sense of “the impossibility of being a Paretian liberal.”²⁴ For, as the last several paragraphs demonstrate, to avoid alienation Karl must produce only for himself (using both the Farm and the Factory), which will require Adam to work each week for himself. But in the example this is not a Pareto optimal allocation of labor. Only by engaging in differentially alienated labor can Karl and Adam take full advantage of the efficient Factory technology. Thus even the mild welfarist requirement of Pareto efficiency comes into conflict with exploitation-as-differential-

24. On the impossibility of being a Paretian liberal, see for instance, Amartya Sen, *Collective Choice and Social Welfare* (New York: North Holland, 1979), chap. 6.

alienation. There may still be grounds for calling such differential alienation *exploitative*, but it appears such grounds must be based on *rights*, not welfare outcomes as the agents see them.

We are led to ask, then, whether a person has a *right* not to perform more alienated labor than another person. We might be able to argue that one has a right not to be *forced* to perform more alienated labor than another: but that will lead straight into a discussion of differential ownership of the means of production, which is not the issue here.²⁵ For in our story Karl chooses to perform more alienated labor than Adam from a position of equality of resources and opportunity. Nobody forces him, unless we slide further down the slippery slope of defining the “resources” available to the person and argue that Karl was forced because he had no choice of the personal characteristics that gave rise to his *carpe diem* preferences. I cannot see a compelling argument for declaiming such a right, in part because I cannot see a compelling argument against the performance of alienated labor, let alone differential alienation. I think moral intuitions on this matter must take their cue from history. It is far from clear that people, in historical reality, have had an aversion to performing alienated labor. Indeed, many (including Marxists) argue that production for the market has been a liberating process for many populations, a process which they enter into willingly. (Recall, we are not concerned here with domination, of choosing to work for others, but only with alienation, of producing for a market.)

I think the argument for postulating that a person has a right not to perform more alienated labor than another person is extremely weak. Hence I cannot defend an interest in exploitation as a proxy for an interest in differentially alienated labor. The problem is that there is not necessarily anything condemnable with differentially alienated labor if it arises from differential preferences which we accept as well-formed and not like handicaps. To consider “myopic” preferences to be handicaps, we would have to argue that there is an upper bound on correct rates of time discount, and people who discount time more highly are handicapped. While in some instances the case for such a handicap can be made (typically, when a high rate of time discount is a consequence of having been severely deprived of assets in the past), in the general instance, it

25. For a discussion of why proletarians can be thought of as forced to alienate their labor, even in a world of voluntary wage contracts, see G. A. Cohen, “The Structure of Proletarian Unfreedom,” *Philosophy & Public Affairs* 12, no. 1 (Winter 1983): 3–33.

cannot be. The last parenthetical aside cues the most important situation where we might view differential alienation, arrived at from differential preferences, as exploitative: when those preferences are in fact learned as a consequence of differential ownership of the means of production in the past. Suppose the rich learn to save, and the poor do not; having learned such rates of time preference from their past environments, formerly rich Adam may end up accumulating and exploiting formerly poor Karl, even when the new state starts them off with clean slates by redistributing the initial endowment to one of equality between them. But in this case our justification for thinking of differential alienation as exploitative is due to the rich background of Adam and the poor one of Karl; we are reduced to an argument for an interest in exploitation as an indicator of inequality in the ownership of assets, to which I soon turn.

The possibility remains that even though nondifferentially-alienated outcomes cannot be defended on Paretian grounds, nor on grounds of rights, perhaps they can be defended for perfectionist reasons. I will not attempt here to defend my position against a perfectionist attack, except to say that my defense would amplify on the point of the two previous paragraphs. It seems that differential alienation of labor, from an initial position of equal opportunity and fair division of assets, can vastly increase the welfare and life quality of people, and so a perfectionist defense of nonalienation seems remote.

VI. DIFFERENTIAL OWNERSHIP OF PRODUCTIVE ASSETS

The fourth reason to be interested in exploitation is as an index of the inequality in ownership of productive assets. This approach is represented, for example, in the epigraph from Marx. The Marxist position that socialist revolution entails redistribution or nationalization of the means of production to eliminate exploitation traces to this conception of exploitation. (In contrast, the emphasis of exploitation as domination² gives rise to industrial democracy as the key aspect of socialist transformation.) In my recent book and in other articles I have claimed that this is the most compelling reason to be interested in exploitation, by showing in a series of models that the existence of exploitation is equivalent to inequality in distribution of initial assets, and that the rich exploit the poor. Hence exploitation theory can be justified if we accept a presumption that initial inequality in the wealth of agents is unjust, for exploitation

(in these models) is essentially equivalent to initial inequality of assets. Nevertheless this may appear to weaken the argument for being interested in exploitation (defined as I have done throughout this article), for it is probably easier to observe inequality in ownership of assets than it is to calculate exploitation accounts. Surprisingly, however, if our ethical interest is really in initial inequality of ownership of assets, the importance of Marxian *class* theory is strengthened. For in the models I investigated, class membership is closely related to wealth: the “higher” one’s class position, the wealthier one is in productive assets. In particular, any agent who optimizes by hiring others is wealthy and is an exploiter, and any agent who optimizes by selling labor power is relatively poor and is exploited. Now class relations are still easier to observe than wealth, and so the Class-Wealth Correspondence enables us to conclude a great deal about the initial distribution of productive assets by observing how people relate to the hiring and selling of labor power. Class position provides a convenient proxy for the fundamental inequality in which, I claim, we are interested; but exploitation drops out as an unnecessary detour.

Still, according to this description of the results, exploitation may be thought of as an *innocuous* appendix to our true ethical concerns: innocuous because although unnecessary, surplus value accounts correspond to underlying inequality in ownership of assets in the proper way. I now go further and claim that in the general case, exploitation theory leads to results which may conflict directly with the inequality-of-productive-assets theory. And therefore, finding no other reasons to be interested in exploitation accounts, I must say exploitation theory, in the general case, is misconceived. It does not provide a proper model or account of Marxian moral sentiments; the proper Marxian claim, I think, is for equality in the distribution of productive assets, not for the elimination of exploitation.

The “general case” in which exploitation accounts and inequality accounts diverge occurs when general preferences for agents are admitted. In particular, if preferences for income versus leisure differ across agents, the divergence can occur. Indeed, the two theories can diverge even for cases when preferences are identical for all agents as I will show. In my book, I assumed preferences of all agents were the same, and of certain special forms: either all agents wanted to accumulate as much as possible, or they wanted just to subsist, two preference profiles that appear to be polar opposites. Indeed, there may be a strong case that the assumption

of one of these profiles of preferences is not a bad one, historically, in which case exploitation theory might correspond empirically to Marxian ethical conceptions. But I am concerned here with the logical foundations of exploitation theory, and for that purpose general and abstract formulations with respect to admissible preference profiles are essential.

Before proceeding, it is important to correct a possible misimpression from an earlier article.²⁶ I argued there that a pure inequality-of-assets definition was better than the Marxian surplus value definition for characterizing exploitation; that claim is weaker than the claim here, for in that article I took the Marxian surplus value definition to mean “the extraction of surplus labor from one agent by another in a production relation.” In the present paper, I am taking exploitation to be defined by “unequal exchange of labor,” whether or not there is a production relation between the agents in which one “extracts” the labor of another. In the previous article, I did not argue against the “unequal exchange of labor” conception of exploitation, except to say that the inequality-of-property definition was a cleaner but equivalent characterization of the same phenomenon. I now claim that “unequal exchange of labor” is not characterized by the inequality of productive assets when we admit general preferences structures.

I shall show that if the preferences of agents do not satisfy a certain condition, then it can happen that the asset-rich are exploited by the asset-poor: the flow of surplus value goes the “wrong way.” This can occur even when all agents have identical preference maps for income and leisure—but what is critical is that the agents’ preference for leisure must change rather substantially, and in a particular way, as their wealth changes. Once this example is demonstrated, one can no longer claim that exploitation is a significant index of inequality of initial assets which measures the flow from the asset-poor to the asset-rich.

I will first give a general explanation of why the correspondence between exploitation and wealth can fail. Then, a simple example will be given illustrating the phenomenon. Readers may skip directly to the example on page 58 without undue loss of comprehension.

A brief review of the Class Exploitation Correspondence Principle and the Class-Wealth Correspondence Principle is necessary. The model consists of many agents; agent i begins with a vector of impersonal assets

26. J. Roemer, “Property Relations vs. Surplus Value in Marxian Exploitation,” *Philosophy & Public Affairs* 11, no. 4 (Fall 1982): 281–313.

ω^i that can be used in production, plus one unit of labor power. (I assume labor is homogeneous, as I have throughout this article. If labor is heterogeneous, then poking holes in exploitation theory is almost child's play. Homogeneity of labor at least gives the theory a fighting chance.) There is a common technology which all agents can use. Each agent has a utility function, of goods and leisure. Since we have shown that an interest in exploitation cannot be justified by an interest in domination or alienation, we need not put into the utility function any concerns with where or under whom the labor one expends is performed. *Assume all agents have identical preferences*, although they own different initial bundles ω^i . Facing a vector of commodity prices p , which I normalize by letting the wage be unity, agent i now has finance capital in amount $p\omega^i$. Given his capital constraint, he chooses how much labor to supply and how much income to earn in order to maximize his utility. An equilibrium price vector is of the usual sort, allowing all markets, including the market for labor, to clear. An agent typically has three sources of revenue in the model: wage income from selling some labor power, profit income from hiring others, and proprietary income, from working himself on his own finance capital. If we introduce a capital market, there will also be interest or rental income, but that does not change the story at all. An agent is exploited if his total revenues do not enable him to purchase goods embodying as much social labor as he chose to expend in production. Class position of agents has been discussed before, in Section IV above.

At the equilibrium prices, let us call the wealth of agent i : $W^i = p\omega^i$. Wealth is the valuation at equilibrium prices of his nonlabor assets, his finance capital. We can view the labor he decides to supply in production, by maximizing his utility, as a function, at equilibrium prices p , of this wealth. Call this labor supply function $L(W)$. If agents possessed different utility functions, then we would have to write different labor supply functions, $L^i(W)$, but by assumption, all agents have the same preferences. $L(W^i)$ can be thought of as a cross-sectional labor supply function, which tells how much labor any agent will supply at the equilibrium prices, if his wealth is W^i . Now the key lemma is this: membership in the five classes is monotonically related to the ratio $\gamma^i = W^i/L(W^i)$ and so is exploitation status.²⁷ That is, the larger is the ratio γ^i , the higher up the class ladder agent i is, and the more of an exploiter he is. (The class

27. For a demonstration of this lemma, see J. Roemer, *General Theory*, p. 176. A fuller discussion is in J. Roemer, "Why Labor Classes?"

ladder is described in Section 4 above.) When do class and exploitation status of agents give us a good proxy for the agent's initial wealth of nonlabor assets? Precisely when the index γ^i is monotonically related to wealth W^i . Thus exploitation and class can be indicators of our interest in wealth inequality precisely when $d\gamma/dW > 0$, that is, when the γ index increases with wealth. Taking the derivative:

$$\frac{d\gamma}{dW} > 0 \quad \text{if and only if} \quad \frac{dL}{dW} < \frac{L}{W} \quad \text{or} \quad \frac{dL}{L} / \frac{dW}{W} < 1.$$

This last condition is of a familiar type in economics: it says that the labor supplied by the agent is inelastic with respect to his wealth; that is, a 1 percent increase in the agent's wealth will cause him to increase his supply of labor by less than 1 percent. Summarizing:

Theorem: Under identical preferences of agents, class and exploitation status accurately reflect inequality in distribution of finance capital (productive assets other than labor) if and only if the labor supplied by agents is inelastic with respect to their wealth at equilibrium prices. If preferences differ, then class and exploitation status accurately reflect wealth if and only if *cross-sectionally* labor is inelastically supplied as wealth increases.

This elasticity condition is perhaps a reasonable condition on preferences.²⁸ In particular, we often think of agents supplying *less* labor as their wealth increases, in which case the above condition certainly holds. The condition allows agents to increase the labor they supply with increases in wealth, so long as they do not increase the labor supplied faster than their wealth increases. However, if we allow an "unrestricted domain" of preferences for goods and leisure (even if we constrain all agents to have the same preferences!), then the relation between exploitation and class, on the one hand, and wealth on the other, is lost. It will be

28. In the two special cases I studied in *General Theory*, the correspondence between exploitation and wealth followed because the elasticity condition held. For the subsistence model, the elasticity of labor supply with respect to wealth is negative and for the accumulation model it is zero. In the subsistence model, agents desire to minimize labor performed subject to consuming a certain subsistence bundle which is independent of wealth; in the accumulation model, they desire only to accumulate, and each works as much as is physically possible (an amount assumed to be the same for all). I believed, falsely, that since these two models posed behavior representing two extremes with respect to leisure preferences that the correspondence between exploitation and wealth would hold for any preferences uniform across agents.

possible to design cases where we have an agent Karl who hires labor (and does not sell it), who will be an exploiter by the Class Exploitation Correspondence Principle, and another agent Adam who sells labor and is exploited, *but* Adam is wealthier than Karl, *and* Karl and Adam have the *same preferences* over bundles of goods and leisure. This can only happen when the elasticity condition fails, and that provides the intuition which resolves the apparent paradox. With a wealth-elastic labor supply function, Adam, who is rich, wants to work terribly hard, while Karl who is poor hardly wants to work at all. Indeed Karl does not even want to work hard enough to utilize fully his paltry stock of productive assets, and so he hires Adam to work up the rest of his capital for him, which Adam is willing to do, even after he has worked all he can on his substantial stock of assets. Thus poor Karl hires and, by the Class Exploitation Correspondence Principle, exploits rich Adam.

Noneconomists might think of Karl and Adam in the above example as having different preference orderings, since one wants to supply a lot of labor and the other a little. But preference orderings are defined for an individual over all bundles of labor (or leisure) and goods he might consume, and so it is perfectly consistent for Karl and Adam to have the same preference orderings yet to supply labor differentially because of their different wealths. Saying they have the same preference orderings implies they have the same utility function and the same labor supply *function*, not that they supply the same amount of labor.

We have now to consider the case where differential preferences are admitted. Then, *a fortiori*, the index $\gamma^i = W^i/L^i(W^i)$ will in general not be monotonically correlated with wealth W^i . Now, $L^i(W)$ can vary with i . We cannot say the rich exploit the poor with any degree of rigor. We can only be assured that the rich exploit the poor when the elasticity condition holds cross-sectionally, that an increment in wealth implies a less than proportionate increment in labor supplied. Failing this relation, the poor can be exploiters of the rich.

Notice *cross-sectional* labor supply behavior which is wealth-elastic might be quite common if agents have different preferences for leisure and income. Indeed, it is possible for labor supply cross-sectionally to exhibit elasticity with respect to wealth, while each individual agent has a “well-behaved” wealth inelastic labor supply schedule. Those who become wealthy (in one of the versions of the neoclassical paradigm) are those who have a low preference for leisure. Hence the individuals we

observe as wealthy could have gotten that way by working long hours—although their own labor supply schedules might be inelastic as their wealth increases. We might then very well observe labor supply across the population increasing faster than wealth for some interval of wealths. For an individual's labor supply to be wealth-elastic, leisure must be an inferior good for him; but for the population labor supply to be cross-sectionally wealth-elastic, this is not the case.

For the sake of concreteness, here is a simple example illustrating the divergence between exploitation and inequality of assets. It does not matter, for this example, whether the different amounts of labor which Karl and Adam supply are a consequence of different preferences or the same preferences. All that matters is that given their different initial wealths, they optimize by supplying labor in the pattern indicated. I postulate the same Farm and Factory technologies as before:

Farm: 3 days labor (and no capital) produces 1 bushel of corn

Factory: 1 day labor plus 1 bushel seed corn produces 2 bushels corn

This time, however, Karl has an initial endowment of 1 corn and Adam of 3 corn. Denote a bundle of corn and labor as (C, L) . Thus $(1, 1)$ represents the consumption of 1 corn and the provision of 1 day's labor. I assume, as before, that each agent is not willing to run down his initial stock of corn (because he might die at any time, and he wishes, at least, not to deprive his only child of the same endowment that his parent passed down to him). Suppose we know at least this about Adam's and Karl's preferences:

$$\begin{aligned} (2/3, 0) & \succ_K (1, 1) \\ (3^{1/3}, 4) & \succ_A (3, 3) \end{aligned}$$

(To translate, the first line says Karl would strictly prefer to consume $2/3$ bushel of corn and not to work at all than to work 1 day and consume 1 bushel.) Now note that Karl can achieve $(1, 1)$ by working up his 1 corn in the Factory in 1 day; he consumes 1 of the bushels produced, and starts week 2 with his initial 1 bushel. Likewise, Adam can achieve $(3, 3)$ by working up his 3 bushels in the Factory with 3 days' labor; he consumes 3 of the 6 bushels produced, and replaces his initial stock for week 2. But this solution is not Pareto optimal. For now suppose Karl lends his 1 bushel to Adam. Adam works up the total of 4 bushels in 4 days in the Factory, produces 8 bushels, and pays back Karl his original bushel

plus $\frac{2}{3}$ bushel as interest for the loan. This leaves Adam with $3\frac{1}{3}$ bushels, after replacing his 3 bushels of initial stock. Thus Karl can consume $\frac{2}{3}$ bushel and work not at all, which he prefers to (1,1), and Adam consumes the bundle $(3\frac{1}{3}, 4)$ which he prefers to (3,3). We have a strict Pareto improvement. (The interest rate charged is the competitive one; for if Adam, instead of borrowing from Karl, worked on the Farm for an extra day he would make precisely $\frac{1}{3}$ bushel of corn.) This arrangement may continue forever: Karl never works and lives off the interest from Adam's labor. According to the unequal exchange definition of exploitation, there is no shadow of a doubt that Karl exploits Adam. However, Adam is richer than Karl. On what basis can we condemn this exploitation? Not on the basis of domination or alienation (we have decided), and surely not on the basis of differential ownership of the means of production, since the exploitation is going the "wrong way." Indeed, eliminating inequality in the ownership of the means of production should improve the lot of the exploited at the expense of the exploiters. (That is the property relations definition I formalized in other work.²⁹) But in this case an equalization of the initial assets at 2 bushels of corn for each renders the exploiter (Karl) better off, and the exploited (Adam) worse off!³⁰

It should be remarked that the preferences postulated in this example for Karl and Adam are not perverse in the sense that they can be embedded in a full preference relation which has convex indifference curves of the usual sort, in corn-leisure space. This is the case even when Karl and Adam possess the same (convex) preferences.

If we have reason for calling unjust the postulated inequality in the original distribution of seed-corn assets, then it is Karl who is suffering an injustice in the previous example, and not Adam; but according to exploitation theory, Karl exploits Adam. As I have said, I think the most consistent Marxian ethical position is against inequality in the initial distribution of productive assets; when exploitation accounts reflect the unequal distribution of productive assets in the proper way (that the rich exploit the poor), that is what makes exploitation theory attractive. But if that correlation can fail, as it has, then no foundation remains for a justification of exploitation theory.

29. Roemer, "Property Relations vs. Surplus Value."

30. Actually, even if there is a unique equilibrium there are some perverse cases in general equilibrium models when an agent can improve his final welfare by giving away some of his initial endowment. This is not such a case.

It might still be maintained that two injustices are involved when productive assets are unjustly distributed: the injustice of that distribution of stocks, and the injustice of the flows arising from them.³¹ Exploitation is a statement concerning the injustice of flows, but I have invoked it only as a proxy for the underlying injustice (more precisely, inequality) of stocks. There remains the necessity for some judgment of the injustice of flows emanating from an unjust distribution of stocks: my point is that flows of labor are an imperfect proxy for that. In the Karl-Adam example, I say that Adam is unjustly gaining from the flows between him and Karl, if the initial distribution of stocks is unjust against Karl, despite the formal exploitation of Adam by Karl. In cases where exploitation does render the correct judgment on the injustice of flows, then perhaps the degree or rate of exploitation is useful in assessing the degree of injustice in the flow. But in the general case counterexamples can be supplied against this claim as well—situations where A is exploited more than B but we would agree B is more unjustly treated. It is beyond my scope here to inquire into a robust measure of the injustice of flows emanating from an unjust stock.

Another point should be made with respect to the argument of this section. It might be argued that so long as exploitation comes about, then the initial distribution of assets was not “equal.” An “equal” initial distribution might be defined as one which eliminates exploitation. First, such a position is circular with respect to any attempt to vindicate exploitation theory by claiming it helps to reveal an initial inequality of assets. Secondly, such a definition of equality of initial endowments is in fact a theory of outcome equality, not a theory of resource equality. We would still be left with the question: What is wrong with exploitation?

A fifth explanation of our interest in exploitation theory, which I have enumerated (4') as I consider it to be convincing only when it paraphrases the inequality theory, might be called the expropriation theory. The expropriation theory is summarized, for example, by G. A. Cohen,³² as follows:

- (i) The laborer is the only person who creates the product, that which has value.

31. I thank G. A. Cohen for pressing this point.

32. G. A. Cohen, “The Labor Theory of Value and the Concept of Exploitation,” *Philosophy & Public Affairs* 8, no. 4 (Summer 1979): 338–60.

(ii) The capitalist receives some of the value of the product.

Therefore: (iii) The laborer receives less value than the value of what he creates, and

(iv) The capitalist receives some of the value of what the laborer creates.

Therefore: (v) The laborer is exploited by the capitalist.

The expropriation theory (which Cohen calls the Plain Marxian Argument) does not claim an injustice on grounds of alienation or domination, but on grounds of rightful ownership of what one has made. I think the argument is ethically defensible only when it coincides with the inequality-of-resources theory, that is, when the expropriation takes place because the laborer does not have access to the means of production he is entitled to. To see the unreasonableness of the expropriation theory in the general case, substitute "Karl" for "the capitalist" and "Adam" for "the laborer" in the above argument (i)–(v) where Karl and Adam are the *dramatis personae* of the last example. Statements (ii) through (iv) remain unobjectionable and perhaps statement (i) does as well; but statement (v) certainly does not follow as an *ethically* convincing statement (although *formal* exploitation exists). If we respect the ownership pattern of assets and the preferences of the agents (which, to repeat, can even be uniform preferences), I see no good reason to give exclusive ownership rights of a product to the person who has made the product. Only on grounds of alienation (which I have said is unconvincing) does it seem one's labor could confer special ownership rights over the product. Justly acquired initial resources, which the direct producer might borrow from another, must count as well in ascribing ownership of the final product. What power the expropriation theory appears to have comes from another assumption, not stated, that the capitalist starts out with a monopoly on the ownership of the means of production, unjustly acquired; it is the injustice of that monopoly which leads us to believe he has no just claim to the product of the laborer. As Cohen says, in his own criticism of the expropriation theory: "If it is morally all right that capitalists do and workers do not own the means of production, then capitalist profit is not the fruit of exploitation; and if the pre-contractual distributive position is morally wrong, then the case for exploitation is made."³³

33. G. A. Cohen, "More on the Labor Theory of Value," *Inquiry* (Fall 1983).

VII. MOLLIFYING THE VERDICT

Many writers have shown the indefensibility of the labor theory of *value*, the claim that Marxian analysis gains special insight from deducing a relationship between embodied labor values and prices.³⁴ There is no theory of price formation, special to Marxism, with a rigorous foundation. With the demise of the labor theory of value, various writers in the Marxian tradition have shown that the theory of exploitation can be reconstructed on a foundation which does not utilize the labor theory of value.³⁵ (Marx's logic derived the theory of exploitation from the labor theory of price formation.) I have now argued there is no logically compelling reason to be interested in exploitation theory. This claim is not so destructive as might appear to the Marxian enterprise, however, for I think the reasons Marxists have been interested in exploitation theory are important and, to a large extent, distinguish Marxism from other kinds of social science: it is just that these reasons do not justify an interest in exploitation theory which is an unnecessary detour to the other concerns. First, within ethics, Marxism lays emphasis on the importance of equal access to the means of production. It regards with suspicion any large inequality in access to the means of production, while its foil in social science tends to justify such inequality on grounds of differential rates of time preference, skill, or even luck.³⁶ Having said that equality in the ownership of means of production is desirable as an initial condition, much is left to elaborate concerning inheritance, handicaps, and needs. Libertarian theorists view inheritance as a just means of acquiring resources³⁷; Ronald Dworkin, in recent work on equality of resources, does not discuss inheritance³⁸; Bruce Ackerman in recent work does attack that problem³⁹; I imagine a Marxian theory of inheritance, when

34. For a summary of the criticism of the labor theory of value see Elster, *Making Sense of Marx*, chap. 3.

35. See Cohen, "The Labor Theory of Value and the Concept of Exploitation"; Roemer, *General Theory*; Morishima, *Marx's Economics*.

36. Robert Nozick, for example, considers luck to be a just method for acquiring assets (*Anarchy, State, and Utopia* [New York: Basic Books, 1974]).

37. Nozick, *ibid.*

38. Ronald Dworkin, "What is Equality? Part 2: Equality of Resources," *Philosophy & Public Affairs* 10, no. 4 (Fall 1981): 283-345. See n. 9, p. 313.

39. Bruce Ackerman, *Social Justice in the Liberal State* (New Haven: Yale University Press, 1980).

elaborated, will circumscribe inheritance rights quite sharply.⁴⁰ Secondly, Marxism calls attention to domination; domination is of interest on its own, even though it provides no reason to be interested in exploitation. Interest in domination has given rise to an important literature on the labor process and technical change under capitalism, which demonstrates how a specifically Marxian question, perhaps motivated by normative concerns, can give rise to new analysis of a positive type. Another example of positive analysis related to domination and exploitation is class theory. Class position is easily observable, and class may be an excellent indicator of alliances in struggles within capitalism, for reasons closer to domination than exploitation.⁴¹ Thirdly, the concern with alienation is related to the interest Marxists have had in the emergence of market economies and the proletarianization of labor forces, both in the past and the present, an interest which again leads to the posing of questions which would not otherwise have been asked. Fourthly, the concern with accumulation has given Marxists a view of capitalism as guided by a pursuit of profits which in a deep sense is anarchic and collectively irrational, while the predominant opposing view (neoclassical economics) pictures capitalism as collectively rational, as the price system harnesses profit motives to serve the needs of people.⁴² While Marxists have not developed a theory of crisis and disequilibrium which is as well-founded and intellectually convincing as neoclassical equilibrium theory, one suspects the Marxian questions will eventually lead to a rigorous theory of uneven development and crisis.

40. For some very tentative indications, see Roemer, "Are Socialist Ethics Consistent with Efficiency?" pt. 4.

41. I have not considered in this paper a sixth possible reason to be interested in exploitation: as an explanation of class struggle, that the exploited struggle against the exploiters. I think that if the exploited struggle against the exploiters, that is because the former are dominated, are alienated, or suffer from an unfair allocation in the distribution of assets. The unequal exchange of labor cannot be the cause of class struggle: rather, that unequal exchange must be the symptom of what must cause class struggle. (People do not calculate surplus value accounts; in fact, one of the classical Marxian points is that the surplus value accounts are masked and veiled by the market, and so the exploited do not see the true nature of the unequal exchange from which they are suffering.) But I have shown, now, that exploitation is not a useful proxy for the various injustices which may, indeed, be at the root of class struggle. Hence, my nondiscussion of exploitation as the cause of class struggle.

42. It is this collective irrationality of capitalism which Elster, *op. cit.*, sees as the main contribution of Marxian "dialectics."

Unlike the labor theory of value, the reasons for a purported interest in exploitation theory have given rise to provocative social theory. There have, on the other hand, been costs to the adherence to exploitation theory, chiefly associated with what might be called the fetishism of labor. The costs are often associated with the inappropriate application of exploitation theory in cases where some underlying deeper phenomenon, which usually coincides with exploitation, ceases to coincide with it. For example, socialist countries have exhibited a reluctant history to use material incentives and decentralizing markets. To some extent, this may result from a confusion concerning the permissibility of "exploitation" when the initial distribution of ownership or control of the means of production is just. A second cost has been the equation claimed by some Marxists between socialism and industrial democracy, the belief that hierarchical forms of production are necessarily nonsocialist. A third example, associated with an overriding concern with alienation, views the final social goal as a moneyless economy, perhaps with no detailed division of labor, in which, somehow, all of society becomes one community.⁴³ Strictly speaking, the last two examples do not impugn exploitation theory, but rather domination and alienation; but exploitation theory has formalized the concern with labor which reinforces this sort of misapplication.

It should be reiterated that the failure of exploitation to mirror properly the unequal distribution of the means of production is a logical one; as I noted, in what are perhaps the most important actual historical cases, preferences of agents are such that the unequal-exchange-of-labor theory coincides with the inequality-of-productive-assets theory, and so exploitation theory pronounces the "right" ethical verdict.⁴⁴

Parallel to my view on the usefulness of exploitation theory as a proxy for inequality in the ownership of the means of production is George

43. A fine discussion of the costs which dogmatic Marxism has imposed on developing socialist societies is in Alec Nove, *The Economics of Feasible Socialism* (London: George Allen and Unwin, 1983).

44. A striking example which suggests that labor supply may be elastic with respect to wealth, and therefore that exploitation theory is even historically wrong, is presented by Pranab Bardhan, "Agrarian Class Formation in India," *Journal of Peasant Studies* 10, no. 1 (1982), p. 78. In India, as the wealth of middle-peasant families increases, poor relations come and join the family. Viewing this extended family as the unit, it appears that labor supply increases with wealth. It is not obvious that the family labor supply increases elastically with wealth, but Bardhan's example shows, at least, there is a range of wealths for which labor supply has positive elasticity.

Stigler's observation concerning David Ricardo's use of the labor theory of value. Stigler writes:

I can find no basis for the belief that Ricardo had an *analytical* labor theory of value, for quantities of labor are *not* the only determinants of relative values. . . . On the other hand, there is no doubt that he held what may be called an *empirical* labor theory of value, that is, a theory that the relative quantities of labor required in production are the dominant determinants of relative values. Such an empirical proposition cannot be interpreted as an analytical theory . . .

Stigler concludes with a statement which applies to my argument concerning exploitation:

The failure to distinguish between analytical and empirical propositions has been a source of much misunderstanding in economics. An analytical statement concerns functional relationships; an empirical statement takes account of the quantitative significance of the relationships.⁴⁵

Unlike Stigler's Ricardo, I think the labor theory of value is not a useful empirical theory. While the errors in the labor theory of value are Ptolemaic, the defects in exploitation theory are Newtonian. As an empirical statement, surplus value accounts mirror inequality in ownership of the means of production pretty well, if it is true that cross-sectional wealth-elastic labor supply behavior is as empirically inconsequential as the precession in the perihelion of the orbit of Mercury. But for the sake of clarity and consistency, I think exploitation conceived of as the unequal exchange of labor should be replaced with exploitation conceived of as the distributional consequences of an unjust inequality in the distribution of productive assets and resources. Precisely when the asset distribution is unjust becomes the central question to which Marxian political philosophy should direct its attention.

45. George Stigler, "Ricardo and the 93% Labor Theory of Value," *American Economic Review* 48 (June 1958): 361, 366.