Exploitation as Price Disequilibrium

Stanislas Richard
Central European University (Vienna; Budapest)

What is exploitation? Exploitation is a mutually beneficial transaction that seems nevertheless wrong, immoral, unjust (this very depends on how the concept is moralised). *Not* a zero-sum transaction (there the wrong is obvious – ex: slavery).

Exploitation can be wrong in itself (ex: Argument by Anderson on commodification) or it can be *wrong as a type of price*. The latter is the view I will discuss here.

Wertheimer's account of exploitation is a price type account. 'Exploitation is an unjust price that occurs in a less than fully open and competitive market with many buyers and many sellers' (exploitation = monopoly power).

I apply this account to contemporary labour market to show why this account is non-sensical, and it is non-sensical *because* it follows too closely mainstream neoclassical economic theory (I call that normative clerking). Despite some valuable insights, we need to abandon the disequilibrium account in exploitation theory.

I offer two readings of Wertheimer and show why they should lead us to reject the Neoclassical and the Austrian readings (following both Neoclassical and Austrian understandings of price equilibria as dynamic/static).

I. Wertheimer in Vienna (Austrian reading)

How to understand Wertheimer in an Austrian way?

Perhaps we should not focus on counterfactual market equilibria and rather focus on competition as a process that prevents exploitation.

If I can choose from several people who make me the same offer, it does not look like any of them could take unfair abuse of me. Now we need not worry how many of these people there are and how much they offer (which are the concerns of the NC reading), but rather see this as a dynamic process of offer/counteroffers and so on that will prevent exploitation.

Problem with the Austrian reading:

No way to condemn natural monopolies. Example of the mining

town (note: the problem here is not the unfairness of the situation, but the oversupply of labour). Likewise, Wertheimer has no way to condemn sharp decline in wages due to market fluctuation (critique from Ruth Sample – conservativism of such an account).

A Marxist rejoinder (2)

Exploitation on Wertheimer's account necessarily requires market surplus (if As exploit Bs, some units of A's output will be wasted – otherwise the price would simply go down, since it does not, exploitation occurs).

Take now typical neoclassical explanation for conjunctural unemployment in Western economies. Ex: Shapiro-Stiglitz model (raising wages as anti-slacking strategy), outside/insider models (rent seeking from already hired workers).

Therefore, labour exploits capital.

II. Wertheimer at Cambridge (Neoclassical reading).

How to understand Wertheimer from a NC perspective:

NC equilibrium price = static prices where markets clear (no demand that remains unsupplied, no supply that remains demanded). We take any transaction/market, we see if the price that obtains is the same that would obtain if the market cleared, and we can from there determined the exploitative character of what we are considering.

Advantage: Can criticises natural monopolies (not the case of the Austrian reading). Example of the mine company in an isolated town. Pigou-Robinson account of exploitation as labour oversupply – markets less than competitive lead to a remuneration of labour that is lesser than its marginal product (Joan Robinson – when hiring one more worker diminishes remuneration while still increasing productivity).

Problem with the view:

Suppose there are two factories producing widgets and which are limited to two stakeholders. *Corporate Factory* and *Competition Factory*. Capital owns the factories and the machines that labour activates to produce widgets (each worker adds a screw or whatever else on the unfinished widget that arrives in front of her on the assembly line). For the sake of the argument, assume that capitalist profit is justified as a return on investment in productive Capital.

Corporate Factory:

– Labour is contractually institutionalised within its interac-

tion with capital.

- Labour remunerated following marginal productivity (=/= not individual output).
- Labour remunerated by Capital
- No competition between various productive units (workers compete to get hired, but competition is not how production is organised, and is only a limited share of the experience/interaction of the Labour and Capital).

Competition Factory:

- Labour is not *hired*; workers compete with each other's to rent for a day a production a spot on the assembly line (and various capitalists compete with each other to attract the workers).
- Every transaction within the firm is a market one. Each worker buys the unfinished widget from the worker on the left, add a screw, and sells the widget to the worker on their right, keeping the difference as profit. This profit will be bought from a screw shop (which competes with other screw shops to attract workers to buys the screws).

On Allan Wertheimer's account which factory is the exploitative one? Neoclassical theory of the firm follows this – firms are building monopolies, and hence have an economic incentive to decrease competition. Wertheimer here closely follows that perspective.

The problem however is that such a non-exploitative workplace has a great cost - it would not only be an unbearable workplace, it would be also a comically unprofitable, unproductive and inefficient business.

New institutional economics: Firms (not necessarily hierarchical ones but that is another topic!) replace markets when keeping market interactions is too costly because of the non-ideal features in which market operate (for example differences in knowledge and so on).

Example: Negotiation (which is necessary for competition to occur) wastes a tremendous amount of time, resources are wasted to front the entry cost through the purchase of the screws and unfinished widgets, and so on.

For efficiency sake, it is better to *suspend* markets and incorporate. Productive output will be higher, Labour will get higher wages and Capital will get higher profits. The problem is that *incorporated factory* compares unfavourably compared to *Competition Factory*. I argue

that this leads to two bizarre results.

Two bizarre results:

– Bizarre result 1: Worker/worker exploitation (problem for Robinson-Pigou/Wertheimer).

Imagine two different worlds.

World 1:

Bob and Jane are hired by *Incorporated Factory*. Jane is the first worker hired (and produces 10 denarii per time unit), Bob the marginal (last) worker hired. Bob and Jane both get the equivalent of Jane's productivity.

World 2:

Same, but the capitalists have read Wertheimer and have decided that they should stop being filthy exploiters. They organise production in the style of *Competition Factory*. Bob and Jane now get their hypothetical individual productive output.

Comparing both worlds, in World 1, Bob seems to be exploiting Jane. Yet there are doing the same work.

– Bizarre result 2: Markets like there is no tomorrow (problem for Wertheimer)!

Exploitation is a moralised concept, if something is exploitative, we should strive towards its abolition. Now, it seems that according to Wertheimer, a non-exploitative society is one that is highly inefficient and wasteful (you can fit this into various accounts of justice, for example Prioritarianism).

A Marxist rejoinder (for our Marxists friends around here):

In Marxist economics, exploitation characterises the systemic relationship between Capital and Labour. Bizarre result n1 should be troublesome if this is an intuition you wish to keep.

Conclusion: Who cares?

The main issue that englobes all the problem I have mentioned: Wertheimer's style exploitation is something we should not care about. It does not seem to capture what exploitation is (natural monopolies), and lead to bizarre results when it comes to what a non-exploitative society would look like and what we should do about it. Wertheimer's account can be salvaged though, if we leave this sort of price-based interpretation of his work.