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Exploitation, Unequal Exchange and Dependency: A Philosophical Analysis

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EXPLOITATION, UNEQUAL EXCHANGE AND DEPENDENCY:
A PHILOSOPHICAL ANALYSIS

by

Paul Olabisi Otubusin

A Dissertation Submitted to the Faculty of the Graduate School
of Loyola University of Chicago in Partial Fulfilment
of the Requirements for the degree of
Doctor of Philosophy

January

1987

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VITA

The author, Paul Olabisi Otubusin, is the son of Coker Abiodun Otubusin and Martina Agboneboaye (Izokpu) Otubusin. He was born March 8, 1955, in Ubiaja, Bendel State, Nigeria.

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In September 1981, he entered the University of Lagos, Nigeria, having been awarded a Postgraduate Scholarship by the Federal Government of Nigeria. In June, 1983, he received the degree of Master of Arts in Political Philosophy.

In May, 1983, he was awarded an Overseas Postgraduate Scholarship by the Federal Government of Nigeria to study in the United States of America. In August 1983, he entered Loyola University of Chicago for the doctoral program.

While at Loyola, in August, 1984, he enrolled concurrently in another graduate program at Northeastern

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In May, 1985, he was elected President of Loyola Graduate Philosophy Association, elected a member of Phi Sigma Tau, National Honor Society in Philosophy and in April, 1986, he was inducted into Alpha Sigma Nu, National Jesuit Honor Society. In June, 1985, at Northeastern, he was also elected a member of Phi Sigma Alpha, National Political Science Honor Society.

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INTRODUCTION

This dissertation is a treatise on the concept of exploitation both as an ethical and a technical concept.¹ It examines and critiques different theories of exploitation to highlight their ethical and methodological assumptions, with a view to understanding a particular problem: the relation between First and Third World countries.

These different theories fall into two broad categories: the liberal and the Marxian traditions. Hillel Steiner's theory², which is paradigmatic of the liberal tradition, is shown to be quite problematic as a theory of exploitation in terms of both its internal coherence and its moral assumption. The underlying liberal moral assumption - that there can be no exploitation so long as there is free exchange devoid of an interference by a third party - is suspect and is challenged by the theories in the Marxian tradition.

This series of theories - Marx's classical theory, Arghiri Emmanuel's "unequal exchange," John Roemer's game theory and Latin American based dependency theory - are shown to constitute different significant moments in the single, general Marxian theory of exploitation. These

different moments, however, do seem to have different moral assumptions. I have tried to draw out what these moral assumptions are, and how the theories themselves relate to each other as different moments of a general theory.

The basis for these conceptions of exploitation is the classical technical usage of the concept deriving from Karl Marx's "labor theory of value": workers in a capitalist society are "exploited" in that they expend more labor in production process than is embodied in the products they consume.³ But Marx's classical theory is found to be inadequate because it does not treat First and Third World relations. Marx's model is developed strictly in the context of capital-labor relations.

Emmanuel confronts this difficulty squarely. In his theory of "unequal exchange," Emmanuel applies the Marxian categories to First and Third World relations. Against the classical liberal stance deriving from the Ricardian "theory of comparative advantage," which advocates free trade as a vehicle of economic progress,⁴ Emmanuel argues, using an abstract model of trade relations between two countries, one of which is developed and the other which is underdeveloped, that the underdeveloped country can both benefit and be exploited at one and the same time via free trade.⁵ In other words, the consequence of free trade is "unequal exchange." However, with Emmanuel, one runs into the problem of the framework relying on the allegedly defective

labor theory of value and also, yielding certain mathematical anomalies.

John Roemer refines the concept of exploitation without relying on the labor theory of value. He gives it a game theoretic definition: a class is exploited if, were it to withdraw, from the larger society with its per capita share of the wealth, it would be better off and the rest of society worse off.⁶ In order to rule out bizarre counterexamples to his model, Roemer introduces the notion of "domination" as one of the principles of exploitation but this principle is left undeveloped.

It is the developing of the notion of "domination" more concretely that leads to dependency theory. This theory represents a body of analysis, primarily by Latin American scholars, concerning the relation of First and Third countries.⁷ One of its most controversial theses is the "development of underdevelopment," the thesis that "underdevelopment" is not a matter of "lagging behind" the more developed countries, but is a dynamic process resulting from certain interactions. Certain countries have become developed as a result of other countries having become underdeveloped.

But in looking at dependency theory as a concrete model, we also have to look at developmentalism as an alternative explanation which could challenge the notion of "dependency."⁸ In a certain sense, developmentalism is

linked to the liberal tradition as its concrete realization in the context of First and Third World relations. It is a theory coming out of the liberal tradition in the same way that Steiner's is. In a way, it is a culmination of the liberal tradition in the same manner that the Marxian tradition culminates in dependency theory as its concrete realization in First and Third World relations.

In the final section, developmentalism and dependency theory are evaluated in terms of two criteria in order to determine which of them makes more sense and is most fruitful in understanding the concrete situation of Third World countries. These criteria are: (i) how well the theory explains the data vis-a-vis alternative theories, the data being the current division of the world into the rich advanced countries and the poor underdeveloped countries; and (ii) the usefulness of the theory in formulating policies for Third World countries. I have used Ghana, an African periphery of the world capitalist system, as a test case in this evaluation. The tentative outcome reveals that dependency theory makes more sense than developmental theory. It is not incoherent; its ethical presupposition is reasonable and it does seem to give a better explanation about why the world is in the way it is.

However, its critical weakness lies in the area of policy prescriptions. Its prescriptions which suggest that Third world countries ought to "delink," ought to "pull

out," ought to get rid of multinational corporations, ought to nationalize foreign enterprises, etc. are questionable as being "good advice," as Ghanaian experience shows. This practical weakness does not imply that developmentalism or neoclassical economic theory is the preferred alternative. In fact, attempts to apply neoclassical solutions have often resulted in disaster. The "Chicago Boys" in Chile is a case in point. I am compelled to conclude that there is really no good theory available that would explain what the underdeveloped Third World countries should do about their impoverished situation. This remains one of the most pressing, if unanswered, questions of our day.

Notes

1. The concept of exploitation is a subject of intense investigation among philosophers today. Recent examples include Nancy Holmstrom, "Exploitation," Canadian Journal of Philosophy 7(1997):353-69; Gerald A. Cohen, "The Labor Theory of Value and the Concept of Exploitation," Philosophy and Public Affairs 8(1979):338-60; Allen E. Buchanan, "Exploitation, Alienation and Injustice," Canadian Journal of Philosophy 9(1979):121-39; Shih Yuan-Kang, "Nozick on Marx's Theory of Value and Exploitation," Philosophical Forum (Boston) 11(1980):244-49; Julius Sensat, "Exploitation," Nous 8(1984):21-38; Richard J. Arneson, "What's wrong with Exploitation?" Ethics 91(1981):202-27; Laurence Crocker, "Marx's Concept of Exploitation," Social Theory and Practice 1(1972):201-15 and David Laibman, "Exploitation, Commodity Relations and Capitalism: A Defense of the Labor-value Formulation," Science and Society 44(1980):274-88.

2. Steiner, "A Liberal Theory of Exploitation," Ethics 94(1984):225-41. In my review of the literature in the liberal tradition, I found no formulation of a theory of exploitation until Steiner. In fact, Steiner claims that his theory is the first coherent attempt to formulate a liberal theory of exploitation. Cf. Telephone discussion, January 17, 1986.

3. Karl Marx, Capital I (New York: International Publishers, 1967), p. 209.

4. For a discussion of the "theory of comparative advantage," see David Ricardo, The Principles of Political Economy and Taxation (London: J.M. Dent and Sons, 1912), pp. 82-83.

5. Arghiri Emmanuel, Unequal Exchange: A Study of the Imperialism of Trade (New York: Monthly Review Press, 1972).

6. John E. Roemer, "Property Relations vs Surplus Value in Marxian Exploitation," Philosophy and Public Affairs 11(1982): 281-313 and A General Theory of Exploitation and Class (Cambridge, Mass.: Harvard University Press, 1982).

7. For example, Fernando Henrique Cardoso, "Dependency and Development in Latin America," New Left Review 74(1981):83-95; Andre Gunder Frank, Dependent Accumulation and Underdevelopment (New York: Monthly Review Press, 1979) and "The Development of Underdevelopment," Monthly Review 18(September 1966):17-31; Samir Amin, Unequal

Development: An Essay on the Social Formations of Peripheral Capitalism (New York: Monthly Review Press, 1976); Theotonio Dos Santos, "The Structure of Dependence," American Economic Review 60(1981):231-36; John Weeks and Elizabeth Dore, "International Exchange and the Cause of Backwardness," Latin American Perspectives 2(1979):62-87.

8. Developmentalism was a theory that arose in the 1950s as a response to the urgent need to reconstruct and consolidate the economies of Western Europe that had been devastated by World War II in order to put them on the development path again. For a detailed discussion of this theory, see, Walth Whitman Rostow, The Stages of Economic Growth: A Non-Communist Manifesto (Cambridge: Cambridge University Press, 1960) and Albert O. Hirschman, Essays in Trespassing: Economics to Politics and Beyond (Cambridge: Cambridge University Press, 1981).

CHAPTER I

THE CONCEPT OF EXPLOITATION

A. Review of Literature

The concept of exploitation is central to Marx's analysis and critique of the capitalist mode of production.¹ It has been a subject of renewed intense investigation among philosophers within the last decade and up until the present time. But before this time and particularly in the 1960s, there had been an almost total lack of attention to the concept of exploitation in the research endeavor of the Anglo-American philosophers. It is conspicuously absent as a subject heading in the available indices and encyclopaediae of this time period. As a subject heading, exploitation made its first appearance in The Philosopher's Index in 1973; in the Social Sciences Index in 1975 and in the Humanities Index in 1980.²

The issue of exploitation started emerging as a problem in the Anglo-American thought within the last decade with a renewed interest in the reinterpretation of Marx's thought. Undoubtedly, the actual international economic

crisis, coupled with the questioning of the welfare state in the West, were not neutral in influencing the sudden surge of publications on substantial ethico-political problems during these last fifteen years. Philosophical discussions about the problem and the concept of exploitation are therefore also of utmost, immediate relevance for discussions about present-day world problems and vice-versa. The keen interest within moral and political philosophy in the concept of exploitation has left its indelible mark on the philosophical discussion of Marx's work. Since the last decade therefore, there have been a series of articles and whole books devoted to the fundamental theme of exploitation. What was originally non-existent in the 1960s has lately spread into the pages of such journals, as Social Theory and Practice, Journal of Value Inquiry, Philosophy and Public Affairs, Canadian Journal of Philosophy, Science and Society, Ethics, Philosophical Forum and Economic Journal, to mention but a few. These articles and books fall into two broad categories: those which are interpretations or expositions of Marx's thought, and those which have arisen as reactions to other provocative writings. In their diverse analyses of Marx's critique of capitalism as being exploitative, we find several recurring themes: arguments in favor of a non-moral interpretation of Marx's position, claims for the moral relevance of the concept of exploitation in Marx's indictment of capitalism,

arguments concerning the relevance of the labor theory of value to Marx's indictment of capitalist exploitation and finally, reformulations of the concept of exploitation.

For the purpose of our review of the relevant literature on exploitation, the different publications will be structured according to the following categories:

1. those which deny that Marx condemns capitalism (capitalist exploitation) as unjust, on the one hand, and those which claim that he did so, on the other;
2. those which deny the claim that the labor theory of value is necessary for Marx's charge of exploitation against capitalism and those who uphold this claim;
3. those which reformulate the Marxian concept of exploitation and extend its areas of application and
4. those which formulate and defend the existence of a liberal as opposed to a Marxian theory of exploitation.

My survey of the literature will be mainly an

exposition of the relevant writings, since my interest in this review is to lay out the development of the concept of exploitation in the social thought of Anglo-American thinkers. But first, I shall present the theoretical background of this thought which seems to follow the general lines of Marx's account of capitalist exploitation. We find two points of view which are dialectically interconnected in Capital I - the spheres of circulation and production. When we look at the sphere of circulation, we see that there is an exchange of equivalent values - wages exchange for labor power, and in the sphere of production, we see that workers have to work longer than the time which is necessary to produce the value of their wages.

From the first point of view, the sphere of circulation, the workers sell their labor power as commodity to the capitalist who pays them the value of their commodity in the form of wages. The workers, Marx says, receive from the capitalist the full equivalent in value of what they sell, and so, no "cheating" has occurred. Once the purchase of labor power has been effected, this commodity belongs to the capitalist as of right, and therefore, so does its use and the products arising from its use.³ The purchase of labor power is also expressed from the worker's point of view: "As soon as his labor actually begins, it has already ceased to belong to him."⁴ The capitalist has paid for the value of labor-power, and the fact that the use of the

latter now creates a greater value, this "is a piece of good luck for the buyer, but by no means an injustice toward the seller."⁵ What motivates Marx's denial of any injustice in the wage relation is the formulation (from his Critique of the Gotha Programme) that "right can never be higher than the economic structure of society and its cultural development conditioned thereby."⁶ Consequently, standards of justice are relative to particular modes of production. The only principles of justice which are appropriate to judging a particular mode of production are those that correspond to it. Thus, Marx claims,

It is nonsense for Gilbert to speak of natural justice in this connection. The justice of transactions between agents of production consists in the fact that these transactions arise from the relations of production as their natural consequence . . . The content is just so long as it corresponds to the mode of production and is adequate to it. It is unjust as soon as it contradicts it. Slavery, on the basis of the capitalist mode of production, is unjust, so is cheating on the quality of commodities.⁷

From the second point of view, the sphere of production, the workers, whose labor is the source of the value of the commodities, have to work longer than the time which is necessary to produce the value of the wages the capitalist has paid them. They perform surplus labor, and the surplus value created is appropriated by the capitalist as profit. The workers are exploited because their labor power creates a value greater than the value of the wages

they receive. The wage relation is not in fact an exchange of equivalents. Marx says it is "only illusory" and a "mere semblance" or "form" to claim that the capitalist advances anything in exchange for labor power.⁸ It is an "appearance," a "mere pretence."⁹ There is no true equivalence in the exchange, for the worker must perform more labor than that which is necessary to replace the value of the wage, and hence, Marx speaks of the surplus labor involved as having been done "gratis" for the capitalist and as "uncompensated" and he calls it "unpaid labor."¹⁰ The exchange is only an apparent one, since the capitalist contributes to it what has already been appropriated freely from the product of the worker's labor. As Marx puts it:

The exchange of equivalents, the original operation with which we started, is now turned round in such a way that there is only an apparent exchange, since, firstly, the capital which is exchanged for labor power is itself merely a portion of the product of the labor of others which has been appropriated without an equivalent, and secondly, this capital must not only be replaced by its producer, the worker, but replace together by an added surplus. The relation of exchange between capitalist and worker becomes a mere semblance belonging only to the process of circulation, it becomes a mere form, which is alien to the content of the transaction itself, and merely mystifies it. The constant sale and purchase of labor power is the form; the content is the constant appropriation by the capitalist, without equivalent, of a portion of the labor of others which has already been objectified, and his repeated exchange of this labor for a greater quantity of the living labor of others.¹¹

These two interpretations which are present in Marx's works,

especially the Capital, represent the character of capitalist exploitation. It is with this theoretical background that the different writings have emerged.

The earliest of these pioneering writings, which appeared in the early 1970s, are in the first of the outlined categories. These are accounts of exploitation given by Laurence Crocker in his "Marx's Concept of Exploitation" and Allen Wood in his "The Marxian Critique of Justice."¹² Crocker believes the concept of exploitation has been neglected because it has been misinterpreted in terms of an injustice in the distribution of goods and services. Contrary to the prevailing notion, he argues that exploitation is a matter of undemocratic control of production, and he gives referential evidence in support of this interpretation. Wood examines the question as to whether exploitation understood in terms of the appropriation surplus value by capital, is a form of injustice within the capitalist mode of production. He argues that the appropriation of surplus value and the exploitation of labor are not abuses of capitalist production but belong to the essence of capitalism and therefore, are just. According to him, Marx does not condemn capitalism for being unjust. Justice is a standard by which each mode of production - feudal, capitalist, socialist - measures itself. The application of the standard of justice of some postcapitalist mode of

production to capitalist production is mistaken and groundless.

While Wood's interpretation is to be linked to the sphere of circulation perspective, we find other writers appealing to the perspective of production. Wood's denial that Marx condemned capitalist exploitation for its injustice brought about various reactions which affirmed what he denied. Donald Van De Veer claims that it was Marx's concern for justice that made him "to condemn capitalist distribution as exploitation."¹³ He says exploitation involves the appropriation of surplus value belonging to the worker. Its abolition will occur in the higher phase of communist society with the operation of an equitable distributive principle: "From each according to his ability, to each according to his needs." In her own expository treatment of exploitation, Nancy Holmstrom elucidates Marx's concept of exploitation in order to explain why Marx believes exploitation to be an evil that is necessarily a characteristic of capitalism or any class society.¹⁴ She argues that exploitation is forced, surplus, unpaid labor, the product of which the producers do not control. Against Wood's position, Holmstrom claims that Marx thought exploitation to be evil and unjust because of the force and domination it involves.

Gary Young in his "Justice and Capitalist Production: Marx and Bourgeois Ideology," also claims to refute the

claim by Wood.¹⁵ He argues that Marx's writings show he thought capitalist production totally exploitative and unjust, and saw it as a mystification, not the appeal to justice, but the picture of capitalist production to be found in bourgeois ideology. Underlying Marx's critique of capitalist production as unjust is his thesis that the wage exchange is a false appearance which conceals the exploitation of the laborer by the capitalist. Ziyad H. Husami also argues that Marx condemns capitalism as unjust on account of its exploitative character which does not reward according to labor contribution and which is not oriented to satisfy human needs.¹⁶ He accuses Wood of confusing the explanation of surplus value phenomenon with the evaluation of it. He denies that standards of justice are relative to particular modes of production and consequently, claims that it is appropriate to employ postcapitalist standards of justice in criticizing juridical standards of capitalist justice. Richard Arneson elucidates Marx's conception of exploitation and states what is morally objectionable about exploitation as Marx understand it.¹⁷ He maintains that exploitation in Marx's technical sense is not wrong by definition, but that according to Marx, instances of exploitation are in fact wrongful, because they violate the norms that people should get what they deserve and that people should not force others to do their wishes. In a final section, Arneson rebuts recent interpretations

that deny either Marx's allegiance to these norms or their centrality to his account of the injustice of capitalism.

In his "Vampires, Werewolves and Economic Exploitation," George E. Panichas defines, analyzes and evaluates the truth of Marx's claim that capitalism implies economic exploitation.¹⁸ He argues that economic exploitation in the capitalist mode of production is class exploitation because it is workers as members of the working class who are economically exploited by capitalists as members of the capitalist class. Therefore, economic exploitation describes relationships which are qualitatively different from the relationships of simple exchange between freely consenting individuals. He sees economic exploitation, on Marx's criteria, to be immoral and unjust because it inhibits and denies human freedom to the economically exploited class.

In a critical evaluation of all these accounts of exploitation, Allen Buchanan observes a lacuna in the positions of both Marx's critics and his defenders.¹⁹ He claims they have failed to take cognizance of the complexity of Marx's theory of exploitation because they have concentrated exclusively on his analysis of exploitation in wage labor. Therefore, they have neglected other exploitative relationships in capitalism and have failed to develop the connection between exploitation and alienation. To remedy this failure, Buchanan seeks to articulate the

connections between exploitation and alienation by arguing that the theory of alienation provides content for the concept of exploitation.

It seems worthwhile at this juncture to take stock of what we have been doing so far in our exposition. What is the logic of the development of these various arguments? First, we have Crocker who claims that Marxian exploitation has been misunderstood. He contends that exploitation is not a distribution problem but it arises from a lack of control over production. Wood then comes along and makes a radical claim: that exploitation is neither an issue of distribution nor any other standard of justice, because Marx was not concerned with justice. Wood's claim sparked a host of critics to argue against this point of view. Arguing that Marx was concerned with justice, they claim that there is clearly a moral dimension to the critique of capitalism. Buchanan broadens the moral dimension by arguing that it is not just wage labor that is exploitative, but alienation that is pervasive in the whole society.

Within the second category of exploitation controversies, there are three identifiable approaches, two of which are within the Marxian tradition and a third approach which is anti-Marxist. The two Marxist approaches are "the labor theory of value" and the "non-labor value theoretic" conceptions. The first approach emphasizes the necessity of the labor theory of value to the understanding

of the dynamism of the capitalist economic phenomena.²⁰ Without this theory, it claims that Marx's indictment of capitalism as being essentially exploitative loses its force. The second approach abandons the labor theory of value, and argues that Marx's charge of exploitation against the capitalist mode of production can be sustained without the labor theory of value. The third approach claims that the labor theory of value is false and consequently, the Marxian theory of exploitation (which relies on it) is false.

A representative of this latter approach is Robert Nozick who thinks that the falsity of the labor theory of value undermines completely Marx's notion of exploitation. Nozick in arguing against the labor theory of value, is representative of those contemporary economists and philosophers who are highly critical of the labor theory of value.²¹ First, he criticizes this theory through his employment of the notion of utility. He claims that a commodity has value because of its utility and the influence of market forces. The labor theory of value is false because the value of a commodity is not determined by the "socially necessary labor" required for its production. By relying on the defective labor theory of value, Nozick believes Marx's theory of exploitation is weakened: "With the crumbling of the labor theory of value, the underpinning of its particular theory of exploitation dissolves. . ." ²²

Secondly, he argues that if Marx's notion of exploitation means contributing more labor than one gets back, then the society which undertakes investment for the future and the subsidization of those unable to work would be exploitative. These two tasks, Nozick believes, cannot be accomplished without the creation of surplus product which the workers do not receive back. He claims that since there are situations in which the society may require some investment and subsidization, Marx's theory of exploitation is meaningless and absurd.

Shih Yuan-Kang criticizes Nozick's critique of Marx's labor theory of value and exploitation.²³ He claims that the "use value" or utility of a commodity is not sufficient as an explanation of exchange value.²⁴ For a thing to be a commodity, it has to have an exchange value. Instead of being concerned with the source of the value of a commodity, which is Marx's interest, Yuan-Kang says Nozick was concerned with the use-value or utility of a commodity in satisfying human wants. He claims Nozick has misconstrued Marx's intention and therefore, his analysis of Marxian exploitation represents a misinterpretation of Marx's theory. Anthony A. Smith likewise examines Nozick's critique of Marx's labor theory of value and exploitation, and concludes that he (Nozick) does not have sufficient grounds for rejecting Marx's position.²⁵ Smith argues that exploitation is not concerned solely with the production,

appropriation and utilization of surplus product but ". . . refers essentially to the social relations which form the context within which such production, appropriation and employment takes place."²⁶ He believes Nozick's analysis of the concept of exploitation is mistaken because he has abstracted from the question of social relations. Gerald A. Cohen is representative of a critique of the labor theory of value from within the Marxian tradition. Cohen claims to demonstrate the mutual irrelevance of the relationship between the labor theory of value and the concept of exploitation.²⁷ He argues that the labor theory of value is not a suitable ground for the charge of exploitation laid against capitalism. There is a related but simpler basis for the charge. He believes the mere concept of value is sufficient to explicate the exploitation of the worker under the capitalist mode of production. He defines the concept of value independently of the labor theory and says the worker is exploited because he "does not receive back all of the value of his product."²⁸ This, he claims, is an easily observable fact. In a rebuttal of Cohen's view, Holmstrom argues that Cohen is mistaken because Marx's charge of exploitation against capitalism does require the labor theory of value.²⁹ She claims Cohen's conception of exploitation is weaker than Marx's both theoretically and morally. It is also argued that Cohen's criticisms of the labor theory of value rest on a misunderstanding of the

theory and Marx's intention.

Geoff Hodgson also rejects the labor theory of value on the ground that it is redundant in the explanation of exploitation. He formulates a theory of capitalist exploitation without a labor theory of value and which differs from the bourgeois neoclassical approach and the classical Marxian conception.³⁰ He maintains that exploitation is "the appropriation of the surplus product . . . by the class that owns the means of production."³¹ It can be abolished when there is a "collective ownership and control of the means of production."³² David Laibman claims to reject Hodgson's view and to defend the labor value formulation.³³ He tries to show why Hodgson's proposed theory of capitalist exploitation is inadequate, and then, tries to demonstrate in what sense the labor-value concept is germane to the theory of exploitation, commodity relations and capitalism.

Like Cohen and Hodgson, Robert Paul Wolff believes that the labor theory of value is not essential to the understanding of capitalist exploitation because "neither the labor/labor power distinction nor the assumption that labor is the substance of value is required in order to explain the emergence of profit."³⁴ He demonstrates this by using a simple input-output model in calculating the labor embodied in the physical surplus produced in a capitalist economy. In this analysis, the labor embodied in the

physical surplus is represented by the difference between the actual amount of labor expended and the labor used in producing that labor. This calculation, Wolff claims, has been done without any appeal to the labor theory of value. David Schweickart disagrees with Wolff's claim and argues that Wolff has misunderstood Marx's project.³⁵ Marx is not seeking for the secret of profit but the secret of a self-expanding capital. He is looking at this in a historico-logical way rather than in a transcendental way. Schweickart believes that Marx's interest concerns the development of capitalism from simple commodity production, an economic situation of relative equality. Under simple commodity process of production, the tendency in any industry is to achieve an equal return to labor. This ". . . causes prices to be proportional to embodied labor."³⁶ On this ground, Schweickart concludes that the labor theory of value is true under simple commodity production. He also claims that the labor theory of value is true ". . . during that part of the transition to capitalism when simple commodity production is still dominant, and is approximately true even after capitalism's triumph."³⁷

We now come to publications in the third category. A central figure here is John Roemer. Roemer gives a unique twist and a novel refinement to the Marxian concept of exploitation by providing a new characterization of

exploitation in game theoretic terms, using property relations and counterfactual property distributions.³⁸ The game theoretic reformulation of exploitation is the central issue in Roemer's recent and highly controversial book, A General Theory of Exploitation and Class.³⁹ The property relations definition agrees with the classical definition in simple models, but they diverge in more complicated models. Roemer argues that the property relations definition gives the correct analysis of exploitation in complex models while the classical definition fails. He also argues that the property relations, unlike the labor extraction, makes clear the ethical consequences associated with the accusation of exploitation.⁴⁰

Despite Roemer's ingenious contribution to the evolution of the concept of exploitation and the brilliance of his arguments, his "general theory" has come under criticism. Particularly important in this respect was the special publication of the 1982 issue of Politics and Society which was devoted entirely to a critical analysis of Roemer's theory. For example, Jon Elster claims that Roemer's two definitions of exploitation are different from one another and defends the first, exploitation as unequal exchange, against the second, exploitation in the game theoretic approach.⁴¹ Margaret Levi and Douglas C. North locate the weakness of Roemer's argument in his cursory treatment of the State.⁴² Adam Przeworski disagrees with

Roemer's characterization of socialism and sees such characterization as making socialism an undesirable alternative to capitalism.⁴³ Erick O. Wright argues for the inadequacy of Roemer's treatment of politics and class struggle.⁴⁴

Following a presentation of Roemer's theory of exploitation, Julius Sensat contrasts two competing frameworks for theorizing about exploitation and defends one against the other.⁴⁵ In the first framework, which is of the Roemerian type, exploitativeness is defined relative to a set of feasible alternatives and exploitation is fundamentally a type of maldistribution of the benefits of social cooperation. In the second framework, exploitation is a certain kind of use of what is exploited, a use which goes contrary to its nature. Sensat explicates the first framework, provides some sample theories and criticizes this framework. Then, he explicates and defends the second framework, and presents in a synoptic form the Marxian theory of value and capital as an example of a theory of the second type.

While Roemer and his critics are concerned with the extension of classical Marxian theory of exploitation by means of abstraction to the game theoretic model, another kind of reasoning takes the notion of classical Marxian exploitation and extends it to the relationship between countries. Arghiri Emmanuel develops this concept by

extending the Marxian analysis of exploitation to trade relations between nations, which leads to his assertion of the exploitative character of free trade.⁴⁶ He employs an abstract model of trade relations between two countries, one that is underdeveloped and the other that is developed, and argues that the underdeveloped country can both benefit and be exploited at one and the same time through free trade.⁴⁷ Free trade is exploitative because of the unequal exchange which occurs when trade is carried out among regions with different wage rates and/or different capital endowments. Given the premise that there is equalization of profit rates in all regions and lines of production - which is the tendency of capitalism - Emmanuel claims that part of the surplus appears to be lost from the lower wage and capital regions (the underdeveloped countries) to the higher wage and capital regions (the developed countries).

A body of literature, known as "dependency theory," deriving primarily from Latin American scholars, also examines the question of exploitation in the context of the relations of First and Third World.⁴⁸ This theory explains the position of the Third World as a consequence of the development of the First World. According to the protagonists of this theory, certain countries have become developed as a result of other countries having become underdeveloped.⁴⁹

From the literature so far reviewed, the discussion on

exploitation seems to have been confined to the Marxian circle. In fact, very little has been written on exploitation from the neoclassical liberal perspective. Within the liberal camp - the fourth of the listed categories - the most conspicuous effort which has been made to discuss and/or construct a theory of exploitation is that of Hillel Steiner's. Steiner formulates and defends the existence of a theory of exploitation from the liberal rights tradition.⁵⁰ He claims that exploitation is occasioned in a trilateral relationship: A exploits B by worsening the latter's bargaining power through a violation of the rights of C. This theory will be examined in detail in Chapter Two.

B. Some Characterizations of Exploitation

Steiner has defined exploitation in terms of rights-violation. Marxian thinkers have offered different characterizations of exploitation, which reflect their slightly varied viewpoints. Exploitation has been variously defined as: "the undemocratic control of production," "the appropriation of the worker's surplus value," "the worker's inability to get what he deserves," etc.

What sense do we make of all these notions of exploitation? Can we find a common ground of meaning among these different explanations? In simple terms, what is exploitation? What do we mean by exploitation in intuitive ordinary language? In other words, what do we mean when we ordinarily say that Paul exploits John? What simple common definitions of exploitation do we have?

One simple definition of exploitation is the non-technical, general, unspecific, common-sense meaning. In common parlance, "to be exploited" means to be ill-used, badly treated, oppressed or treated harshly. And "to exploit" is to make someone worse off for the exploiter's advantage or self gain at another's expense. This is what is meant by exploitation in the ordinary language outside of the more specific technical sense of economic exploitation.

In defining exploitation, the Oxford English Dictionary says to exploit means "to utilize for one's own ends, treat selfishly as mere workable material persons."⁵¹ This definition has a similarity with the Kantian imperative which enjoins: "Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end."⁵² In other words, a human being is not something to be used merely as a means but always as an end in himself. To whatever purpose a person is subjected, this purpose must be one that conforms to his nature, and that promotes his interest as an end in itself. Anything to the contrary conflicts with the humanity of man, uses him merely as a means and consequently, is exploitative. Similarly, Sensat defines exploitation ordinarily in his second framework as a certain kind of a use of what is exploited, namely a use which is contrary to its nature. He says, "x exploits y iff: (i) x uses y as means to some end, e, and (ii) this use is contrary to y's nature."⁵³

We find a similar "general conception" of exploitation in Marx's The German Ideology where he states:

In Holbach, all the activity of individuals in their mutual intercourse, e.g. speech, love, etc., is depicted as a relation of utility and utilization. Hence the actual relations that are presupposed here are speech, love, the definite manifestations of definite qualities of individuals. Now these relations are supposed not to have the meaning peculiar to them but to be the expression and

manifestation of some third relation introduced in their place, the relation of utility or utilization. This paraphrasing ceases to be meaningless and arbitrary only when these relations have validity for the individual not on their own account, not as self-activity, but rather as disguises, though by no means disguises of the category of utilization, but of an actual third aim and relation which is called the relation of utility. In this case the utility relation has a quite different meaning, namely that I derive benefit for myself by doing harm to someone else; further in this case, the use that I derive from some relation is in general alien to this relation . . .

All this actually is the case with the bourgeois. For him only one relation is valid on its own account - the relation of exploitation; all other relations have validity for him only insofar as he can include them under this one relation, and even where he encounters relations which cannot be directly subordinated to the relation of exploitation, he does at least subordinate them to it in his imagination. The material expression of this use is money, the representation of the value of all things, people and social relations.⁵⁴

This general conception includes two elements: first, to exploit someone is to utilize him in a way harmful to him and second, the end of such utilization is one's own benefit. There is also a suggestion of a third element here in the notion of alienation. The Marxian notion of alienation suggests that an alienated being is one who is used contrary to his nature. And Buchanan likewise proposes that "[Marx's concept] of alienation supplies content for the concept of exploitation by providing a systematic classification of the ways in which human beings are utilized and the forms of harm that this utilization inflicts on them."⁵⁵ The point in this general characterization of exploitation is that exploitation is not

confined to the labor process alone. Marx suggests here that exploitation encompasses the totality of human relationships in bourgeois society, because, for the bourgeois, human relations in general are exploitative. This includes both his relations with the worker and his fellow bourgeoisie as well.

Central to the various general conceptions of exploitation we have surveyed is the idea that an individual, a group or a class benefits unfairly at the expense of another who is made worse off. In this simple understanding of exploitation, we discover two characteristics: First, exploitation is a relationship between individuals, groups or classes. This means that the existence of an exploited agent always implies the existence of an exploiter. Second, exploitation is an unfair distribution of effort and rewards. This latter characteristic is often especially highlighted. For example, Jon Elster's definition of exploitation in a general sense states that "a person is exploited if (i) he does not enjoy the fruits of his own labor and (ii) the difference between what he makes and what he gets cannot be justified by redistribution according to need."⁵⁶ Sensat in his Framework I definition also gives a definition of exploitation which incorporates the second characteristic: "Exploitation is maldistribution of the benefits of social cooperation. An exploitative state is one in which some

individuals benefit at the expense of others."⁵⁷

Generally speaking, the individuals, groups or classes who are exploited are politically powerless, materially impoverished or in the lowest human segment in a highly stratified society. The situation of powerlessness, impoverishment and demeaning status which allows the exploiter to exploit the exploited is common to many societies. In tribal, capitalist and socialist⁵⁸ societies, there are individuals, groups or classes who are politically powerless, materially impoverished and of a demeaning status: For example, the low-ranking, materially poor lineages in Malinowski's socially stratified Trobriands⁵⁹; the African Hutu in the former Ruanda⁶⁰; the urban poor in mid-nineteenth century London⁶¹; the blacks in South Africa today; urban and rural blacks in the United States since the demise of slavery; Soviet farmers under Stalin; Catholics in Northern Ireland, etc.

Certain conceptions of exploitation emphasize the unequal states of the exploiter and the exploited. Frank Parkin maintains that "exploitation here defines the nexus between classes or other collectivities that stand in a relationship of dominance and subordination, on whatever social basis."⁶² He believes that the collective efforts to restrict access to rewards and opportunities on the part of one social group or class against another can be regarded as exploitative. On this ground, he concludes:

Relations of dominance and subordination between bourgeoisie and proletariat, Protestants and Catholics, whites and blacks, men and women, etc., can all be considered as exploitative relationships in the neo-Weberian sense.⁶³

When we put together the bits and pieces of our exposition of the general conception of exploitation, we find that the central issues in this conception are the ideas that in exploitation,

- i. the exploiter and the exploited stand respectively in a relation of dominance and subordination to each other;
- ii. the exploiter benefits at the expense of the exploited who is thereby made worse off;
- iii. the exploiter utilizes the exploited merely as a means for his (exploiter's) own benefit and in a manner contrary to the exploited's nature.

Most people would agree intuitively that some or all of these issues are central to a general characterization of exploitation. Despite this apparent general agreement, a basic controversy locks in here. Should we or should we not, include in the notion of exploitation the notion that it is contrary to one's nature? Kant does. Sensat argues



that we should. Marx's notion of alienation suggests that we should. On the other hand, Elster, Roemer and Parkin make no reference to such a notion.

It is not necessary for us to settle this controversy by taking a stand on the "true nature" of exploitation. What we really want to do is to find the definition that is most appropriate for our project at hand. For this purpose, such a theory of exploitation does not necessarily have to incorporate all the three issues. The candidates for this theory seem to be the first two conditions. The third condition is problematic. For example, the "unequal exchange" definition would be hard pressed to satisfy it. Are we going to claim that free trade between the First and Third World countries is contrary to the nature of the latter, or contrary to the nature of the human community? If the First World country is exploiting the Third World country strictly through trade, in what sense is it contrary to the nature of the latter country? So, to stress on the "violation of nature" requirement might be interesting, but it would require some philosophical ingenuity to make the case.

For our purpose, however, there has to be some kind of domination-subordination relationship between the exploiter and the exploited, and there has to be some sense in which one of them is benefitting. I have included the "violation of nature" requirement as part of a general characterization

of exploitation because there are a lot of notions of exploitation that do want to appeal to this requirement. Since this is a preliminary survey Chapter, it is useful to have it there in order to call attention to the fact that it is often part of the notion of exploitation. But we are not going to rely on this notion since it is not the central focus of this dissertation, the alleged exploitation of the Third World by the First.⁶⁴

C. WHY DO WE NEED A THEORY OF EXPLOITATION?

1. Comparison with Rawls's Theory of Justice

A basic question confronting any theory of exploitation is, why do we need such a theory? And a proper starting point is to make a comparison with Rawls's project, why do we need a theory of justice?⁶⁵ In general, the point of A Theory of Justice seems to be to systematize our "considered moral judgments,"⁶⁶ to see what kind of fundamental principles they are derived from, one consequence of which is that a few of these judgments might be corrected or revised.⁶⁷ A Rawlsian theory of justice assumes that we share a wide range of such judgments, and sees the main problem as discovering the basic principles from which this wide variety derives. So, the Rawlsian theory is trying to bring together a wide variety of judgments in things we have in common into a systematic order, and as a result of that, possibly to adjust some of these judgments.

A Marxian theory of exploitation also begins with something like "considered moral judgments." These are judgments or intuitions about the exploitative nature of the wage relation (at least, 19th century capitalist Europe) and the exploitative nature of free trade between the First and

Third World. Concerning the wage relation in 19th century Europe, when we reflect on the horrific conditions that Marx documents in the historical sections of Capital and also, about rich capitalists counterposed with workers who had to work for 18 hours a day for subsistence wages, intuitively, we want to say there was something exploitative going on there. Yet, how was that possible when everyone was free? The issue of the First and Third World relations presents the same dilemma. When we look at the structure of the global economy, we see that the First World is so rich and the Third World is so poor, and yet, they have long been historically connected. Intuitively, we want to say there is something going on here that is not right. Yet, how is that possible when there is free trade? How can there be exploitation when parties are free to either trade or not trade?

The main task of the theory of exploitation is to resolve this paradox and to explain how there can be exploitation when the parties are in a significant sense "free" or, alternatively, to show that what appears to be "exploitation" is not really that. Such a theory will have to tell us the nature of the exploitation and the mechanism by which this exploitation takes place. And hopefully, the theory will also provide an insight into how this problem can be overcome.

However, what we notice when we examine the literature

is that there are multiple theories of exploitation. For Rawls too, there are other theories of justice. In constructing his theory of justice, he contrasts his with competing theories of justice: utilitarianism, intuitionism and perfectionism.⁶⁸ He argues for the correctness and superiority of his theory to these other theories by revealing some internal problems inherent in the rival theories and by showing that his theory synthesizes and provides a better account of our "considered moral judgments."

With regards to the theory of exploitation, I will consider two competing theories, one associated with liberalism and one deriving from the Marxian tradition. In a sense, I will be considering more than two, since I will be looking at Steiner, Marx, Emmanuel, etc., but as I will show, these various theories constitute different moments of the two basic theories. I will evaluate them, as does Rawls, by considering internal problems and by asking which provides a better account of our "considered moral judgments." Rawls, recall, looks for the fundamental underlying principles of our "considered moral judgments" in order to construct a theory of justice. Unlike Rawls, we are not constructing an original theory of exploitation. But we will examine theories of exploitation in order to find out their underlying moral presuppositions. We are interested in knowing what moral intuitions are being

appealed to by the different theories. We need to do this in order to know whether the moral presuppositions behind them, when revealed, would be widely shared or not.

Rawls compares his theory with a "theory of grammar," which accounts for the way we speak.⁶⁹ The "theory of grammar" gives the rules that people observe in speaking and it systematically explains what they are doing. Comparatively, the theory of justice does something like that. It is meant to account for our "considered moral judgments." But it differs from a theory of grammar in that it may very well be that when we see what the basic principles are that explain most of our sense of justice, we will in fact decide to change some of our moral judgments in order to make them more consistent with these principles. So a theory of justice can itself change our judgments, while a theory of grammar does not change the way we speak. Similarly, a theory of exploitation may cause us to revise certain judgments. For example, the Marxian theory that explains the obvious exploitation of 19th century capitalism leads to the non-obvious conclusion that even the affluent workers of the 20th century are "exploited." As with a theory of justice, such a counterintuitive claim might cause us to revise either our theory or our "considered judgment." As with a theory of justice, we would have to evaluate the theory in terms of its broad explanatory powers in comparison with the major alternatives.

2. Competing Theories of Exploitation

There are, as noted above, competing theories of exploitation to be considered, one from the liberal tradition and the other from the Marxian tradition. Hillel Steiner's theory is paradigmatic of the liberal tradition, as is a more concrete expression of this tradition, "developmentalism." Within the Marxian tradition, Marx, Emmanuel, Roemer and dependency theory are not alternative theories but different moments of the same general theory. These models are linked together, because one is a development out of the other. The classical Marxian model is the basis for all the other models, but the defect it has is that it does not treat First and Third World relations. The classical theory is set strictly in the context of capital-labor relation. This model, however, gets developed in a creative direction by Emmanuel, who uses the same Marxian categories but now applies them to First and Third World relations. But with Emmanuel, one runs into the problem of the framework's reliance on the labor theory of value, and on certain kinds of mathematical anomalies.

John Roemer claims that one can get basically the same result without relying on the labor theory of value. He does this by means of a game theoretic approach. This approach introduces the notion of "domination" as one of the

principles of exploitation, but this notion is left undeveloped. And it is the developing of the notion of "domination" more concretely that leads to dependency theory.

The logic of the Marxian argument as it unfolds is a kind of Hegelian model in which a theory develops, reaches a certain limit, then has to be transformed or revised in a certain way to deal with the deficiencies that have been revealed. But then certain deficiencies appear at the next stage, and it has to be transformed again. So that each time, one is picking up what was still there in the earlier version rather than being an alternative approach. This is the pattern of development from classical Marx to Emmanuel, to Roemer, to dependency theory.

Our concluding Chapter will evaluate the two competing theories in their most concrete forms: developmentalism and dependency theory. We will apply both theories to the African context - taking Ghana as a test case - in order to decide which of them makes more sense and is more fruitful in understanding the concrete situation of the Third World countries. We must note, however, that such a decision will be inconclusive because we are not going to expect an irrefutable solution here. At best, this test case will help us determine which of the competing theories is more fruitful in terms of its moral plausibility and greater explanatory power.

Notes

¹It is in Marx's thought that we find a link between the idea of exploitation and the idea of surplus value. The whole philosophic-economic thought of Marx can be said to be a theory of the exploitative process within the capitalist system. For example, the first volume of the Capital analyzes the origin of surplus value, the *raison d'etre* of exploitation, in the capitalist mode of production. The second volume is explanatory of how the exploitative process affects the circulation of capital. The third volume reveals the laws determining the division of the total product of exploitation among its beneficiaries as profits, rent and interest.

²See The Philosopher's Index (Ohio: Bowling Green University Press, 1973), p. 135; Joseph Bloomfield, ed. Social Sciences Index (New York: H.W. Wilson, 1975), p. 217; Elizabeth E. Pingree and Caroline Myers Reyes, eds., Humanities Index (New York: H.W. Wilson, 1980), p. 214.

³Karl Marx, Capital I (New York: International Publishers, 1967), pp. 292, 303; Theories of Surplus Value I (Moscow: Progress Publishers, 1963), p. 315.

⁴Capital I, p. 677.

⁵Ibid., p. 301.

⁶Marx and Frederick Engels, Selected Works III (Moscow: Progress Publishers, 1969), p. 19.

⁷Capital III (New York: International Publishers, 1967), pp. 460-61; Capital I, p. 171.

⁸Marx, Grundrisse (Harmondsworth: Penguin, 1973), pp. 458, 509, 551, 674.

⁹Theories of Surplus Value III, pp. 92-3.
Theories of Surplus Value I, p. 316.

¹⁰Capital I, pp. 346, 680, 672, 689, 691, 693, 714, 715, 728, 732, 733, 757, 769, 771; Capital III, p. 509; Theories of Surplus Value III, p. 29; Grundrisse, pp. 570-71.

¹¹Capital I, pp. 729-30.

¹²See Laurence Crocker, "Marx's Concept of Exploitation," Social Theory and Practice 2(Fall 1972):

201-15 and Allen Wood, "The Marxian Critique of Justice," Philosophy and Public Affairs 1(Spring 1972):244-82.

¹³Donald Van De Veer, "Marx's View of Justice," Philosophy and Phenomenological Research 33(March 1973):374.

¹⁴Nancy Holmstrom, "Exploitation," Canadian Journal of Philosophy 7(June 1977):353-69.

¹⁵Gary Young, "Justice and Capitalist Production: Marx and Bourgeois Ideology," Canadian Journal of Philosophy 8(September 1978):421-55.

¹⁶Ziyad H. Husami, "Marx on Distributive Justice," Philosophy and Public Affairs 8(1978):27-64.

¹⁷Richard Arneson, "What's Wrong with Exploitation," Ethics 91(January 1981):202-27.

¹⁸George E. Panichas, "Vampires, Werewolves and Economic Exploitation," Social Theory and Practice 7(Summer 1981): 223-42.

¹⁹Allen Buchanan, Marx and Justice: The Radical Critique of Liberalism (Totowa, N.J.: Rowman and Littlefield, 1982), Ch. II, esp. pp. 36-49.

²⁰Simply put, the labor theory of value states that the exchange value of a commodity is determined by the quantity of its embodied labor including the labor embodied in the raw materials and equipment depreciation, that is, the amount of labor "socially necessary" for its production. Labor that is "socially necessary" refers to labor "required to produce an article under normal conditions of production and with the average degree of sell and intensity prevalent at the time." See Capital I, p. 47.

²¹See Robert Nozick, Anarchy, State and Utopia (New York: Basic Books, 1974), Ch. VIII, pp. 253-62, particularly the section titled, "Marxian Exploitation."

²²Ibid., p. 253.

²³Shih Yuan-Kang, "Nozick on Marx's Labor Theory of Value and Exploitation," Philosophical Forum (Boston), 11(Spring 1980):244-49.

²⁴The "exchange value" of a commodity is determined by the labor expended in the production process of the commodity. This is the abstract human labor as a part of the social system of labor.

²⁵Anthony A. Smith, "Robert Nozick's Critique of Marxian Economics," Social Theory and Practice 8(Summer 1982): 165-88.

²⁶Ibid., p. 166.

²⁷Gerald A. Cohen, "The Labor Theory of Value and the Concept of Exploitation," Philosophy and Public Affairs 8(Summer 1979):338-60.

²⁸Ibid., p. 358.

²⁹Nancy Holmstrom, "Marx and Cohen on Exploitation and the Labor Theory of Value," Inquiry 26(Summer 1983):287-308.

³⁰Geoff Hodgson, "A Theory of Exploitation without the Labor Theory of Value," Science and Society 44(Fall 1980): 257-73.

³¹Ibid., p. 268.

³²Ibid., p. 272.

³³David Laibman, "Exploitation, Commodity Relations and Capitalism: A Defense of the Labor-Value Formulation," Science and Society 44(Fall 1980):274-88.

³⁴Robert Paul Wolff, "A Critique and Reinterpretation of Marx's Labor Theory of Value," Philosophy and Public Affairs 2(1981):99.

³⁵David Schweickart, "On Robert Paul Wolff's Transcendental Interpretation of Marx's Labor Theory of Value," Canadian Journal of Philosophy 14(September 1984):359-74.

³⁶Ibid., p. 365.

³⁷Ibid., p. 366.

³⁸John Roemer, "Property Relations vs Surplus Value in Marxian Exploitation," Philosophy and Public Affairs 11(Fall 1982): 281-313.

³⁹Roemer, A General Theory of Exploitation and Class (Cambridge, Mass.: Harvard University Press, 1982). A synopsis of this theory is given by Roemer in his lead article in the 1982 Politics and Society devoted to the exposition and critique of this theory. See Roemer, "New Directions in the Marxian Theory of Exploitation and Class," Politics and Society 11(1982):253-87.

⁴⁰Roemer's theory will be examined in detail in Chapter V.

⁴¹Jon Elster, "Roemer versus Roemer: A Comment on 'New Directions in the Marxian Theory of Exploitation and Class,'" Politics and Society 11(1982):361-73.

⁴²Margaret Levi and Douglas C. North, "Towards a Property-Rights Theory of Exploitation," Politics and Society, pp. 315-20.

⁴³Adam Przeworski, "The Ethical Materialism of John Roemer," Politics and Society, pp. 289-313.

⁴⁴Erick O. Wright, "The Status of the Political in the Concept of Class Structure," Politics and Society, pp. 321-41.

⁴⁵Julius Sensat, "Exploitation," Nous 18(March 1984):21-38.

⁴⁶Emmanuel's theory will be examined in detail in Chapter IV.

⁴⁷Arghiri Emmanuel, Unequal Exchange: A Study of the Imperialism of Trade (New York: Monthly Review Press, 1972).

⁴⁸See, for example, Samir Amin, Unequal Development: An Essay on the Social Formations of Peripheral Capitalism (New York: Monthly Review Press, 1976); Fernando Henrique Cardoso, "Dependency and Development in Latin America," New Left Review 74(1981):83-95; Andre Gunder Frank, Dependent Accumulation and Underdevelopment (New York: Monthly Review Press, 1979); Theotonio dos Santos, "The Structure of Dependence," American Economic Review 60(1981):231-36.

⁴⁹This theory along with those of Roemer and Emmanuel will be examined in some detail in subsequent chapters.

⁵⁰Hillel Steiner, "A Liberal Theory of Exploitation," Ethics 94(January 1984):225-41.

⁵¹The Compact Edition of the Oxford English Dictionary (Oxford: Oxford University Press, 1971), p. 932.

⁵²Immanuel Kant, Groundwork of the Metaphysic of Morals. Trans. H.J. Paton (New York: Harper & Row, 1964), p. 96.

⁵³Julius Sensat, "Exploitation," p. 33

⁵⁴David McLellan, ed. Karl Marx: Selected Writings (Oxford: Oxford University Press, 1977), pp. 185-86.

⁵⁵Buchanan, Marx and Justice: The Radical Critique of Liberalism, p. 42.

⁵⁶Jon Elster, "Exploring Exploitation," Journal of Peace Research 15(1978):3.

⁵⁷Sensat, "Exploitation," p. 23.

⁵⁸I am employing the terminology, "socialist" as a term that socialist states ordinarily use to describe themselves. I am not in any way claiming that they are socialist societies in the same way that Marx envisions socialist societies.

⁵⁹Bronislaw Malinowski, Argonauts of the Western Pacific (London: Routledge & Kegan Paul, 1922), p. 25.

⁶⁰Jacques Maquet, The Premise of Inequality in Ruanda (London: Oxford University Press, 1961), p. 52.

⁶¹Henry Mayhew, London Labor and the London Poor (New York: Dover, 1968), p. 87.

⁶²Frank Parkin, Marxism and Class Theory: A Bourgeois Critique (Cambridge: University of Cambridge Press, 1979), p. 46.

⁶³Ibid.

⁶⁴Even the general liberal conception and more particularly, Steiner's liberal theory of exploitation as we will see in Chapter Two, do not have the notion of violating anyone's nature. Their stress is on the violation of others' rights.

⁶⁵For a full discussion of this question, see John Rawls, A Theory of Justice (Cambridge, Mass.: Harvard University Press, 1971), particularly the section titled "Some Remarks about Moral Theory," pp. 46-53.

⁶⁶Ibid., pp. 47-48. Our considered moral judgments refer to those moral evaluations about particular cases which we make ". . . under conditions favorable to the exercise of the sense of justice, and therefore in circumstances where the common excuses and explanations for making a mistake do not obtain."

The judgments that "religious intolerance and racial discriminations are unjust" are examples of our considered moral judgments concerning justice. p. 19.

⁶⁷Ibid., p. 48.

⁶⁸Ibid., p. 52.

⁶⁹Rawls, A Theory of Justice, pp. 47 and 50.

CHAPTER II

A LIBERAL THEORY OF EXPLOITATION

A. Brief Historical Survey

Ever since the publication early in this century of Leonard Hobhouse's classic, Liberalism,¹ the importance of liberalism as the dominant ideology of most Western societies has been widely recognized. The last several decades of academic work in political theory, especially in England and America, show no decline in the attention given to liberalism.

The classical liberal tradition has been characterized by a stress on freedom, equality and protection of rights. With regards to freedom, a deep concern of liberalism for the freedom of the individual inspired its opposition to absolute authority - whether State, Church or political party. David Schweickart confirms this:

Classical liberalism and laissez faire have long been associated with liberty. Classical liberalism rose to prominence in the seventeenth and nineteenth centuries as a philosophy opposed to aristocratic privilege, to the unlimited authority of monarchs, to all forms of governmental tyranny, including tyranny of the majority. Government, to the classical liberals, is by its very nature coercive, and coercion is opposed

to liberty.²

According to Overton H. Taylor,

The central ideal of the liberal philosophy is adequate and equal liberty or freedom for all persons severally; freedom for everyone to pursue in his own ways his own freely chosen ends, and freedom from coercion or control by others; for each and every person the greatest amount of such freedom which can be made consistent or compatible with the same amount of it for everyone else . . .³

Concerning equality, liberalism proclaims the equality of all men. This is not material equality but equality before the law. On the protection of rights, liberalism sees the ultimate purpose of government as that of upholding and protecting the rights of all its citizens, which include property rights, rights to liberty and rights of equal treatment under the law.

With Thomas Hobbes, we get a justification for the State derived from the concept of natural rights. Hobbes, who can be credited as the founding father of liberalism, introduced natural rights and deduced them from the laws of nature. He argued that the rights men possess cannot be secured in the state of nature. The state of nature is a state of the war of the all against the all, every man at war with every other man simultaneously.⁴ In the state of nature, the life of man is "solitary, poor, nasty, brutish, and short."⁵ In order to secure their rights, men must give

up their natural rights to a sovereign; security for rights required above all a government with powers.⁶ Given Hobbes' conception of the state of nature, the sovereign is endowed with almost limitless powers.

John Locke remedies this with a more benign concept of the state of nature. In particular, he retains in civil society, the natural right to property. With Locke, this crucially important category is introduced and theorized. Hence, Locke claims, "the great and chief end . . . of men's uniting themselves under government is the preservation of their 'property'. . . to which [end] in the state of nature there are many things wanting . . ." ⁷ What was wanting in the state of nature were legislative, judicial, and executive powers.⁸ To supply these defects and thereby secure their rights, men agree to be governed by a sovereign to whom they yield the natural rights by which they exercise these powers themselves.⁹

Prominent among these rights is the right to acquire and accumulate private property. For Locke, every individual has a property in his own person and his own labor, and so can rightfully appropriate to himself from the common stock whatever he has mixed his labor with. "Whatsoever then he removes from out of the state that nature hath provided, and left it in, he hath mixed his labor with, and joined to it something that is his own, and thereby makes it his property."¹⁰ But he outlines certain limits to

the amount of property one may appropriate. First, anyone may appropriate only as much as leaves enough and as good for others. Second, one may appropriate only as much as he can use before it spoils. Third, one may appropriate only what he has mixed his labor with.

In the premonetary society, there were moral limits to accumulation based on spoilage. With the introduction of money, the spoilage limit was transcended. All limitations to accumulation were removed because gold, silver, etc. are not subject to spoilage. Individuals are free in such an economy to appropriate and keep whatever they can. In effect, Locke was able to remove all legal, ethical and moral limits to individual appropriation and consequently, to establish the natural right to accumulate an unlimited amount of private property. Locke's theory of property rights is thus alleged to represent a moral justification for unlimited concentration of wealth and class inequality, which is the basis for capitalist society.¹¹ Macpherson argues that this is Locke's important contribution to the seventeenth century debate about "the true original, extent and end of civil government," since it fixed property rights in the center of liberal theory.

For Locke, property rights are inviolate and prior to societal or governmental claims. They are sacred and fundamental because such rights are inseparable from what it means to be a human being. Eric Mack emphasizes of Lockean

rights that "each person possesses these rights against all other men and correlatively each person is under a natural moral obligation not to coerce any other person."¹² As a consequence, if property rights are prior to every other claim, then no person, government or society can be justified in taking away any property which has been justly acquired through one's labor. To do so is to "exploit" the individual, and this is unjust. It is to prevent such abuses, Locke argues, that men have voluntarily come together to form government. Consequently, the purpose of government is delimited to the protection of natural rights, namely the set of rights connected to property.

But how is a society of free property holders to avoid economic anarchy with such a limited state? Adam Smith provides the answer, introducing the notions of the market and of the "invisible hand." The set of rights connected to property favors a market economy as both protecting property rights and allowing individual the liberty to define and pursue his own ends, which are his happiness and set of values.¹³ It is generally believed by liberals that the marketplace is the key coordinating mechanism of the socio-economic life of the people. The classical liberal tradition claims that under the free competitive market conditions, capitalism is non-exploitative. In other words, liberalism ". . . regards competitive market equilibrium as the best of all possible worlds; thus a world where

exploitation does not exist."¹⁴ The pedigree of this proposition, which has dominated the intellectual thought of all liberal thinkers since the seventeenth century, is traced back to Adam Smith.

Smith proposed the existence of a natural law of economic life in which social good is served only when each individual is free to pursue his own self interest in the marketplace. He argued that the wealth of a nation is increased not by the accumulation of gold and silver by a sovereign but by the "invisible hand," whereby each person is free to pursue his own economic interest and, in the process, promotes the common good. In Smith, we see the linkage of individual selfishness with the general progress of the society:

As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. [B]y directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and, he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.¹⁵

Smith claims that there is a natural law of economic life that wealth is best increased through the competitive mechanism, free from State interference and control.

Government best serves by not interfering. The essential task for government is to dissociate itself from economic life, end all restrictions on individual economic activity and pursue a policy of free trade. Smith's theoretical innovations - government intervention as an interference with individual's economic interest, and the fusion of individual selfishness with societal economic achievement - form the ground for the structure of the liberal culture out of which grew the modern capitalist system.¹⁶ For Smith, therefore, liberty can be maintained as well as economic prosperity.

After Smith came the classical economists, David Ricardo and Thomas Robert Malthus, who developed Smith's ideas into an integrated system that had a profound effect on economic thought during the nineteenth century. Even though they aimed at establishing an economy characterized by freedom of enterprise and freedom of contract, they were less sure of prosperity. Though they fully supported the free market, they looked more closely at the laborers, and saw that they will have to remain at subsistence level.¹⁷

According to Ricardo, labor was a commodity that was sold and bought like any other commodity in the free market. What the laborer received in wages, the "natural price," was a "subsistence wage," just enough to maintain him and his family. He says:

Labour, like all other things, which are purchased and sold, and which may be increased or diminished in quantity, has its natural and market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution.¹⁸

Ricardo argues that if the laborer got more in wages, it would be at the expense of profits because

the necessity which the labourer would be under of paying an increased price for such necessaries would oblige him to demand more wages; and whatever increases wages reduces profits. But suppose the price of silks, velvets, furniture, and any other commodities, not required by the labourer, to rise in consequence of more labor being expended on them, would not that affect profits? Certainly not: for nothing affects profits but a rise in wages . . .¹⁹

This means that an increase in wages at the expense of profits would be dangerous for business, as from profits came the capital needed for increasing investments. Or it would be at expense of another worker, as total wages could not exceed the collective "wages fund." As wages were determined chiefly by the cost of food, the classical economists favored the repeal of the Corn Laws, the tariff on food imports that kept the cost of food high in Britain. As a consequence, cheap food from abroad would lower the cost of living, which would give rise to lower wages being paid to the workers. The cost of production being lower, profits would be higher; hence, the amount left for

investment would be greater. Cheap food, according to the classical economists, would lead to national prosperity. But under this scheme, the worker was doomed to exist on a mere subsistence level.

Freedom of contract between individuals was considered essential to the functioning of the free economy. Buyer and seller, employer and employed, landlord and tenant were to be left free to negotiate the terms of their contracts, and contracts thus negotiated would generally prove beneficial to both parties. Combinations, whether of labor or capital, were considered to be conspiracies, and, as such, violations of the freedom of contract. As a result, liberalism opposed trade unions and industrial monopolies.

Malthus goes beyond Ricardo in arguing via his population theory (otherwise known as 'Malthusianism') that subsistence cannot be improved. Malthusianism further doomed the worker to his fate. This principle proclaims that there is a natural universal tendency for the increase of population to outrun the increase of the food supply: "that population has this constant tendency to increase beyond the means of subsistence, and that it is kept to its necessary level . . . will sufficiently appear from a review of the different states of society in which man has existed."²⁰ The balance between population and food supply had to be maintained by famines, wars, pestilences, etc. "The immediate check may be stated to consist in all those

customs, and all those diseases, which seem to be generated by a scarcity of the means of subsistence; and all those causes, independent of this scarcity, whether of a moral or physical nature, which tend prematurely to weaken and destroy the human frame."²¹ Though these evils have lessened, argued Malthus, the "principle of population" continues to operate. Should the ignorant worker receive an increase in wages, he would raise a larger family. Then there would be more workers competing for jobs. As a consequence, wages would fall, and the worker would be back again to a mere subsistence level. All efforts on the part of the government or trade unions to ameliorate the lot of the poor, according to Malthus, would be nullified by the "principle of population."

To justify the economic as well as the political subordination of the workers in a free society, gradations in status and in well being were ascribed by the liberals to natural inequality among men. Riches were the reward for capacity, foresight, hard work and enterprise; and poverty, the consequence for those who lacked these qualities.

Herbert Spencer, taking classical liberalism in the direction of social darwinism, provides a slightly different argument for the "necessity" of subsistence wages and against any state interference in the name of social welfare. He claims: "In common with its other assumptions of secondary offices, the assumption by a government of the

office of Reliever-general to the poor is necessarily forbidden by the principle that a government cannot rightly do anything more than protect."²² The functions of the government, therefore, were to enforce contracts and punish frauds in order to maintain a free and stable economy. This laissez faire doctrine forbade intervention by the government on behalf of the capitalists as mischievous meddling; and on behalf of the workers as a futile effort to negate the consequences of the working of natural laws. These are natural laws of the species concerning the survival of the fittest. Spencer stated the government's duty quite succinctly: "It was the essential function of the State to protect - to administer the law of equal freedom - to maintain men's rights . . ."²³

In a certain sense, Ricardo, Malthus and Spencer are gloomy. The workers have to stay on a subsistence level. But with Friedman and Nozick, there is a return to the optimism of Smith. The free market can allow the workers to prosper. Classical liberals²⁴ from Adam Smith through Herbert Spencer have defended the pure capitalism of the competitive market economy as a non-exploitative arrangement and as the best solution to the problem of distributive justice. They argue that if the market is undisturbed by governmental interventions, its system will result in abundant wealth for everyone. The automatic working of the marketplace will ensure that wealth is spread to all people.

profits will be available to the wealthy to invest in enterprises that are efficient and productive, thus benefitting the less well off. To leave the economic sphere to the free choices of individuals helps to provide incentive to innovation, development and progress while individual liberty is protected.

The liberals believe that any interference with the market mechanism, no matter how well intentioned it may be, creates inefficiency and distorts progress. In other words, under a market system, individuals' rights to well being and to liberty are not in conflict.²⁵ The market system satisfies both of them. The modern adherents to classical liberalism, Milton Friedman and Robert Nozick, return to the optimism of Smith. For them, the free market can guarantee liberty and prosperity.

Friedman maintains that the market mechanism enables us to exercise our natural right to liberty by guaranteeing freedom of property, freedom of occupation and freedom of development and is an important condition for freedom of expression. Describing liberalism, he maintains that it ". . . is a belief in the dignity of the individual, in his freedom to make the most of his capacities and opportunities according to his own rights, subject to the proviso that he not interfere with the freedom of other individuals to do the same."²⁶ While protecting the natural right to liberty, the free market also enhances our natural right to

well-being. Because the mechanism of the market provides for maximum productivity and efficiency, the greatest amount of economic good is produced for the majority of the people, which consequently improves their welfare.

Nozick's theory of distributive justice falls within the classical liberal tradition. He also provides a defense for the operation of the free market economy.²⁷ Nozick maintains that individuals are to be left alone to pursue their own interests. Included in this position is the caveat that we may not use persons as means to ends they have not chosen.²⁸ Nozick, as a liberal, is concerned to prevent use of persons solely as means. For example, we may not tax earnings from labor without consent, for to do so is to channel the person's labor to purposes not his own. There is behind this position a strong sense of the dignity of the person, in the Kantian sense, as well as a strong affirmation of property-rights in the products of one's labor. Therefore individuals should be free to accumulate and transfer property without interference by any person or institution. On the question of how goods should be distributed, the theory does not subscribe to any pattern of justice, since any such pattern will limit the individual's liberty of accumulating and transferring his property as he wishes. Nozick argues that individuals are entitled to their holdings which have been gained lawfully and honestly. Individuals may accumulate and transfer their property in

any manner they desire so long as the rights of others are respected. Nozick includes the Lockean proviso. The accumulation and transfer of property are permissible in so far as "the position of others no longer at liberty to use the thing is not thereby worsened." But he does not think that a market economy will get into trouble with this principle, because of the alleged superior efficiency of such an economy. In other words, increased productivity does not interfere with his theory because people are made better off in the process.

Besides Friedman and Nozick, other "libertarians" (as modern classical liberals sometimes designate themselves) defend the free market as a matter of principle. They claim that the market economy is more conducive to liberty. For example, Eric Mack argues that the free market plays an important function in any society in which the Lockean rights of individuals are to be respected and protected. These rights refer to one's ". . . natural moral right to life and liberty - i.e., a moral right to freedom from coercion of his person or of his activity."²⁹ It is also argued that the market institutions preserve liberty and solve the problem of distributive justice, since goods are distributed according to the free choices of individuals. The classical laissez-faire theory of distributive justice is one that is concerned with a just procedure such that whatever the actual distribution, so long as the procedure

is uncoerced, the distribution is fair. The driving force of this distributive procedure is self-interest. As individuals try to maximize their own self-perceived good, the greatest good for all is achieved. In a strange paradox, selfishness produces beneficence: private vice results in public virtue.

B. Hillel Steiner

1. The Theory Explained

Our review of the existing literature in the liberal tradition results in a striking revelation: very little has been written on the subject of exploitation. Most of the writings, particularly the more recent ones, have been concerned with issues of distributive justice. It is only in Hillel Steiner's work that we see a major attempt by a liberal to discuss and construct a liberal theory of exploitation.

In his article, "A Liberal Theory of Exploitation," Steiner attempts the task of arguing for a theory of exploitation from a liberal perspective.³⁰ Essentially, this theory derives from the classical liberal tradition. It relies on the primacy of liberal values of individual rights, liberties and choices. It sees exploitation as a trilateral relationship involving the violation of rights.

Steiner's theory is a prototype in the lineage of the liberal tradition. It is the first systematic attempt by a liberal to formulate a theory of exploitation within the liberal rights tradition. In my telephone conversation with Steiner on January 17, 1986, he told me that "it was the absence of a theory of exploitation within the classical

liberal tradition which prompted me to formulate this theory." Continuing, he said, "this theory is properly situated within the liberal tradition because its framework of analysis is one that is grounded on liberal values of personal rights and liberties and choices."³¹ As the first, and presently the only, theory of exploitation in the liberal tradition, Steiner's theory serves as representative of the liberal conception.

Steiner has three objectives in formulating this theory: First, he wants to show that classical liberalism, which is rights-based, can have a theory of exploitation; second, he wants to argue against the traditional classical liberals that exploitation in the capitalist world may be far more extensive than they would normally allow. According to the classical liberal position, all that one needs to ensure the absence of exploitation is to maintain a free market economy in which there is perfect competition, in which rights are respected and in which the government remains neutral in the economic activities of individuals. Steiner wants to prove that even within such a free market system, exploitation can still exist through a rights violation. He describes himself as "a left-wing classical liberal who is more egalitarian than the right-wing classical liberals."³² He claims that "a properly constructed theory of rights would be clearly less inegalitarian or more egalitarian than the traditional

classical view."³³ Third, he wants to circumvent the idea that the only way to think of exploitation is bilaterally. In particular, he wants to challenge the Marxian bilateral view of exploitation by arguing for a trilateral conception of exploitation. The claim he wishes to defend is that in exploitation, three different actors are involved in producing rights violation: the exploiter, the exploited and the agent whose rights have been violated.

Central to this claim is the following: exploitation is a trilateral relationship which involves the voluntary transfer of unequally valued items between two parties, this exchange made possible by the violations of the rights of a third party. For Steiner, rights are title-based because they are property-rights.³⁴ A rightholder can exercise his rights either by modifying the object of his title or by transferring this title to another. Any interference with the exercise of one's rights constitutes a violation of rights. For rights to be valid, they must derive from the exercise of past valid rights. Therefore, rights will be invalid if they derive from an action which interferes with the free exercise of another's valid rights. Steiner claims that this inviolability condition of valid rights justifies Nozick's historical entitlement theory of just rights to the extent that any set of titles has to be validated by a historical link to the exercise of the set of valid rights that created them.³⁵ In other words, a title is valid if

and only if it has arisen from the exercise of a valid right.

Steiner sees the institutional circumstance of exploitation as arising as a consequence of rights-violation. His model starts with a society with a system of justly acquired titles. Within such an institution of valid rights, any title will be invalid if it arises from an action interfering with the exercise of valid rights, no matter what legal justification such a title may have in the system. Steiner gives the following example: Blue interferes with White's opportunity to bid with Red in order that he (Blue) may exchange his 3x-valued item for Red's 5x-valued item. Blue's title to the 5x-valued item is invalid because it has arisen from a violation of White's rights. This is White's right to negotiate with Red. More than just an invalid title resulting from Blue's action, Steiner believes that "an injustice - an exploitation - has occurred" because Blue has received a surplus of 2x-valued item from Red.³⁶ In this exchange, Red is the one exploited, and White is the one whose rights have been violated. The exploitation of Red is a consequence of the violation of White's rights while Blue's title arises from an action interfering with the exercise of White's valid rights. Steiner uses other similar models of exploitation to buttress his point and then, he concludes with these three propositions:

- (i) exploitation involves a voluntary exchange of unequally valued items;
- (ii) exploitation always results from a violation of rights, and
- (iii) exploitation is essentially a trilateral relation.

He says "at least three persons or sets of persons are needed for an exploitation."³⁷ Even slavery as a form of exploitation is considered by him to be a trilateral relation: "it is the master's forcible exclusion of all other persons from engaging in commerce with the slave that creates the circumstance of the slave's exploitation by the master."³⁸ Steiner's notion of exploitation embodies the characteristics of exploitation we espoused in Chapter One: that the exploiter is in a relation of dominance to the exploited and that the exploiter benefits at the expense of the exploited. But there is a slight anomaly in Steiner's definition. While the notion of exploitation developed in Chapter One is of a bilateral relation, Steiner's notion is trilateral. The party whose rights are violated is not the party exploited. The exploiter is the party that benefits but the one who dominates only creates the circumstance of exploitation.

The State is also implicated as a violator of rights because it is said to create the circumstance of

exploitation. Such a circumstance of exploitation involving the State appears to be a quadrilateral relation because four distinct parties are involved: the State (as the violator of rights), the exploiter, the exploited and those whose rights are violated. But Steiner maintains that a more perspicuous analysis reveals that the State's intervention favors the exploiter, and therefore, the exploiter's interest is to be identified with the State. This identification, he says, "supports the trilateral characterization of exploitation."³⁹

In the final section of the article, Steiner claims that "laissez-faire conjoined with the universal right to natural resources is both necessary and sufficient to ensure the absence of exploitation."⁴⁰ But he also believes that monopoly ownership of natural resources resulting from a violation of others' rights to the resources ". . . can constitute the circumstance of exploitation."⁴¹ The "circumstance of exploitation" is one that puts an agent in a situation to exploit. This circumstance, if acted upon, can violate the universal right to natural resources. Hence it would be legitimate to intervene in the laissez-faire economy to break the circle of monopoly in order to prevent exploitation.

2. Moral Assumptions

Steiner claims John Locke and Robert Nozick have had a strong influence in his thought process and consequently, that the ethical presuppositions of his theory are derived from, and rely heavily on Nozick's "entitlement theory." Nozick's theory essentially has two components: a principle of just transfer and a principle of just acquisition. Steiner would seem to agree with Nozick's principle of just transfer:

A person who justly acquired a holding is free to transfer this holding to another in so far as this transfer does not interfere with the rights of others.⁴²

The principle of just acquisition is not quite the same for Nozick and Steiner. For Nozick, it means:

A person is entitled to appropriate unheld things in so far as there is enough and as good left in common for others.⁴³

With Steiner, there is a variation in Nozick's principle. His version, which is more egalitarian, introduces the notion of the universal right to natural resources. One acquires something justly as the first appropriator if such acquisition does not violate others' rights and if it

fulfils the universal right to natural resources. What exactly is the universal right to natural resources? It is the right of everyone to "an equal share of the basic non-human means of production."⁴⁴ Steiner deviates from Nozick's principles in two ways. One is that voluntary transfers are not always just. Unlike Nozick who claims that a voluntary exchange between consenting adults is always just, Steiner maintains that an exchange can be voluntary and yet still involve the violation of a third party's rights. This is where exploitation occurs. What Steiner is saying is that an exchange is just so long as it is voluntary and so long as neither of the parties to the voluntary exchange violates a third party's right to exchange. This is a basic ethical presupposition in Steiner's theory. Secondly, Steiner challenges Nozick's principle of just acquisition and replaced it by an alternative principle - the equal right of all to the basic non-human means of production. This principle is not very clear, and Steiner admits not having developed it fully.

These moral assumptions run through Steiner's entire theory, especially the first one. Their underlying — significance will become clear shortly. Even though the classical liberals believe that the ordinary market system is non-exploitative, Steiner is worried that even within the free market economy, exploitation can still occur as a result of a rights-violation. The free market could involve

rights-violation through the violation of one's rights to natural resources or through government trade restrictions. Therefore, he wants to ensure that individuals' rights remain inviolate and that they are not infringed upon. The absence of rights-violation means the absence of exploitation.

He is particularly concerned about government intervention in the working of the free market system which can violate people's rights. Monopolies arise, he claims, because of State restrictions between people. Licensing restriction is a case in point. Also, the State may create laws that favor some people and disfavor others. All monopolies, in Steiner's view, are State-based and State-caused. They are manifest sources of exploitation because they constantly violate people's rights.

Steiner is worried about labor unions because their attempts to struggle to effect a minimum or higher wage level undermine and interfere with the working of the free market economy. Such interference creates inefficiency and thwarts development and achievement. It is also an infringement on the people's natural right to liberty in determining their choice of occupations and what wages are best for them within the competitive market. On the whole, Steiner's interest is to devise a theory that will protect property-rights, promote liberty, while ensuring the elimination of monopoly power.

3. Critical Cases Considered

Let us examine how Steiner's theory relates to the two forms of alleged exploitation most discussed in the literature surveyed in Chapter One, the case I have called the "critical cases of exploitation." Steiner does not subscribe to a labor theory of value nor to its version of exploitation theory. For him, there can be no exploitation without a rights-violation. In a situation where the worker's rights have not been violated, Steiner says his bargaining power will give him the wage equivalent to the value of his product. In other words, under a condition where rights are intact, the worker's wage will be equal to the social value of his product.⁴⁵

In the free trade between capital and labor, devoid of any restriction or violation of the worker's rights, there is no exploitation because, according to Steiner, what the worker receives in the form of a wage is equivalent to the social value of his product. In other words, in a perfectly competitive economy in equilibrium, the rewards given to the owners of capital and labor will be equal to their respective contributions. Each one therefore in the words of Milton Friedman, "gets what he or the instruments he owns produces."⁴⁶ Exploitation will only exist if the transaction is influenced by force or fraud instead of being

regulated by the market forces, in which case, the worker's rights would have been violated.

Steiner's theory deals with the economic relationship between the First and the Third World in terms of the acquisition and distribution of natural resources. Basically, he believes that there is an egalitarian claim to all natural resources, because all nations of the world have equal rights to these resources. The primordial possession of these resources by these nations gives them property-rights to their initial resource acquisitions, and also imposes a corresponding obligation on nations not to interfere with others' property-rights to their resources. The effect of violating a nation's natural resource rights can result in exploitation. Steiner argues that "the uneven distribution of natural resources between the First and Third World today is a consequence of the First World having violated the rights of the Third World to its natural resources. Exploitation results as a consequence of the free exchange resulting from the rights-violation of the Third World."⁴⁷

Thus, for Steiner, exploitation does not exist in general in the first critical case. It exists in the second case only as a result of initial rights violations. He stands squarely opposed to the Marxian view that free exchange, whether between worker and capitalist, or between First and Third World, can be exploitative.

4. Problems with the Theory

In the early part of this section, we mentioned the objectives Steiner had in mind in constructing his theory. We shall bring them into focus again for purpose of revealing the problems bedeviling this theory. He wants first to defend the existence of a liberal theory of exploitation, second, to show that under a free market condition, exploitation can occur through a rights-violation, and third, to challenge the Marxian bilateral view of exploitation.

Has Steiner been able to achieve these objectives? Is his theory persuasive enough? Are the conditions he stipulates as tools in identifying cases and situations of exploitation adequate enough? Are they sufficient and necessary conditions of exploitation? Are there any problems with this theory? We shall now investigate these questions.

Steiner defines exploitation as the voluntary exchange of unequally valued items arising from a rights-violation. Since it is a third party whose rights are violated, exploitation is considered to be a trilateral relation. Here, three conditions can be identified as indicative of the existence of exploitation:

- i. the exchange of the unequally valued items has to be voluntary;
- ii. the rights of a third party have to be violated;
- iii. the candidates for exploitation have to be trilateral relations.

The composition of these conditions constitute the necessary tools with which liberalism can identify cases and situations of exploitation. The adequacy of the liberal theory of exploitation rests on the veracity of these given conditions. But are these conditions necessarily true? Can we falsify their basic claims? To answer these questions, we shall now examine the three conditions in a greater detail.

(a) First Condition: Voluntary Exchange

In exploitation, Steiner maintains that the exchange of the unequally valued items is voluntary. He says, ". . . it is not that an exploitation is accurately characterized as consisting in one voluntary transfer and one transfer which is either less voluntary or involuntary: both are voluntary, and may be equally so."⁴⁸ Steiner's example indicates that

if Red has 5x valued item and Blue has 3x-valued item, both Red and Blue would agree voluntarily to an exchange that results in Red having Blue's 3x-valued item and Blue having Red's 5x-valued item. This means that the parties concerned consent voluntarily⁴⁹ to make the exchange even though they are aware that their items are of unequal values.⁵⁰

First, it is not clear from Steiner's analysis what values are to be attached to the items of 3x and 5x. He simply says that the exchange takes place on "some shared scale of values."⁵¹ What is this "shared scale of values?" Can it be determined by individual's preferences, interests or caprices? This is unlikely since it is a shared common scale. It appears to be a universal measuring mechanism for widely differing values. Steiner does not attempt to clarify its meaning.⁵² The absence of such a clarification greatly impairs his argument. From a closer reading of the text, we can assume that these values are predicated of the same item, "x." If this is the case, then it means that Red's 5x would be greater than Blue's 3x since the numerical value of Red's item is greater than that of Blue. Any exchange between Red and Blue will be at a real loss of 2x for Red. Under such a situation of a loss, will Red consent voluntarily to an exchange with Blue? It is unlikely except under the following situations: (i) if Blue and Red were involved in an altruistic transaction in which Red decides to favor Blue; (ii) if Blue were to force Red to make the

exchange or (iii) if Red were to be in a hypnotic state which blurs the function of his reason. But in a situation of a non-altruistic transaction and with the proper functioning of his rational powers, it is doubtful whether Red will consent voluntarily to the terms of an exchange that will result in his loss of 2x. No rational agent involved in a non-altruistic transaction will engage voluntarily in a benevolent exchange that brings him less value than more value of his own items. Since Steiner's concern in exploitation is with a non-altruistic transaction, Red, as a rational agent, will not trade voluntarily his 5x for Blue's 3x. Hence, in exploitation, Red will not consent voluntarily to an exchange in which he loses his 2x to Blue. On this ground, I submit that the consent of the parties involved in a situation of exploitation is not totally voluntary. While the exploiter may consent voluntarily, the consent of the exploited is involuntary to the extent that he is the one who loses out in the transaction. Steiner fails to see this reasoning. Its rejection is implicit in his mistaken claim: ". . . it is not true that an exploitation is accurately characterized as consisting in one voluntary transfer and one transfer which is either less voluntary or involuntary . . ."53 This claim led to Steiner's erroneous conclusion that ". . . both are voluntary, and may equally be so."54

(b) Second Condition: Rights Violation

According to Steiner, exploitation results from the violation of the rights of a third party. In other words, rights-violation creates the circumstance of exploitation which makes it possible for the exploiter to take advantage of the exploited. Using Steiner's example, Blue, who has 3x is able to exploit Red who has 5x on account of the circumstance of exploitation created through Blue's violation of White's rights (that is, by forcibly preventing White from offering to Red more than 3x in exchange for Red's 5x). This means that if White's rights have not been interfered with, and Red has equal access to both Blue and White, Blue may not have been able to exploit Red by getting a surplus of 2x from him. It is possible that White might have offered 5x in exchange for Red's 5x, and this situation would have made it impossible for any transaction to take place between Blue and Red.

Contrary to Steiner's proposal, exploitation can occur without the intervention of a condition of a rights-violation, which is said to occasion the circumstance of exploitation. This is the case with a monopolistic situation created by nature in which the exploiter enjoys a natural monopoly over the exploited. An example will illustrate this.⁵⁵ John and Frank are both skilled artists.

Both of them produce their art works at the same value of $3x$ per painting. Through a natural mishap, John loses the use of his fingers and is no longer able to produce art works. Frank enjoys a monopoly of the art work business and raises his price to the value of $5x$ per painting. Joseph (a non-artistic merchant) wants a piece of painting and can only get it from Frank. Frank also wants a pair of shoes and only Joseph has a supply of the merchandize. The pair of shoes has an actual value of $5x$. Joseph exchanges the pair of shoes valued at $5x$ for Frank's art work with an actual value of $3x$. In effect, Joseph is paying Frank a value of $5x$ for a piece of painting whose value is not worth more than $3x$. One could say that if John were still actively involved in the art work business, Joseph could have got the painting from him for a value of $3x$. Now, he gets it from Frank, and Frank makes a surplus value of $2x$ from him. Even though Frank exploits Joseph in the exchange, he has not interfered with John's rights to produce in order to effect this transaction. Frank's exploitation of Joseph happened on account of the exchange of unequally valued items, and not as a result of John's rights having been violated. But Steiner's claim is that Joseph's exploitation must result from the violation of John's rights.⁵⁶ Our example shows this view to be seriously mistaken. Exploitation does not necessarily occur because someone's rights have been violated. It can occur

on account of a natural monopoly being enjoyed by the exploiter. Steiner's theory does not address the issue of natural monopoly and consequently, does not count it as being exploitative.⁵⁷ Since John's rights-violation does not affect Frank's exploitation of Joseph, I conclude that the presence of a rights-violation is not a necessary condition of exploitation. Exploitation can still exist without the violation of anyone's rights.

(c) Third Condition: Trilateral Relation

Steiner claims that exploitation is a trilateral relation because it must always involve three different actors: the exploiter, the exploited and the one whose rights are violated. This means that only trilateral and not bilateral relations are candidates for exploitation. He argues for this claim by also considering a quadrilateral relation involving four parties: the State (Black), the exploited (Red), the exploiter (Blue) and the one who suffers a rights-violation (White). One view may see this case to be quadrilateral relation because it involves the State which interferes with White's rights thereby creating the circumstance of exploitation in which Blue exploits Red. Steiner disclaims this view, for if it were to be true, then "there would have to be no motivational reason to suppose

that Black's intervention in terms of trade is authorized by any of the other three parties, that Black is in effect acting as an agent for one of them as principal."⁵⁸ He says that since the State's action neither favors Red nor White, neither could have authorized the State's interference. But Blue as the beneficiary of the State's action will not withhold his consent from the State's interference. The State's intervention is to be identified with Blue's interest. Such an identification validates the trilateral nature of exploitation since the State is only acting as Blue's agent in his interest as the exploiter.

The crux of Steiner's argument is simply this: Blue will consent to Black's action, since he is the one who benefits from Black's intervention. We can reply Steiner in the following way. The fact that Blue is a beneficiary of Black's action does not mean that he necessarily supports his action. He could be equally opposed to it just as Red and White would be. Suppose Blue is a strong advocate of the equal rights and equal treatment of all persons. Then he will be opposed to an interference that favors one party over the others. He will be opposed to any action that promotes the rights of one party at the expense of others' rights. How then does Steiner expect Blue who manifests such egalitarian principles to support Black's intervention? The fact that Blue is not withholding his consent does not mean that he supports Black's action. The fact that one

does not support a law does not mean that when the law passes and if a loophole is there, one should not take advantage of it. Even though one would consent to the law, one should not feel constrained to be altruistic when the law does not require it. We might say that Blue accepts or consents to Black's action because his status as a beneficiary is a consequence of Black's action. But it might be purely accidental that Black's action favors Blue at this moment. At another time, the beneficiary might be either White or Red. Steiner is mistaken to correlate Black's action, which favors Blue's interest with the fact that Blue consents to Black's action or is acting through Black. Black acts independently of Blue as a unique agent just as Blue acts independently of Black. Therefore, an exploitative situation which involves the four parties: Black, Blue, Red and White, is a quadrilateral and not a trilateral relation as Steiner would have us believe.

Exploitation can also be a bilateral relation. But Steiner also denies the latter. He says ". . . whereas rights violation . . . is a bilateral relation, an exploitation is essentially a trilateral one . . ." ⁵⁹ and ". . . that slavery cannot be both a bilateral relation and exploitative." ⁶⁰

Let us examine again the case involving the exchange between Frank (the monopolistic professional artist) and Joseph (the merchant). Frank produces a work of art worth the value of 3x and wishes to sell it for a value of 5x. Joseph wants

this piece of art. He exchanges a pair of shoes valued at $5x$ for it. Frank has exploited Joseph to the tune of a surplus value of $2x$. This is a case of exploitation which involves a bilateral relation between Frank and Joseph. Since a bilateral relation can also constitute an exploitative situation, the claim that only trilateral relations are candidates for exploitation is unjustifiable. Therefore, exploitation is not necessarily a trilateral relation as claimed by Steiner.

We recall that part of Steiner's objectives is to justify the claim that liberalism has the appropriate tools to identify exploitative situations. Thinking that his claim has been successfully proved by his arguments, he concludes that there exists an adequate liberal theory of exploitation. The liberal tools are constituted by the three conditions he has given as underlying any case of exploitation. These are:

1. the voluntary exchange of unequally valued items;
2. the rights-violation of a third party, and
3. the trilateral nature of exploitative relations.

The justification of his claim relies on the validity of these conditions. But are these conditions valid and true? Our analysis of Steiner's arguments has shown that these conditions are not necessary determinants of situations of

exploitation. In other words, exploitation is not

- i. a totally voluntary exchange;
- ii. necessarily occasioned by a rights-violation;
- iii. always a trilateral relation.

On the first condition, the consent to the exchange which gives rise to exploitation may be voluntary on the part of the exploiter, but it is usually involuntary (in some relevant sense) for the exploited. On the second condition, exploitation does not result from the violation of rights of a third party. It is often the consequence of the unequal exchange that goes on between the two parties involved in a non-altruistic transaction. On the third condition, exploitation does not necessarily have to be a trilateral relation. It has been shown that it can be a bilateral or quadrilateral relation.

So far our analysis has shown Steiner to be mistaken in his various claims. His conditions are not adequate in determining or identifying cases of exploitation. Since the composition of these conditions constitute the liberal tools, then Steiner's claim that liberalism has the appropriate tools to identify exploitative forms remains unproven. Consequently, his conclusion that liberalism has an adequate theory of exploitation seems false. Liberalism does not appear to have an adequate theory of exploitation,

because it is bereft of the appropriate mechanisms with which to identify situations of exploitation.

Besides being false, Steiner's theory of exploitation is bedevilled by other problems. Recall that Steiner disagrees with Nozick's principle of just acquisition. With Nozick, the original acquisition is something that happened long ago and we need not worry about it. With Steiner, the acquisition problem is something we have to worry about. Every generation, he maintains, possesses the universal right to natural resources, and consequently, there has to be a periodic redistribution of natural resources. Nozick wants to avoid this, and instead, allows a redistribution only in cases where injustices have occurred down the centuries. But Steiner wants to claim that even though there has not been any injustice along the way, there is still a need for a redistribution because of the universal right of all to natural resources. In other words, with Steiner, we have a conflict of rights. There is a universal right to natural resources which takes precedence over the right to be left alone so long as one has acquired his property justly without violating anyone else's right.

Nozick's view of rights is one in which rights never conflict, nor take precedence over one another. As long as one is acting justly within the limits of his rights, it means that one is not violating any one else's rights. In so far as one acquires property justly, leaving enough for

others, no rights have been violated. As long as transfers voluntarily what he has acquired justly, no rights have been violated. It seems that for Steiner, one's rights to a property which has been acquired justly does come in conflict with others' universal right to natural resources. This is where we have a problem.

It seems to be the case, I believe, that if I have a right to property, it belongs to me and I have a right to do whatever I want with it. People are not born with a right to what others already own. Consequently, one's right to his property will always come in conflict with people's universal right to natural resources. When we try to make clear the meaning of the "universal right to natural resource," we run into conflict with the first of the two principles we enunciated earlier. Steiner maintains in his theory of the compossibility of rights that

Any coherent or well-ordered set of rights must therefore be such that it is logically impossible for one individual's exercise of his rights to constitute an interference with another individual's exercise of his rights.⁶¹

In other words, rights must be coherent, and it is logically impossible for them to be in conflict. And precisely, the problem with specifying the moral assumptions of Steiner's theory is that his notions of the right of transfer and of the universal right to natural resources do seem to

conflict. Steiner wants to claim that the rights to transfer and the universal right to natural resources are universal and inalienable. If that is true, it is logically impossible for them to conflict. And yet, they do conflict on Steiner's own ground.

Furthermore, his advocacy of freedom for individuals in the pursuit of their economic ends can only result in inequalitarian distribution of economic goods and services among the citizenry. This is because the freedom of individuals to pursue their own interests without any positive constraints might increase disparities in income, wealth and opportunity. These might tend to establish patterns of inequality, leading to poverty and want. Even though this is of little concern to the individual, it is of a grave concern to the society as a whole because of its effect on the general population. This could lead to social unrest, increased crime, etc. Steiner's principles imply a completely free market economy. This implies the elimination of the labor unions. With the abolition of the latter, the marketplace may not adequately protect freedom and stability of employment because there will be no unions to protect the individual employee against his employer.

Also, the marketplace may be incapable of guaranteeing the basic needs of the people. Often, these needs are overlooked. In fact, one of the problems in an affluent market-based society is the relative invisibility of those

whom the market has bypassed. Although the poor may be largely invisible, they number in the millions and the extent of their needs is very great. They hold marginal and inconsequential jobs, have inadequate housing, medical care, etc. The existence of such a culture of poverty within a society that holds tenaciously to a free market economy would seem to raise questions about an absence of "exploitation."

Steiner is defining exploitation in a rather peculiar way. According to this definition, there is no exploitation in the society even though all these social problems exist. Steiner believes that the existence of inequalities and social problems in the society are not a problem to his theory of exploitation since they have not come about because of exploitation. Prima facie, this anomaly reveals that there is something wrong with Steiner's theory. There is no exploitation and yet, we have all these social problems. This does not seem right. Perhaps it is, but this circumstance gives us reason to look at another theory that does not draw this conclusion, one that sees such social problems as precisely the result of exploitation. It is to this theory that we now turn.

Notes

¹Leonard T. Hobhouse, Liberalism (New York: Oxford University Press, 1964). Originally published in 1911.

²David Schweickart, Capitalism or Worker Control? An Ethical and Economic Appraisal (New York: Praeger, 1980), p. 44.

³Overton H. Taylor, The Classical Liberalism, Marxism and the Twentieth Century (Cambridge, Mass.: Harvard University Press, 1960), p. 8.

⁴Thomas Hobbes, Leviathan (Indianapolis: Bobbs-Merrill, 1958), p. 106.

⁵Ibid., p. 107.

⁶Ibid., p. 142.

⁷John Locke, Second Treatise of Government. Ed. C.B. Macpherson (Indianapolis: Hachett, 1980), p. 66.

⁸Ibid.

⁹Ibid., p. 67.

¹⁰Ibid., p. 19.

¹¹For a full discussion of this aspect of Locke's theory, see C.B. Macpherson, The Political Theory of Possessive Individualism (New York: Oxford University Press, 1962).

¹²Eric Mack, "Liberty and Justice" in John Arthur and William H. Shaw, eds., Justice and Economic Distribution (Englewood Cliffs, N.J.: Prentice Hall, 1978), p. 184.

¹³Walter Berns interprets the views of the founding fathers of liberalism and suggests that: "By liberty they meant the liberty to pursue private ends; indeed, as they understood it, liberalism is best characterized by liberty understood as privacy: the private economy, the private association, the private family, the private friendship, the private church or non-church, and all this with a view to a happiness privately defined. To secure this natural right above all, government is instituted among men." Cf. Walter Berns, "Taking Rights Frivolously" in Douglas MacLean and Claudia Mills, eds., Liberalism Reconsidered (Totowa, N.J.: Rowman & Allanfield, 1983), p. 55.

¹⁴Geoff Hodgson, Capitalism, Value and Exploitation (Oxford: Martin Robertson, 1984), p. 202.

¹⁵Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations. Vol. I (Chicago: The University of Chicago Press, 1976), p. 477.

¹⁶To the extent that liberalism encourages a respect for private property and a general hostility to government intervention into the affairs of private business, it allows the capitalist class the freedom to act in its own interest without any interference.

¹⁷The fundamental principle of these classical economists was derived from the idea that natural laws infallibly regulated economic transactions. They claimed that in a free market, prices of commodities would be determined by the natural workings of supply and demand.

¹⁸David Ricardo, The Principles of Political Economy and Taxation (London: J.M. Dent and Sons, 1912), p. 52.

¹⁹Ibid., p. 70.

²⁰Thomas Robert Malthus, An Essay on the Principle of Population (London: Ward, Lock and Co., 1890), p. 3.

²¹Ibid.

²²Herbert Spencer, Social Statics or The Conditions Essential to Human Happiness. (London: D. Appleton and Company, 1910), p. 117.

²³Ibid.

²⁴Classical liberals are those who emphasize the minimal state and the freedom of the market as opposed to the modern liberals in the more contemporary sense who propound the theory of the welfare state and the importance of the government to provide safety nets.

²⁵In fact, the "right to well-being" is more prominent in modern classical liberalism than those of the 19th century.

²⁶Milton Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962), p. 194.

²⁷Robert Nozick, Anarchy, State and Utopia (New York: Basic Books, 1974), pp. 149-82, Chapter 7, particularly the section titled "Distributive Justice."

²⁸Ibid., pp. 31-33, p. 169.

²⁹Eric Mack, "Liberty and Justice," in John Arthur and William H. Shaw, op. cit., p. 184.

³⁰Hillel Steiner, "A Liberal Theory of Exploitation," Ethics 94(January 1984):225-241.

³¹Telephone discussion, January 17, 1986.

³²Ibid.

³³Ibid.

³⁴Steiner claims that "all rights are property rights and not only those relevant to exploitation." Cf. Telephone discussion, January 17, 1986.

A "title-based" right is a property-right. In his earlier article, "The Structure of a set of Compossible Rights," he argues that there is no coherent system of rights that is not title-based. If we have an action based on a set of rights that is not reducible to a title-based set, then we will get impossibility. Furthermore, any action can be interpreted spatially or physically. Whoever performs an action has to be the exclusive controller of this action. If he should be, then we are giving him property-rights. It is only by giving people property-rights that we can be assured that the way they exercise their rights would not be mutually frustrating. Cf. Steiner, "The Structure of a set of Compossible Rights," Journal of Philosophy 74(1977): 767-75.

³⁵For a full discussion of Nozick's "entitlement theory," see Nozick, Anarchy, State and Utopia, pp. 150-82.

³⁶Steiner, "A Liberal Theory of Exploitation," p. 231.

³⁷Ibid., p. 233.

³⁸Ibid.

³⁹Ibid., p. 235.

⁴⁰Ibid., pp. 238-39.

⁴¹Ibid., p. 239. Steiner's notion of universal right to natural resources plays the same role as Nozick's principle of just appropriation.

⁴²Nozick, Anarchy, State and Utopia, pp. 150-51.

⁴³Ibid., pp. 150-51, 175.

⁴⁴Hillel Steiner, "The Natural Right to the Means of production," Philosophical Quarterly 27(1977):49.

⁴⁵The "social value of the product," according to Steiner, refers "to the highest value that people who are equally free of rights-violation will bid for the product in an auction." Cf. Telephone discussion, January 17, 1986.

⁴⁶Friedman, Capitalism and Freedom, p. 161.

⁴⁷Telephone discussion, January 17, 1986.

⁴⁸Steiner, "A Liberal Theory of Exploitation," p. 228.

⁴⁹Here, "voluntariness" refers to a situation where Red is not forced to make the exchange. He prefers to have Blue's 3x in exchange for his own 5x. Steiner claims that "an action is voluntary if it is preferred to any of its available alternatives." Cf. Telephone discussion, January 17, 1986.

⁵⁰On the question of "awareness," Steiner maintains: "the parties in this transaction are aware of this inequality but my immediate concern here is to reveal the nature of exploitation as 'unequal exchange' and why it occurs and why it will occur even when people are aware of it." Cf. Telephone discussion, January 17, 1986.

⁵¹Steiner, "A Liberal Theory of Exploitation," p. 225.

⁵²As recent as January 1986, Steiner does not have a clear notion of what he means by the "shared scale of values." He simply told me: "I am yet to work out its meaning but I think it has something to do with the interplay of everybody's preferences." Cf. Telephone discussion, January 17, 1986. Even if we are to accept this tentative meaning, we are still not clear as to what "the interplay of everybody's preferences really mean. Does it refer to the summation of everyone's preferences or the mean point in the continuum of the widely differing preferences of individuals? Is this a quantitative or a qualitative measuring scale? All these questions still need to be addressed and clarified by Steiner.

⁵³Steiner, "A Liberal Theory of Exploitation," p. 228.

⁵⁴Ibid.

⁵⁵If perfect competition is the measure, there is no exploitation. This problem is one of monopoly that arises without fraud or corruption. There is inequality going on that does not violate anyone's rights.

⁵⁶Ibid., p. 322.

⁵⁷I mentioned this objection to Steiner which he unquestionably accepts. Admitting that his theory overlooks the question of natural monopoly, he points out that this question is a thorny issue to liberalism. Cf. Telephone discussion, January 17, 1986.

⁵⁸Steiner, "A Liberal Theory of Exploitation," pp. 234-35.

⁵⁹Ibid., p. 233.

⁶⁰Ibid., p. 234.

⁶¹Steiner, "The Natural Right to the Means of Production," p. 42.

CHAPTER III

THE MARXIAN THEORY OF EXPLOITATION

A. Exposition

It is an assumption commonly accepted today that Marx's interpretation of classical political economy helped to shape and determine the structure and content of his own economic theory which includes an economic explanation of exploitation. Some pertinent questions arise from this assumption: How did Marx view classical political economy? What was its influence on him? How strong was this influence? In short, what is the relation of Marx to classical economics?

Marx shared in the same fundamental problems with which the classical economists had to grapple. The crucial issues at the core of the classical theory of value were concerned with:

1. the origins and magnitude of non-wage incomes (profits and rent) in the capitalist mode of production: what Marx was to term 'surplus value,' that is, the difference in value terms between social input and social output;

2. the measure of the value of commodities (natural price) in terms of which both social output and the surplus product could be quantified.

In order to understand Marx's interpretation of the classical labor theory of value and his use of it to define exploitation, we must first analyze the origins of the theory in the period antedating the publication of the Wealth of Nations, then, Adam Smith's treatment and lastly, David Ricardo's refinement of Smith's arguments.

The pre-Smithian epoch featured the Mercantilists and the Physiocrats, both of whom were engaged in the same quest of classical political economy: the analysis of the origins and magnitude of surplus value.¹ They saw the crucial importance of production-cost in the economy and claimed the value of commodities to be determined by the cost of production. Obviously, there was difficulty in reconciling such a "wage cost" theory of value with the existence of non-wage incomes or profits. If the value of a commodity was dependent solely on the labor costs incurred in its production, it could not both be sold at its value and yield incomes to the capitalist responsible for its production. The question therefore is: How could the existence of rent, interest and particularly, profit be reconciled with the "wage-cost" labor theory of value?

The Mercantilists solved this question by claiming

that profits originated in the act of exchange and not from the process of production. They argued that this was because commodities were sold at prices higher than their cost of production. Their viewpoint, which was the dominant position in the sixteenth century, was rejected by the Physiocrats and the later English classical economists. Marx also criticized Proudhon and Malthus for falling into this same error.² His criticism of Destutt de Tracy brings out this point succinctly:

A may be clever enough to get the advantage of B or C without their being able to retaliate. A sells wine worth £40 to B, and obtains from him in exchange corn to the value of £50. A has converted his £40 into £50, has made more money out of less, and has converted his commodities into capital. Let us examine this a little more closely. Before the exchange we had £40 worth of wine in the hands of A, and £50 worth of corn in those of B, a total value of £90. After the exchange we have still the same total value £90. The value in circulation has not increased by one iota, it is only distributed differently between A and B. What is a loss of value to B is surplus-value to A; what is "minus" to one is "plus" to the other. The same change would have taken place, if A, without the formality of an exchange, had directly stolen the £10 from B. The sum of the values in circulation can clearly not be augmented by any change in their distribution, any more than the quantity of the precious metals in a country by a Jew selling a Queen Anne's farthing for a guinea. The capitalist class, as a whole, in any country, cannot over-reach themselves. Turn and twist then as we may, the fact remains unaltered. If equivalents are exchanged, no surplus-value results, and if non-equivalents are exchanged, still no surplus-value. Circulation or the exchange of commodities, begets no value.³

The point of Marx's argument is that it is impossible for

everyone to cheat every other person and to make a gain in the process. This is because one person's gain is another's loss and ultimately, on the aggregate, they must cancel out each other. Capitalists could get more than the value of their commodities when they sell them but in aggregate, they will pay just as much more for the commodities that they purchase. Three responses to this argument exist in the literature.

The first response was offered by the Mercantilists themselves. They accepted the validity of this argument only for domestic trade but not for international trade. They argued that it is ultimately possible for one nation to enrich itself by systematically cheating its trading partners. This view forms at least one strand of the Marxian and post-Marxian theory of imperialism. Consequently, the Mercantilists viewed foreign trade as the only source of surplus value and of economic growth.

The other two possible responses rebut the Mercantilist's view and assert the possibility of profits or non-wage incomes outside of foreign trade. The second response, which originates from the Physiocrats, sees surplus value as a derivation from agricultural production. According to them, industrial profit is to be explained by the fact that farmers are cheated by the industrial capitalists. That the Physiocrats saw agriculture as the only form of productive activity is not surprising. During

the early seventeenth and mid-eighteenth centuries in which they wrote, France was a predominantly agricultural nation, with a small commercial sector of low-profit manufacturing industries and a large, parasitic bureaucracy that was tended towards subsidizing and protecting the few industrial monopolies. With this background, it was easy to see surplus product in agriculture as a physical surplus of corn output (the harvest) over corn input (seed and the maintenance of farmers). It is therefore easy for us to understand how agriculture came to be perceived as the only productive sector of the economy. Marx summarized the Physiocrats' argument as follows:

Industry buys raw materials from agriculture, in order to work them up; its labour - as we have already said - gives these raw materials only a form, but it adds nothing to them and does not multiply them. Give the cook a measure of peas, with which he is to prepare your dinner; he will put them on the table for you well cooked and well dished up, but in the same quantity as he was given, but on the other hand give the same quantity to the gardener for him to put into the ground; he will return to you, when the right time has come, at least fourfold the quantity that he had been given. This is the true and only production . . . Therefore the value or the increase of value of commodities is not the result of industrial labour, but of the labourers' outlays.⁴

The Physiocrats saw the industry as a sterile institution because of its incapability to produce surplus like agriculture. It merely cooks the raw materials supplied by agricultural activity without adding any value to the cooked

stuff. Any surplus that accrues to industry is the result of the sale of manufactured goods to the farmers at prices higher than their values. This is the cheating referred to above. On the Physiocrats' assumption, industrial profit represented a deduction from the surplus value available for production in agriculture. Therefore, they insisted on laissez-faire, which amounted less to a charter of liberty for industrial capital than to a demand for the abolition of State protection over the parasitic monopoly industrial sector. It is not surprising that this was not a theoretical apparatus likely to survive the advent of a large, highly competitive and dynamic industrial capitalism.

The third response claims that if surplus value arose in the process of production and was realized in the act of exchange, then there is no need to resort to the Mercantilists' view of their origins. Going by this solution, there is the possibility of reconciling the existence of property incomes with adherence to a labor theory of value and to the view that commodities are sold at their labor values rather than higher than these values. This position is developed by Smith and Ricardo, and then, by Marx, all of who perceive capitalist profit as resulting from capitalist production.

It was clearly his perception of the primordial beginnings of the industrial revolution which made Adam Smith to regard industry as being as productive as

agriculture, and to extend the production of surplus value "to all spheres of social labour."⁵ Consequently, it was possible to analyze the origins of industrial profit, which both classical political economy and Marx saw as the most essential form taken by surplus value, in the context of a theory of value which did not require manufactured goods to be sold at prices greater than their value in order for any profit to be made. Marx made explicit what Smith's critique of the Physiocrats had left implicit. Marx perceived that their model of society was an uneasy mixture of feudalism and capitalism:

Feudalism is thus portrayed and explained from the viewpoint of bourgeois production; agriculture is treated as the branch of production in which capitalist production - that is, the production of surplus value - exclusively appears. While feudalism is thus made bourgeois, bourgeois society is given a feudal semblance.⁶

In analytical terms, Marx also argued, correctly I believe, that the Physiocrats were mistaken in the only grounds which they could consistently employ to justify the unique position attributed to agriculture. He claimed that this was the identification of surplus value with surplus product, seeing the former as a simple physical surplus of output over input. According to Marx, this view was only tenable perhaps in a purely agricultural society, when both inputs and outputs were of the same commodity, for example,

corn. But what meaning did it have in an advanced capitalist economy where a range of different commodities enter into production and the output is quite distinct in its physical characteristics from any of them? Consequently, Marx criticized the Physiocrats for their failure to make a distinction between "riches" and "values." He claimed that physical output is a different concept from the value of that output. Such confused reasoning made the Physiocrats to attribute the social surplus to the "mere gift of nature" and hence, to ignore the social relations which give rise to property incomes in a capitalist economy:

[the Physiocratic system] conceived value merely as use-value, merely as material substance, and surplus value as a mere gift of nature, which returns to labour, in place of a given quantity of organic material, a greater quantity . . . On the other hand, this surplus value is explained again in a feudal way, as derived from nature and not from society; from man's relation to the soil, not from his social relations.⁷

Marx argued that the Physiocrats were led to this glaring mistake by their insistence that free competition would completely eliminate industrial profit, the implication of which was that the continued existence of agricultural profit, rent and interest required the surplus value to be viewed as a "mere gift of nature." Ultimately, the Physiocrats had no theory of industrial profit. What then

was their achievement? Marx pointed out that the achievement of the Physiocrats consist in the fact that they ". . . transferred the inquiry into the origins of surplus value from the sphere of circulation into the sphere of direct production, and thereby laid the foundation for the analysis of capitalist production."⁸

How far did Adam Smith build on these foundations? Smith accepted the Physiocrats' argument that surplus value arises in production instead of exchange (or circulation) and consequently, cannot be explained in terms of the general sale and purchase of commodities at prices higher than their values. But he went beyond the Physiocrats in showing that the production of surplus value was not restricted to agriculture. It also arises from manufacturing industries. In fact, industry plays a central role in his treatment of productive labor. As Marx observed, Smith attributed surplus value to the activity of social labor, and not to the mere gift of nature:

But to Adam Smith, it is general social labour - no matter in what use-values it manifests itself - the mere quantity of necessary labour, which creates value. Surplus value, whether it takes the form of profit, rent or the secondary form of interest, is nothing but a part of this labour, appropriated by the owners of the material conditions of labour in the exchange with living labour.⁹

As Meek emphasized, Smith was the first economist to base a labor theory of value explicitly on a particular analysis of

the nature of society.¹⁰ This he did in his famous example of the deer and the beavers, which articulates the first clear theory of value:

In that early and rude state of society which preceeds both the accumulation of stock and the appearance of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days or two hours labour, should be worth double of what is usually the produce of one day's or one hour's labour.¹¹

Here, we see Smith analyzing a model of simple commodity production, in which production is embarked upon for exchange rather than to satisfy the needs of the producer himself, but in which capitalist class relations are absent. In this simple model, not only does all income accrue to the producers, but the ratios at which the different commodities exchange depend entirely on the ratios of labor embodied in them or required for their production.

In this "early and rude state of society," profit and rent do not exist; the labor theory of value applies without modification. However, when we move to a capitalist society, Smith rejected the labor theory of value as inapplicable to capitalism:

Neither is the quantity of labour commonly employed in

acquiring or producing any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command or exchange for. An additional quantity, it is evident, must be due for the profits of the stock which advanced the wages and furnished the materials of that labour.¹²

Consequently, Smith argued that the very existence of property incomes invalidates the labor theory of value. The value of the labor embodied in a commodity is now less than the value of the labor which it can command or for which it is exchangeable. Suppose that two hours of labor are necessary to kill a beaver, and that the value of an hour of labor is \$1.00. The "labor embodied" value of a beaver is \$2.00. The capitalist's profit is 50 cents per beaver, so that it sells for \$2.50. But at the prevailing wage \$2.50 will purchase two and half hours labor, so that "labor-commanded" exceeds "labor-embodied." Essentially, this was the same problem which confronted the Mercantilists. They tried to solve it by retaining a primitive cost of production theory by arguing that commodities generally sell at prices higher than their values. Smith, as we already have seen, rejected this position and consequently, rejected the labor theory of value. He replaced it with a cost of production theory which Sraffa has called the "adding-up" theory.¹³ According to this theory, the price of a commodity in a fully developed economy is ". . . what is sufficient to pay the rent of the land, the wages of the labor, and the profits of

the stock employed in raising, preparing, and bringing to market, according to their natural rates . . ."14 Rent and profit are seen as costs of production, on a par with wages, and form part of the value of commodities.

Commodities can therefore be sold at their values, and still yield profit to the capitalist and rent of the landlord. But these values no longer depend solely on the quantity of labor required to produce them. Labor now figures only as one constituent part of the costs of production. As a measure of value, it is no longer the only source of value. This change is a major one. Property incomes, instead of being derived from the labor used to produce commodities, are seen as costs additional to it. Instead of resulting from the value of the commodity, which is defined in terms of embodied labor alone, they become a component part of that value.

Even though Smith abandons the labor theory of value, and tries the "adding-up" theory, this has its problem. The basic problem with the cost of production theory is that Smith is defining "natural prices" now in terms of a "natural" wage, a "natural" rate of profit and a "natural" rent. But he has left these factors undefined and unexplained. More specifically, what is a "natural" wage? What is a "natural" rent? What is a "natural" rate of profit?

David Ricardo confronts these questions directly. He

realizes that Smith has not really explained these factors and that there are problems with the "adding-up" theory, and so, he attempts solving them. Ricardo tries to answer all of those questions by positing that the "natural" wage rate is subsistence. He develops a whole theory of rent depending on the differential fertility of land. This leaves profit, the question with which he struggles inconclusively.

Ricardo's attempted solution, which presupposes the classical view that surplus value originates in production, refines and extends Smith's simple labor theory of value¹⁵ which was applicable to the early and rude state of society. According to the Ricardian theory, the value or the natural price of a commodity is determined by the quantity of labor directly and indirectly required for its production. The "indirect" labor refers to the labor embodied in the raw materials and the labor that went into the making of the machine. The "direct" labor refers to the labor actually expended in production. But Ricardo, like Smith, is worried that the labor theory of value might no longer apply under conditions of advanced capitalism. It is to this problem that much of the first Chapter of the Principles of Political Economy is devoted. In free competition, the rate of profit on capital tends to equality in all industries. But industries differ in the ratio of capital to labor which they employ, and also in the ratio of fixed to circulating

capital. These differences led Ricardo to argue that the simple labor theory of value applies only if no capital is employed, or if factor proportions and capital durability happen to be the same in all industries. In this regard, he says:

If men employed no machinery in production but labour only, and were all the same length of time before they brought their commodities to market, the exchangeable value of their goods would be precisely in proportion to the quantity of labour employed . . . If they employed fixed capital of the same value and of the same durability, then, too, the value of the commodities produced would be the same, and they would vary with the greater or less quantity of labour employed on their production.¹⁶

Ricardo realizes that except under these improbable conditions, the labor theory of value fails to hold. The labor theory is inadequate in situations where there are significant differences in capital intensity or durability between industries.¹⁷ Ricardo sees this problem of the tendency of natural prices to deviate from labor values, but is unable to proffer any solution to it. As Wolff remarks:

Ricardo's labor theory of natural price comes to a dead halt right here. Just as Adam Smith was unable theoretically to extend his correct analysis of the early and rude state to the case in which the accumulation of stock and the appropriation of land has taken place, so Ricardo is unable to provide an adequate analysis of the derivation of natural prices from labor values as a consequence of unequal times that elapse between the bestowal of labor on the production of commodities and their realization, or sale, in the market.¹⁸

Marx comes in the midst of this problem. His objective is to redeem classical political economy from its internal logical inconsistencies and the methodological defects which were largely responsible for these shortcomings.

Marx is well aware of the problem faced by Ricardo concerning the non-proportionality of prices to labor values.¹⁹ He chooses to ignore the problem of natural prices in Capital I, and instead, to inquire into the fundamental question confronting classical political economy: the origins of capitalist profit. In Ricardo's words, this question concerns the determination of the laws which regulate the distribution of the produce of the earth among the three classes of the community - landowners, capitalists and laborers.²⁰

Marx's solution adopts the Ricardian theory of natural price by simply assuming that commodities sell at their values, where the value (natural price) of a commodity is determined by the quantity of labor directly and indirectly required for its production.²¹ Marx's solution reveals how the appearance of capital-labor relation as a simple exchange relation actually conceals reality. When the capitalist and the laborer meet on the labor market, what the capitalist buys from the laborer is not what he appears to buy. The capitalist does not buy the worker's labor but his labor power. He does not buy the worker's productive

activity, or what the worker creates in a specified period of time. He buys his labor power, i.e., the worker's capacity to labor. Marx writes:

Our friend, Moneybags, must be so lucky as to find, within the sphere of circulation, in the market, a commodity whose use-value possesses the peculiar property of being a source of value, whose actual consumption, therefore, is itself an embodiment of labor, and consequently, a creation of value. The possessor of money does find on the market such a special commodity in capacity for labour or labour-power.²²

This unique insight forms the basis of Marx's theory of exploitation. Writes Wolff, ". . . in this remarkable passage, Marx suddenly explodes all of classical political economy."²³ Marx maintains that the economic forces of capitalist society are such that there is a difference between the exchange value of labor power and the exchange value of what is produced by its employment (that is, the exchange value of the product), and the difference is the source of the capitalist profit.

Let us put this in the terms used by Marx in Capital I. We assume, as he does that the exchange value of a commodity is proportional to its labor value. On this assumption, we see that the worker's labor time is divided into two parts: (i) that period during which the magnitude of the value he creates is equal to the value of the commodities he receives from the capitalist through his

wage, which Marx terms "necessary labour"²⁴ and (ii) that period during which he creates value over and above what he receives in wages, which Marx terms "surplus labour."²⁵ The ratio of surplus to necessary labor time is termed the rate of exploitation.

In this analysis of capitalism, the value of a commodity is made up of three component parts. The first part represents the value of the raw materials and tools or machinery used up in its production. The second part is that which replaces the value of the worker's labor power and the third part is made up of the surplus labor. From the perspective of the circulation of capital, the first part is termed constant capital (c), since it ". . . does not in the process of production undergo any quantitative alteration of value."²⁶ It merely passes its value on to what it produces. In contrast, the second component is termed variable capital (v), because it ". . . does, in the process of production, undergo an alteration of value. It both reproduces the equivalent of its own value, and also produces an excess, a surplus-value . . ."²⁷ In other words, the capitalist's purchase of labor power allows value to expand through the creation of a third component. This third component is surplus value (s) which the capitalist appropriates without equivalent.

The division of capital into constant and variable components is unique to Marx's political economy. This

distinction is absent in classical political economy where the distinction made is that between fixed and circulating capital. Even though Marx employs this latter distinction, he argues that the constant variable dichotomy is more significant because only in these terms can the nature of surplus value be fully understood. With this distinction made, we see clearly that it is only the expenditure of capital on "living labor" that leads to the creation of value, and consequently to the production of surplus value. The means of production - tools, machines, and raw materials, which represents "dead" or congealed labor - do not create value. They merely transfer the pre-existing values which they possess to the commodity in the process of production. Thus surplus value is created in the production process by the performance of "unpaid labor."²⁸ Given the rate of exploitation, its magnitude depends on the quantity of living labor, that is, variable capital employed, and not on the quantity of dead labor (constant capital) that is used. Constant capital does not produce value, and, therefore, cannot produce surplus value. Commodity values, at any level of aggregation, can be written as $c+v+s$. Surplus value forms the source of capitalist's profit, and this in turn derives from surplus unpaid labor. The extraction of surplus labor from the laborer and its appropriation by the capitalist in the form of surplus value is exploitation as Marx employs the term.

B. Moral Assumption and Arguments

Marx believes that the wage relationship between the capitalist and the worker conceals the systemic exploitation that goes on under the capitalist mode of production. The contract which brings about the wage relationship appears to have been embarked upon on the platform of "Freedom, Equality, Property and Bentham."²⁹ The capitalist employs the worker for a day's work and pays him a wage which suggests that all the worker's labor has been paid for. Hence, there is no cheating either way because equivalents have been exchanged: the worker supplies labor and the capitalist pays him an equivalent in the form of a wage.

For Marx, this transaction is an appearance concealing reality. In reality, there is exploitation because some labor is unpaid labor. How does he prove this claim? According to him, what the worker really sells to the capitalist is not labor but his capacity to labor, i.e., labor power. The capitalist then sets it to work for a full day. Because the worker labors for more hours than are necessary to produce his own laboring capacity for the day, he creates a quantity of new value that is greater than was embodied in his labor power. This happens because the worker spends a part of the day to reproduce the value of his means of sustenance which equals the wage he receives.

The rest of the day is the surplus labor time during which he works to produce surplus value which is appropriated by the capitalist. Surplus value is therefore new value created by a worker over and above what is required to reproduce the labor power used up in the production process. Since surplus value is appropriated by the capitalist without equivalent, the worker is exploited. Consequently, the capital-labor relation is exploitative because the worker produces a surplus value beyond the subsistence value which is appropriated by the capitalist without compensation.

Marx maintains the capital-labor relation to be only illusorily free. The capitalist and the worker appear on the labor market as equals who are involved in a free contractual exchange:

He (the untrammelled owner of his capacity for labor . . .) and the owner of money meet in the market, and deal with each other as on the basis of equal rights, with this difference alone, that one is buyer, the other seller; both therefore, equal in the eyes of the law.³⁰

Marx believes that this is merely an appearance which is quite different from the reality of the exchange:

The exchange of equivalents, which appeared as the original operation, has turned around in such a way that there is only an apparent exchange. This is first of all because the capital which is exchanged for labor power is itself only part of the product of

alien labor appropriated without equivalent, and secondly because that capital must not only be replaced by its producer, the worker, but must be replaced by a new surplus.³¹

There is therefore only an apparent exchange. In other words, there is no real exchange between capitalists and workers. The non-reality of this exchange derives from the fact that ". . . the capital which is exchanged for labor power is itself only part of the product of alien labor appropriated without equivalent."³² The point Marx is making here is this: once we take as our frame of reference the entire complex transaction between workers and capitalists, and no longer regard the wage exchange in isolation from capital, we see that in the outcome, this complex transaction simply transfers value from workers to capitalists. A conclusive summary of this analysis is given by Marx:

The relation of exchange subsisting between capitalist and labourer becomes a mere semblance appertaining to the process of circulation, a mere form, foreign to the real nature of transaction, and only mystifying it. . . what really takes place is this - the capitalist again and again, appropriates without equivalent, a portion of the previously materialized labor of others, and exchanges it for a greater quantity of living labour.³³

The underlying ethical presupposition in Marx's critique of capitalism as being exploitative is simply that those who produce or create the surplus product should be

entitled to control it. As Nancy Holmstrom succinctly puts it:

It is not the fact that capitalists have some, or even a very large income that is exploitative. It is the fact that the income is derived through forced, unpaid, surplus labor, the product of which the producers do not control which makes it exploitative.³⁴

This assumption provides the normative ground for Marx's indictment of the capitalist system. If this assumption is valid, and if Marx is right that non-workers (capitalists) control and appropriate the surplus product, then capitalism would be illegitimate, wrong and unjust. Such an appropriation would necessarily violate the workers' right over the product. The presence of exploitation as a violation of workers' right, Elster says, ". . . can provide the exploited with a ground for taking individual or collective action against the system."³⁵ What I have shown clearly here is that the capitalist benefits at the expense of the worker. A relation of domination exists whereby the capitalist dominates the worker because the worker, although he is free to work for any capitalist he wants to, he has to work for some capitalist because he has no access to the means of production.

On the basis of Marx's moral assumption, the real and exploitative content of the wage relation becomes unjust, because it violates the workers' rights to control the

product of their labor. That Marx finds the capital-labor relation unjust is clear from the language he employs. Hence, we have Marx speaking of the capitalist's appropriation of surplus value in terms of 'robbery', 'theft', 'embezzlement', etc. This is tantamount to saying that the capitalist has no right to appropriate it and that his doing so, is therefore a violation of the workers' right of ownership, and this action is wrong and unjust. In referring to the surplus product as the tribute annually exacted from workers by capitalists, Marx says:

Even if the latter uses a portion of that tribute to purchase the additional labor power at its full price, so that equivalent is exchanged for equivalent, the whole thing still remains the age-old activity of conqueror, who buys commodities from the conquered with the money he has stolen from them.³⁶

Continuing, Marx similarly talks of the annual surplus product "embezzled from the English workers without any equivalent being given in return," and he claims that "all progress in capitalist agriculture is a progress in the art, not only of robbing the worker, but of robbing the soil."³⁷ He refers to "the booty pumped out of the workers" and "the total surplus-value extorted . . . the common booty" and "the loot of other people's labour."³⁸ The prospective abolition of capitalist property he describes as "the expropriation of a few usurpers."³⁹ And the wealth produced under capitalism, he says, is based on the "theft of alien

labor time"⁴⁰ (that is, surplus value or surplus labor).

If I am correct about the basic ethical assumption underlying the Marxian critique, then it is quite illegitimate to argue that Marx's use of the language of robbery, embezzlement, etc. does not imply any charge of wrongdoing or injustice. Allen Wood has argued that exploitation, on Marx's terms, is not wrong by the juridical standards of a capitalist society.⁴¹ He claims that even though the worker is exploited, he is not thereby treated unjustly. His interpretation of Marx relies on the following passage in Capital I:

The circumstance that on the one hand the daily sustenance of labour-power costs only half a day's labour, while on the other hand the very same labour-power can work during a whole day, that consequently the value which its use during one day creates, is double what he pays for that use, this circumstance is, without doubt, a piece of good luck for the buyer, but by no means an injury to the seller.⁴²

But this passage is plainly satirical. Immediately after this passage, Marx characterizes the appropriation of surplus labor as a trick:

Our capitalist foresaw this state of things, and that was the cause of his laughter . . . The trick has at last succeeded; money has been converted into capital.⁴³

If Marx were merely satirizing capitalism, then his use of

the word "trick" as descriptive of the exchange between the capitalist and the worker is very significant. Wood has interpreted Marx out of context by failing to take cognizance of what Marx means by the "trick" of exploiting labor power. It is on account of this "trick" that Marx characterizes exploitation as robbery, plunder, theft, embezzlement, etc. If therefore the capitalist robs the worker, then he appropriates what is not rightfully his own or what rightfully belongs to the worker. Consequently, there is no meaningful way in which the capitalist can simultaneously rob the worker and treat him justly.⁴⁴

Marx is not explicit about the standard or criterion by which he judges the extraction of surplus value to be unjust. This criterion is often misconstrued. Robert Nozick, for example, assumes that Marx holds that each man's property rights are based on his labor, so that every man has a right to appropriate the full value created by his labor, and that anyone who deprives him of any part of this value may be said to have done him an injustice. It is not difficult with this view of property rights to prove that surplus-value extraction is unjust. The problem is, as Nozick notes, almost any society, even a socialist one, would also be unjust, by this criterion.⁴⁵

But Marx rebuts such a labor theory of property rights in his Critique of the Gotha Programme. This critique is directed at the Lassallean demands for a "just distribution

of the proceeds of labor" and "an equal right to the undiminished proceeds of labor."⁴⁶ Contrary to the Lassallean demands, Marx claims that in the first phase of socialism, workers will not receive "undiminished proceeds of labor" because certain necessary deductions will have to be made before any distribution is made to individual workers. Deductions are made for "replacement of the means of production used up . . . , expansion of production . . . reserve or insurance funds to provide against accidents, dislocations caused by natural calamities, etc. . . ."⁴⁷ Deductions are also to be made for social services like "the general costs of administration . . . the common satisfaction of needs, . . . funds for those unable to work . . ."⁴⁸ It is only after these deductions are made that the labor theory of property rights comes into effect: distribution of the rest of the proceeds is made to individuals according to their labor contributions: "Accordingly, the individual producer receives back from society - after the deductions have been made - exactly what he gives to it."⁴⁹ In the first phase of socialism therefore, Marx proposed a modified labor theory of property according to which each worker has a right to part of the "diminished" total social product (in proportion to his or her labor contributions) after the initial deductions have been made towards public goods and benefits. Nozick is right that workers do not receive back all the value of

their products in a socialist society, just as in a capitalist society. But what distinguishes the former from the latter is the fact that the workers have a common ownership of the means of production. Nozick's mistake here is ignoring this essential distinction. In the socialist society envisaged by Marx, the workers make the decisions on how the products of their labor are to be dispensed: production and distribution are under their conscious collective control and hence, they are not being exploited.

A central tenet of Marx's analysis is that workers, and only workers, create the product. It is often objected, however, that capitalists also contribute to the creation of the product. At least current production would not be possible without the current stock of capital. And capitalists are the ones who provide this capital. Against this counterclaim, one may argue that capital is only past labor (congealed labor) and hence that workers, taken as an intergenerational whole, produce the lot and are therefore, entitled to control the lot.⁵⁰ Furthermore, one may also argue that there is a crucial distinction between contributing to the creation of something and participating in its creation or as G.E. Cohen puts it, between a "productive act" and an "act of producing."⁵¹ Even though capitalists contribute to production, they do not participate in it.⁵² Even though capital is productive, only workers produce.⁵³ It is only those who engage in the

act of production that should control the product. Consequently, the workers' labor is always exploited by capital, since workers (who participate in the creation of the surplus product) are excluded from controlling it, while capitalists (who do not participate in the creation of the surplus product) appropriate it, an appropriation based on their ownership of capital or means of production.

How is this ethical premise justified? Cohen makes the following arguments. He argues that the private ownership of the means of production is illegitimate.⁵⁴ Consequently, he further argues that:

when apologists for capitalism deny that capitalists are exploiters on the ground that they contribute to the creation of the product by providing means of production, the appropriate Marxist reply is. . .that the said 'contribution' does not establish absence of exploitation, since capitalist property in means of production is theft, and the capitalist is therefore providing only what morally ought not to be his to provide."⁵⁵

Another argument put forward to justify capitalist profits is that profits are reward or wages for the entrepreneurial skill of the capitalists.⁵⁶ Marx rejects this claim, emphasizing that profit is a privilege deriving from ownership of capital, and not from managerial responsibilities. For example, in modern business enterprise, when economies are dominated by giant corporations, the stockholders as capitalists (e.g. those

who "provide capital") play little or no role in the managing of the corporation. And those who do - when not additionally compensated as managers, board members, etc.- receive the same stock dividends as those who do not. Hence, reward is for ownership, not service.

A third argument sees the capitalist's profit as a reward for his "abstinence" or "waiting."⁵⁷ Marx rebuts the abstinence theory because the capitalist, in modern capitalist societies, can equally consume and save. His high income level enables him to save without sacrificing his enjoyments or the good things necessary for his life comfort.

A fourth argument considers profit a fair return for the risk involved in losing one's capital in investment. The capitalist deserves to be rewarded for the risks in the investment he undertakes. Underlying this argument is the presupposition that the worker is guaranteed a fixed income while the capitalist must undertake some risks in order to make his profits. As Marx says,

All economists, when they come to discuss the prevailing relation of capital and wage labour, of profit and wages, and when they demonstrate to the worker that he has no legitimate claim to share in the risks of gain, when they wish to pacify him generally about his subordinate role vis-a-vis the capitalist, lay stress on pointing out to him that, in contrast to the capitalist he possesses a certain fixity of income more or less independent of the great adventures of capital. Just as Don Quixote consoles Sancho Panza with the thought that, although of course he takes all the beatings, at least he is not required to be

brave.⁵⁸

Marx rejects this argument because he sees the worker as the one who is continuously placed in situations of uncertainty regarding his job holding. He has no security of employment because of the capitalist tendency to create an industrial reserve army of the unemployed.

All the familiar arguments to justify capitalist profits seem to have failed. As we have shown, rationalizations of profit in terms of ownership of capital and reward for entrepreneurial or managerial skill, for abstinence, or for risk taking, do not suffice to prove the capitalist's case. Because the capitalist is unable to justify his share of the product, he seems to exploit and consequently, to rob the worker of what rightfully belongs to him. Exploitation is wrong and unjust because non-producers appropriate and control the produce of direct producers. Accordingly, Jon Elster reinforces the moral wrongness of exploitation: "Exploitation is wrong; exploiters are morally condemnable; a society that tolerates or generates exploitation ought to be abolished."⁵⁹

In the overall, Marx's theory seems persuasive in respect to the capital-labor relationship at least within a stylized model. But the real problem with Marx's model is its relation with the specific problem that I am interested in namely, capital-labor relations within a given country.

It is not immediately obvious how this model should be applied to First and Third World relations. Here, we must turn to Emmanuel for an answer.

Notes

¹My treatment of the Mercantilist theory of value draws largely from Furniss's comprehensive survey of the theory. See Edgar S. Furniss, The Position of the Laborer in a System of Nationalism: a study of the labor theories of the later English Mercantilism. 2nd ed. (New York: Houghton Mifflin Company, 1920), esp. Chapter II, pp. 2-38. Even though this is a very old source, it still remains one of the best expositions of the Mercantilist theory.

²For Marx's critique of Proudhon, see Karl Marx, The Poverty of Philosophy. (New York: International Publishers, 1963), pp. 23-179. And for his critique of Malthus, see Theories of Surplus Value (Moscow: Progress Publishers, 1969), esp. Chapter IXX, pp. 13-68.

³Karl Marx, Capital I (New York: International Publishers, 1967), pp. 160-61. In a footnote to this quotation, Marx describes Destutt de Tracy as one who held the contrary position that industrial capitalists make profits because they are able to sell their commodities at a value higher than the value of production-costs.

⁴Theories of Surplus Value I, p. 60.

⁵Ibid., p. 85.

⁶Ibid., p. 50.

⁷Ibid., p. 52.

⁸Ibid., p. 85.

⁹Ibid.

¹⁰See Ronald L. Meek, Studies in the Labor Theory of Value. 2nd ed. (New York: Monthly Review Press, 1956), esp. Chapter II, pp. 45-81.

¹¹Adam Smith, The Wealth of Nations. Vol. I (Chicago: University of Chicago Press, 1976), p. 53.

¹²Ibid., p. 55.

¹³Sraffa was the first person to describe Smith's theory as an "adding-up" theory. It is so described because it calculates the costs of commodity production by adding up the costs of its component parts: wage, profit and rent. See P. Sraffa, "Introduction," in The Works and

Correspondence of David Ricardo, Vol I (Cambridge: Cambridge University Press, 1951), p. xxxv.

¹⁴Smith, The Wealth of Nations, p. 62.

¹⁵Recall that for Smith, labor is the source of value and consequently, the value of a commodity depends solely on the amount of labor directly required for its production.

¹⁶David Ricardo, The Principles of Political Economy and Taxation (London: J.M. Dent, 1912), p. 19.

¹⁷But there is no analytical reason to suppose that, even in Smith's "early and rude state of society," these difference might not be substantial. On Ricardo's own reasoning, if deer hunting had a higher ratio of the means of production to labor than beaver-hunting, deers and beavers would no longer exchange at ratios determined entirely by the quantities of labor required to produce them. The labor theory of value would then be invalid despite the absence of capitalist class relations. Therefore, it seemed that even in simple commodity production, Ricardo's very arguments undermined the coherence of the labor theory of value

¹⁸Robert Paul Wolff, Understanding Marx: A Reconstruction and Critique of Capital (Princeton, N.J.: Princeton University Press, 1984), p. 72.

¹⁹Ibid., p. 91.

²⁰Ricardo, The Principles of Political Economy and Taxation, p. 1.

²¹Marx's solution deals specifically with two classes: capitalists and laborers. The issue of landowners is not treated till Capital III.

²²Capital I, p. 164.

²³Wolff, Understanding Marx: A Reconstruction and Critique of Capital, p. 103.

²⁴Capital I, p. 208.

²⁵Ibid., p. 209.

²⁶Ibid., p. 202.

²⁷Ibid.

²⁸The term, "unpaid labor" appears on several pages of

Capital I. For example, pp. 585, 591, 597, 600, 602, 623, 637, 642, 643, 667, 678 and 680. In the worker's common sense view, it appears that he is paid the wage for a full day's work and not just the portion of it during which he produces goods whose money value is sufficient for his subsistence and equal to his wage. In reality, things are different: the worker's labor is unpaid to the extent that he is not able to receive the full market value equivalent for the product of his labor.

²⁹Capital I, p. 172.

³⁰Ibid., p. 165.

³¹Ibid., p. 583.

³²Ibid.

³³Ibid.

³⁴Nancy Holmstrom, "Exploitation," Canadian Journal of Philosophy 7 (June 1977):359. (The underlining is my emphasis).

³⁵Jon Elster, Making Sense of Marx (Cambridge: Cambridge University Press, 1985), p. 166.

³⁶Capital I, p. 728.

³⁷Ibid., pp. 761, 638; Theories of Surplus Value II, p. 29.

³⁸Capital I, p. 743; Capital III, pp. 312-13; Theories of Surplus Value II, p. 29.

³⁹Capital I, p. 930.

⁴⁰Marx, Grundrisse: Foundations of the Critique of Political Economy. Trans. with a Foreward by Martin Nicolaus (London: Allen Lane, 1973), p. 705.

⁴¹Allen W. Wood, "The Marxian Critique of Justice," Philosophy and Public Affairs 1 (Spring 1972):244-82. For others who are sympathetic towards this view, see, for example, Allen Buchanan, "Exploitation, Alienation and Injustice," Canadian Journal of Philosophy 9 (March 1979): 121-39; Marx and Justice, esp. Chapter IV, pp. 50-85; Laurence Crocker, "Marx's Concept of Exploitation"; Steven Lukes, "Morals," in Tom Bottomore, ed. A Dictionary of Marxist Thought (Cambridge, Mass.: Harvard University Press, 1983), pp. 341-42.

⁴²Capital I, p. 188.

⁴³Ibid., pp. 188-89.

⁴⁴It should be noted that here I am ignoring a crucial part of Wood's argument, namely, that Marx thinks (according to Wood) that standards of justice are superstructural, and hence Marx would not (or should not) appeal to them in assessing capitalism. Regardless of what Marx thinks, the argument does have a moral presupposition and that is what I am interested in. I am less interested in whether Marx explicitly adheres to it or not.

⁴⁵Robert Nozick, Anarchy, State and Utopia (New York: Basic Books, 1974), p. 253.

⁴⁶Marx, "Critique of the Gotha Programme," in David McLellan, ed., Karl Marx: Selected Writings (Oxford: Oxford University Press, 1977), p. 566.

⁴⁷Ibid., p. 567.

⁴⁸Ibid.

⁴⁹Ibid., p. 568.

⁵⁰This mode of reasoning is developed by Elster. See Jon Elster, "Exploring Exploitation," Journal of Peace Research 15(1978):10-11.

⁵¹See G.A. Cohen, "The Labor Theory of Value and the Concept of Exploitation," Philosophy and Public Affairs 8(Summer 1979):354-355 and "More on Exploitation and the Labor Theory of Value," Inquiry 26(1983):314.

⁵²Here, I am speaking of capitalist qua capitalist, that is, as one who "provides capital," not one who invents, manages or performs other productive activities.

⁵³Another approach is Schweickart's claim that providing capital is not a productive act because capital is dead labor. Since it is not an act of producing, it does not entitle the capitalist to a reward. By providing capital, the capitalist merely allows the worker the use of his resources. And allowing a resource to be used is not to do something productive. It is like granting permission and granting permission is not a productive act. It is not a contribution. Continuing, Schweickart maintains that if the capitalist ceased to grant permission because his authority over the means of production was no longer recognized, then production need not be affected at all. But if providing capital is not a productive activity, then income derived

from this function can hardly be justified as being proportional to one's productive contribution to the group. See, David Schweickart, Capitalism or Worker Control? An Ethical and Economic Appraisal (New York: Praeger, 1980), p. 11.

⁵⁴Cohen, "More on Exploitation and the Labor Theory of Value," pp. 316-17.

⁵⁵Ibid., p. 316.

⁵⁶See, Capital I, p. 215; Capital III, pp. 379-90; Theories of Surplus Value III, pp. 355-58, 492-98.

⁵⁷For a discussion of "abstinence theory" see Capital I, pp. 591-98. Also, see Alfred Marshall, Principles of Economics. 8th ed. (New York: Macmillan, 1948), p. 587, (who used "waiting" instead of "abstinence") and Schweickart's reply to Marshall in Capitalism or Worker Control? An Ethical and Economic Appraisal, pp. 20-27.

⁵⁸Grundrisse, p. 891.

⁵⁹Elster, Making Sense of Marx, p. 166.

CHAPTER IV

AGHIRI EMMANUEL: UNEQUAL EXCHANGE

A. Exposition

On account of the diminishing degree of world domination by old European colonial powers, the Leninist theory of imperialism has lost some of its plausibility. A new thesis which emphasizes the indirect economic exploitation of the rest of the world by the industrial nations has gained more ground: this is the theory of "unequal exchange."¹ The leading protagonist of this new theory is Arghiri Emmanuel, who uses the Marxian theoretic framework as developed in Capital in analyzing the issue of unequal exchange.

"Unequal exchange" is Emmanuel's key theoretical category, which is employed to convey the notion that on the world market, the poor countries are obliged to sell the products of a relatively large quantum of labor-hours (both direct and indirect) in order to obtain in exchange from the rich countries commodities embodying a much smaller quantum of labor-hours. More specifically, Emmanuel argues that the structure and functioning of the capitalist world market is

determined by a definite law of price formation which involves in 'an unequal rewarding of factors,' most notably, the 'labor factor.' This law tends to produce an 'inequality in exchange' between rich and poor countries. This inequality, Emmanuel argues, in turn dictates an international division of labor which is detrimental to the interests of the latter group of countries.

Emmanuel's theory was first developed in a paper presented at the Sorbonne on December 18, 1962.² In this paper, he concentrates on the problems of international exchange, and puts particular emphasis on indirect exploitation under the guise of 'equal exchange' as opposed to direct exploitation based on imperialist power. In his Unequal Exchange: A Study of the Imperialism of Trade, Emmanuel expands his analysis. He reformulates Marx's formulae for the transformation of values into prices of production so as to examine why the terms of trade for developing countries are consistently unfavorable. More precisely, he argues that under capitalism, prices are determined by what Marx called 'prices of production', part of which is wages. Given that wages are lower in colonial and semi-colonial countries, a product of a certain number of hours of labor of these countries can be bought by the rich ones by giving in exchange a product that has cost a smaller number of hours of labor. For Emmanuel, these unequal trading relations are the root cause of the

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'inequality between nations' as well as the cornerstone of imperialism. Thus, imperialism is the exploitation of labor in developing countries with the benefits accruing to the consumers in the developed countries because of the favorable terms of trade their countries enjoy.

Since, on his view, unfavorable terms of trade are inevitable for developing countries, due to the immobility of labor and the significantly higher level of wages in developed countries, Emmanuel criticizes other commonly discussed explanations of the terms of trade. As he says, "the 'worsening of the terms of trade for primary products' is an optical illusion. It results from a mistaken identification of the exports of the poor countries with the export of primary products."³ To justify his claim, Emmanuel refers to a number of empirical instances which run contrary to the view that demand for primary products is inelastic - with the result that prices fall after supply reaches a certain level:

The copper of Zambia and the gold of South Africa are no more primary than coal, which only yesterday was one of the chief exports of Great Britain; sugar is about as much 'manufactured' as soap or margarine and certainly more 'manufactured' than Scotch Whisky or the great wine of France . . . bananas and spices are no more primary than meat or dairy products. And yet the prices of the former decline while those of the latter rise; and the only common characteristic is that they are, respectively, the products of poor countries and the products of rich countries.⁴

Furthermore, when manufactured goods are no longer produced in the industrialized countries, their formerly high prices fall:

Textiles were formerly among the pillars of wealth of the industrialized countries, and Britain's warhorse; since they have become the specialty of poor countries, their prices hardly suffice to provide a starvation wage for the workers who produce them.⁵

The crucial question that Emmanuel wishes to answer is why ". . . certain category of countries whatever they undertake and whatever they produce always exchange a large amount of their national labour for a smaller amount of foreign labour?"⁶ To answer this question, Emmanuel prefers a stylized model employing classical Marxian categories. His model is based on the following key assumptions. First, it is assumed that capital is internationally mobile. Capital will flow around the world looking for the most profitable investment outlets. Over time, this will cause the rate of profit to tend to equalize. On the other hand, labor is not internationally mobile.⁷ Consequently, wage rates will not tend to equalize between countries as they do within countries. Most controversially, wages are held by Emmanuel to be "independent variables" determined not so much by market forces as by what he characterizes in Marxian fashion as the "social and historical factor."⁸ An important element of this is the "trade union" factor, which

itself is shaped by other non-market factors:

The effectiveness of trade-union factor itself, and the outcome of collective or individual negotiation in general between wage earners and their employees, depends to a large extent upon the relation between what the workers are demanding and what society regards, in a certain place and at a certain moment, as the standard of wages. It depends on a certain level of attainment, which is itself the result of past struggle and evolutions.⁹

This "social and historical factor," Emmanuel says, brings about the differences in wages in different countries making ". . . impossible the equalization of wages on a world scale" under conditions of free trade.¹⁰ Consequently, in international trade relations, ". . . differences between wages, not being able to affect profits - these being equalized by the assumed mobility of capital - will affect prices."¹¹ To demonstrate exactly how unequal wages lead to unequal exchange, Emmanuel uses stylized Marxian model to understand the basic argument. The numerical examples in Table I will help to illustrate this point.

TABLE I

Unequal Exchange: Primary Form

Commodity	K	Constant capital c	Variable capital v	Surplus value s	Value = c+v+s	Rate of profit (r)=s/K	Price p=(c+v+rK)
1	1000	100	50	150	300	250/2000 = 12.5%	275
2	1000	100	100	100	300	do	325

We are assuming here that the two countries produce distinct commodities (1 and 2) each of which requires exactly the same initial investment of capital (K) and exactly the same quantities of indirect and direct labor per unit of output. The only difference between the two countries is the wage rate. Recall that in Marx's terminology that c = indirect labor, that $v+s$ = direct labor and that v = the wage = the labor embodied in the goods the wage purchases. (In this example, the wage rate in commodity 2 producing country is twice the wage rate in commodity 1 producing country since 50 buys 200 hours of living labor in commodity 1 country and 100 hours in commodity 2 country). Recall that a product's value is the total embodied labor $c+v+s$. For Emmanuel, the uniform profit rate is calculated by dividing total surplus value by total initial investment.¹²

Now in the above example, we see that the condition

that the rate of profit be uniform requires that each country receives exactly half the total surplus value. But for this to occur, prices must deviate from labor values. A unit of commodity 1 must be sold for 275, thus realizing a profit of 150 and a unit of commodity 2 must sell for 325. Because labor cost is unequal and total cost is unequal, prices must be unequal even though each commodity embodies precisely the same amount of labor. This is the "unequal exchange" Emmanuel is talking about.¹³

On the world market, one unit of commodity 1 will exchange for less than one unit of commodity 2. To be precise, it will exchange for $275/325 = 11/13$ units of commodity 2. An equal exchange in price terms masks an unequal exchange in labor terms.

Thus Emmanuel shows how in a free trade situation, there can be a "hidden" transfer of surplus from the low-wage to the high-wage country.¹⁴ The transfer of surplus, which is proportional to the wage differential, is hidden, because in price terms, equal exchange for equals. Generally speaking, the quantity of unequal exchange is determined by the wage differential between rich and poor countries and the volume of trade between them. Because the process is cumulative, Emmanuel argues that it is the main cause of the dynamic growth in the rich countries, on the one hand, and continued stagnation and underdevelopment in the poor countries, on the other.

To sum up Emmanuel's stand, it is neither the difference in capital intensity nor the variation in rate of profit, but the wage differential between the First and Third World countries that is fundamental in making the commodities exported from the latter cheaper in price than what is warranted by their value (that is, labor-content).¹⁵ This happens even under competitive capitalist conditions. Monopoly elements, if and where they operate, are likely to tilt the balance all the more against the poor countries of the world.

How then might we overcome the problems of stagnation and underdevelopment resulting from "unequal exchange?" In a rhetorical answer, Emmanuel asks:

Would it be enough to improve the terms of trade, by increasing wages, for development to follow? Certainly not. However substantial may be the transfer of value engendered by unequal exchange, and even if we take into account not merely the immediate and momentary impact this has but also its cumulative effect from year to year, this transfer does not seem to be sufficient to explain completely the difference . . . between, on the one hand, the big industrial countries, and on the other, the underdeveloped ones. To find the reason for this we must look at the movement of capital and the international division of labor.¹⁶

On a cursory reading of this passage, one might conclude that Emmanuel is saying these two factors - the movement of capital and the international division of labor - are directly responsible for the underdevelopment of the Third

World. This is not so. Indeed, both factors are forces which block development, but they are secondary rather than primary since

. . .it so happens that the same cause, that is, the disparity between wage levels that produces unequal exchange and thereby, indirectly, a certain unevenness of development through the draining off of part of the surplus available for accumulation, also produces, directly and independently of this draining off process, uneven development itself, as a whole, by setting in motion the mechanism of these blocking forces included in the movement of capital and the international division of labor.¹⁷

Emmanuel's point is that capital moves toward countries in which there are already extensive outlets and expanding markets - to areas where aggregate wage levels are high neglecting those areas where wages are low.¹⁸ Emmanuel claims: "this is true not only of foreign capital flowing in but also of the small surplus formed locally in low-wage countries."¹⁹ Union Miniere in Katanga, Congo, expatriates its profits. Canadian Petrofina, a Belgian affiliate company of Union Miniere operating in Canada invests its profits locally.²⁰ This is not because the Belgian parent company is concerned with underdeveloping Katanga and overdeveloping Canada, but because the latter country provides a large market while the former does not. The situation in Katanga is an effect, not a cause, of low wages, though once established it becomes a cause in its turn by further blocking the development of productive

forces in Katanga, while further developing them in Canada. The same logic also applies to the international division of labor. In poor countries, low-paid laborers keep machines and engineers out of business, while in rich countries, machines and engineers take the place of highly paid laborers. Thus again, productive forces are held back in poor countries and pushed forward in the rich ones, and the vicious circle tightens the more. Emmanuel does not deny any tendency of capital flow to low-wage countries. His main point is that such capital does not significantly affect wages. Also, there is a flow of capital in the other direction. Whatever capital is accumulated in the Third World tend to flow back into the rich countries.

Some implications arise from Emmanuel's analysis of his theory. First, given unequal exchange and the tendency for the rates of profit to equalize around the world, then the main beneficiariaries of the imperialism of trade are not (at least, in the long run) the capitalists but the consumers.²¹ Since the majority of consumers are workers, it is Emmanuel's contention that workers in the advanced industrialized countries have a vested interest in the exploitation of workers in the developing countries. Consequently, he claims that the interests of workers in the high wage industrialized countries are diametrically opposed to the interests of workers in the low wage developing countries, since for a given international rate of profit, a

rise in wages in a high-wage country requires a lowering of wages in a low-wage country to restore equality of prices of commodities internationally.

Second, unequal exchange theory challenges an argument originating from writings on imperialism that the extraction of capital from the Third World to the industrialized countries via repatriated profits is a basic cause of underdevelopment.²² His view also runs contrary to the idea that overseas investment is a response of surplus capital in the metropolis, but the main point is that the new flow of capital from the Third World to the industrialized countries is an effect, not a cause of underdevelopment. The reason, as already noted, is lack of market outlets, but repatriated capital becomes a contributory cause in helping to tighten the vicious circle. It is the absence of markets (which is in turn related to the lack of high aggregate wage levels) which Emmanuel sees as critical. Capitalism, he argues, works contrary to common sense. Under capitalism, consumption determines production rather than vice versa:

We begin with the end, with consumption, by creating a market actual or potential, which is sufficiently large. In this way capital is attracted, and the corresponding consumer goods are produced. When these industries become extensive enough, and their need for mechanization (owing to high wages) is great enough, a second market is created for capital goods, and this in turn attracts further capital, which establishes heavy industry. We keep on going upstream all the time. Like certain fish, capitalism can keep afloat and move forward only by swimming against the stream.²³

Like Marx who struck at the very roots of bourgeois economics, Emmanuel strikes at the core of the marginalist theory of international trade. He challenges the assumptions that

- (1) trade is necessarily beneficial to both partners;
and
- (2) that comparative advantages ought always to be exploited.

Emmanuel doesn't so much deny (1) as show that something can be mutually beneficial in a sense and at the same time, be exploitative for one of the parties involved. This is exactly parallel to Marx's demonstration that the wage-capital relationship is mutually beneficial to both the capitalist and the worker and yet, it is exploitative to the worker. Prima facie, wage contract appears to be a free exchange between the capitalist and the worker. Obviously, each one thinks that he is better off and that they are both better off exchanging than not exchanging. The worker is better off taking the job than not taking the job. Likewise, in the exchange between developed and underdeveloped countries, both sides are better off trading than not trading, or else, they would not have traded in the first place. There has to be some advantage to be gained by both

sides before they engage in free trade.

But Emmanuel's critique is similar to the Marxian critique. The worker is better off taking job than not taking the job given the framework under which that free choice is made. Likewise, given the framework of international trade, a country may be better off trading than not trading. But it is the framework itself that is being called into question.

By articulating the mechanism of unequal exchange, Emmanuel denies the prevailing contention of non-Marxists that the development process in the countries of the Third World can be based on the exploitation of their respective "comparative advantage" in the production of commodities for the world market. In the short run, comparative advantage may be beneficial but in the long run, the gap will widen.

Also, the theory of unequal exchange contradicts the unidirectional theory of historical development: that 'underdevelopment' is simply the manifestation of a time-lag in the natural tendency towards a homogeneous level of development throughout the capitalist regions of the world. In other words, Emmanuel is saying that (i) it is the very integration of the Third World and the industrialized countries that led historically to 'underdevelopment', and that (ii) it is the continuance of the relationship in the framework of the international capitalist economy that reproduces and intensifies this condition of

underdevelopment.

It is worth noting that Emmanuel's model, however elegant it might be, has certain mathematical problems. How significant they are, is a matter of some controversy.²⁴

B. Moral Assumptions and Arguments

In analyzing Marx's theory of exploitation, we picked out what we thought to be his basic moral commitment, namely that those who produce the surplus should control it. It is not necessarily that each worker should get the full product of his labor. The point is that workers do not control the surplus. Now what is the moral assumption in Emmanuel's theory? For Emmanuel, free trade is exploitative because a formally equal exchange conceals an unequal exchange. It would seem to follow that Emmanuel's ethical assumption is that when countries trade, at least *prima facie*, equal expenditures of labor ought to command goods embodying equal amounts of labor.

When looking at Marx's critique of capitalism, many commentators see as his moral presupposition the assumption that the worker should receive the full product of his labor. But we argued in chapter III that this is not the case. Marx's objection is that workers do not control the surplus. It is clear, however, that an analogous move cannot be made here. Even if we were to take Marx's model of capitalist-worker relationship as being analogous to First and Third World relations, there is an important difference. For Marx, the capitalist *qua* capitalist does not contribute anything, does not produce anything, and so, he

is not entitled to anything. But in Emmanuel's analysis, both the First and Third World countries are in fact producing something. It is just that the exchange between them is not fair. It is not that the underdeveloped country should receive or control the entire product. In Emmanuel's analysis, unlike Marx's, the ethical presupposition does seem to be that the producer should receive the full (labor) value of its product.

It seem reasonable to presume that this principle is intended as a prima facie principle, not an absolute principle. This means that this principle ought to hold unless it is overridden by another moral principle. Other moral principles might refer to need, sacrifice, reparation for past injustice, etc. The point is that exceptions might be made to the equals for equals principle but these exceptions have to be justified in terms of other moral principles. But what Emmanuel's argument shows is that the unequal exchange between countries will occur simply due to the fact that the wage level is higher in the developed than in the underdeveloped countries. However, it does not seem that this is a morally relevant reason as to why the developed country ought to benefit more from the exchange at the expense of the underdeveloped country. Nor does it seem morally relevant that the developed country happens to be more capital-intensive than the underdeveloped country, and yet this factor will also give rise to unequal exchange.

An objection might be raised here that the workers in the advanced industrialized countries have merited the increase in their wages, that it is not arbitrary or accidental that their wages are higher. It might be argued that their wages are higher because they have more skills, they work harder, they employ capital-intensive technology, etc. The rejoinder to this argument is that it is highly implausible to suppose that Third World workers work less hard or are less innately skilled than their First World counterparts. It seems obvious that they receive higher wages because they are using more capital-intensive techniques. But one of the reasons they are able to use the more capital-intensive technology is because they have the surplus they extracted from the underdeveloped countries via unequal exchange to pay for it. And the very fact that they have higher wages is going to provide an incentive to the capitalist to use more mechanization or capital-intensive machineries. So, the high wages provide the motive for the capitalist to try to cut labor costs not by cutting the workers' wages but by replacing the workers with more machines. Since the capital to purchase those machines, in part comes from the process of "unequal exchange," the mechanization factor is not a moral reason to justify inequality.

The point to stress is that the voluntariness in and of itself is not sufficient to ensure the lack of

exploitation. The point of all Marxian theories of exploitation is that structural features constrain options in such a way that even though certain choices are voluntary, basic moral principles are nonetheless violated.²⁵ In the case of Emmanuel, he shows that the structural features of unequal wages will compel a voluntary exchange of unequal quantities of labor.

Even if we were to grant the moral relevance of the gap of unequal wages, and if people deserve the higher wages, it is still not altogether clear that therefore, the exchange is fair. Even if the developed countries deserve that gap, unequal exchange widens the gap. It is widening the gap simply because wages in the developed country, for whatever reasons, are higher. Even if the original gap were justifiable on ethically relevant grounds, the additional inequality cannot be so justified, because, in Emmanuel's model, all such factors have been held constant.

Another argument proffered against the "unequal exchange" theory is to say that this exchange is voluntary, since none of the parties has been forced to trade with each other. This is a version of Nozick's counterargument against Marx: there is nothing exploitative and immoral in an exchange between 'consenting adults.' If both parties agree, that is moral and ethical.

As a critique of "free trade" between the developed and underdeveloped countries, we have singled out

Emmanuel's moral principle as being that equal labor ought to exchange for equal labor. Intuitively, it seems that one of our considered moral judgments is that people who work equally hard ought to receive equal returns. But if critics do not accept this moral principle as compelling, for whatever reason they might have, there is yet another theory of exploitation which give the same result as Emmanuel's without relying on this principle. It breaks down the world into the same classes of "exploited" and the "exploiters" as does Emmanuel's theory. It also avoids the technical problems associated with Emmanuel's use of the labor theory of value mentioned at the end of the previous section. This is the game theoretic treatment of exploitation of John Roemer.

Notes

¹Arghiri Emmanuel, Unequal Exchange: A Study of the Imperialism of Trade. (New York: Monthly Review Press, 1972). This was originally published in French as "L'echange inegal," Paris, 1969.

²See Emmanuel, "Echange inegal et politique de developpement," Problemes de planification, no. 2, Paris, 1963. This paper was originally presented at the Sorbonne, Paris, December 18, 1962.

³Emmanuel, Unequal Exchange, p. xxx. However, he does not deny that there is an association between poor country exports and primary commodities. His main point is that it is not the nature of the product which determines its price but the very fact that it emanates from a rich or a poor country. Consequently, he believes that the terms of trade deteriorate for poor countries and not for primary products.

⁴Ibid.

⁵Ibid.

⁶Ibid., p. xxxi.

⁷This is not to deny the historical importance of the international mobility of labor in the settlement of North America, Australia and South Africa, but today, this is (for the most part) in greater measure limited to the mobility of the bourgeoisie (the so called 'brain drain') and to movements of workers among the more advanced countries, such as the Italians in Northern Europe. But the mobility of labor between the central capitalist countries and the Third World - for example, Mexicans in the United States, Ivorians in France, Asians in Britain, Turks in Germany - is almost infinitesimal in relation to the size of the labor markets for Africa, Asia and Latin America.

⁸Emmanuel, Unequal Exchange: A Study of the Imperialism of Trade, p. xxxiii.

⁹Ibid., p. 119.

¹⁰Ibid., p. xxxiii.

¹¹Ibid., p. xxxiv.

¹²Emmanuel deviates slightly from Marx in this respect. Marx usually calculates r as $s/c+v$. Emmanuel's

convention simplifies the calculations without altering the basic arguments.

¹³Also, if the products of the developed country are more capital-intensive (i.e. require a higher proportion of indirect to direct labor), then this too will compel an "unequal exchange." But Emmanuel does not consider this as significant as the "unequal exchange" that results from unequal wages.

¹⁴Ibid., pp. 61-63. The amount of surplus value transferred from the Third World to the developed countries through unequal exchange in the year 1966 is estimated by Samir Amin to be in the amount of \$22 billion, which is nearly four times the total long-term capital, including official donations, private investments and the credits extended by such bodies as the IBRD, that came into the Third World in that year. See, Samir Amin, Unequal Development: An Essay on the Social Formations of Peripheral Capitalism (New York: Monthly Review Press, 1973), pp. 124-27.

¹⁵It is easy to see using Emmanuel's model that variations in capital intensity further exacerbates the problem. To the extent that the First World countries are more capital intensive than Third World countries, market forces, in equalizing profit rates, will set the prices of the more capital intensive commodities above their labor values and the less capital intensive below their labor values. Though admitting that this factor is operative, Emmanuel considers it less significant than the effect of unequal wages.

¹⁶Emmanuel, Unequal Exchange, p. 371.

¹⁷Ibid., p. 372.

¹⁸Ibid.

¹⁹Ibid.

²⁰Ibid., p. 377.

²¹Ibid., p. 89.

²²Emmanuel is not denying the fact of capital flow to low-wage countries. Rather, his main point is that it is "unequal exchange" in trade that is the driving force.

²³Ibid., p. 378.

²⁴David Schweickart, "Unequal Exchange: Roemer and

Emmanuel," Philosophical Inquiry forthcoming.

²⁵Not only Marxian theories, even Steiner agrees that we can have a voluntary exchange which is exploitative. See our discussion on p. 65.

CHAPTER V

JOHN ROEMER: MARXIAN GAME THEORY

A. Exposition

Roemer's general theory of exploitation and class generalizes and subsumes both the Marxian and Emmanuel frameworks as special cases. Says Roemer, his theory has the purpose of embedding ". . . the Marxian theory of exploitation into a more general theory."¹ Recall that for Marx, the worker-capitalist relation is the paradigm and that for Emmanuel, it is First and Third World relations. But with Roemer's theory, an abstract withdrawal condition is central to his analysis which can be applied to the class of workers in a country or to a Third World country. Roemer's theory generalizes and encompasses both of these theories in the sense that those groups that are exploited in Marx's theory are also exploited in Roemer's and those countries that are exploited in Emmanuel's theory are equally exploited in Roemer's. So, Roemer's theory picks out the same groups of exploited people or country as in Marx and Emmanuel's models respectively.

It is because Roemer sees Marx's theory of exploitation as weak and inapplicable as a general theory that he seeks to refine it by constructing a general theory of exploitation that is independent of any labor theory of value. According to Roemer, the Marxian theory of exploitation defined as transfer of labor surplus is extremely fragile. It works reasonably well only under the most unrealistic conditions. These conditions are in fact so restrictive that they are not met in any existing society. For instance, the theory yields anomalous results in societies where agents are differentially endowed with inalienable assets or skills. It is the desire to correct such anomalies that motivated Roemer to construct his own general theory of exploitation.

Roemer's theory is based on the game theoretic definition of exploitation which relies on counterfactual alternatives to the property relations of the society under consideration.² The definition which provides the general condition for exploitation, by relying on the feasibility of a better alternative, is given essentially as follows: a group is exploited if by withdrawing from the present allocation system to a feasible hypothetical alternative, it can make its members better off. More precisely, in a society composed of N agents divided into two coalitions, a coalition S and its complementary coalition, $S'=N-S$, coalition S is considered exploited by coalition S' in the

initial state if these three conditions are fulfilled:

1. There is a feasible alternative state in which coalition S would be better off than in its present situation;
2. Under this alternative, coalition S' would be worse off than at present;
3. Coalition S' is in a relationship of dominance to coalition S. This dominance enables it to prevent coalition S from realizing the alternative.³

1. Withdrawal Condition

This definition is not by itself operational without a specification of what is considered feasible. The test of exploitation lies in the ability of the exploited coalition, S, to withdraw from the larger society, N, under the specified withdrawal rule into a feasible superior alternative arrangement in which it is better off, and its complement coalition, S' worse off.⁴

Roemer's theory of exploitation differs from the classical Marxian model in which exploitation was defined in terms of transfer of surplus labor. Here, it is defined in

terms of counterfactual alternatives to the property relations in a society. It differs also in that forms of exploitation other than capitalist exploitation can also be modelled, depending on the specification of the withdrawal rule. Once the withdrawal rules are specified for the general theory, one may define the respective games and the particular forms of exploitation arising from them. In this way Roemer defines feudal, capitalist and socialist exploitation.

Roemer conceives of feudalism as a system in which the bondage imposed on the serf is the obligation to perform desmesne and corvee labor for the lord despite the serf's possession of means of production, including the family land. The serf is not allowed to sell his labor power on a market or to work exclusively for himself. To model what Roemer calls this "feudal exploitation," he specifies the withdrawal rule to allow the coalition of serfs to leave the feudal society taking with them their own assets including their own subsistence plots. If this coalition is better off and can improve the welfare of its members under this alternative state, and if the lords become worse off, then the coalition is considered feudally exploited.

Feudal exploitation results specifically from feudal relations: it is related to the special case of coercive production relations whereby surplus labor is provided to the feudal lord by the serf. What Roemer models under this

stylistic formulation of feudal game is a characterization of what might also be called the neoclassical concept of exploitation: a producer is exploited if he is not being paid his marginal product. The neoclassical statement that an agent is not exploited so long as he receives his marginal product becomes, in Roemer's theory, "there is no feudal exploitation under (perfect) capitalism."⁵

In a feudal mode of production, serfs are feudally exploited. Roemer claims, "withdrawal, under these [feudal] rules, amounts to withdrawal from feudal bondage, only."⁶ He believes that if a group of serfs had been allowed to withdraw from feudal society with their endowments, most importantly their land, they would have been better off, having access to the same means of production, but providing no labor for the lord. Instead they work the land only for themselves. Clearly, the complementary coalition would be worse off, not benefiting from the serfs' surplus labor. Consequently, the serfs as a class were feudally exploited, and the lords were the feudal exploiters. Capitalism abolished this kind of exploitation -- but not all exploitation.

In capitalism, rather than unequal access to personal freedom, the source of inequality is unequal access to the means of production or as Roemer prefers to designate them, society's alienable (productive) assets.⁷ The test for capitalist exploitation lies in the attempt to equalize the

access of all agents to the means of production. A different rule is defined for this game. A coalition is allowed to withdraw from the society taking with it not only its own endowments (allowed under the feudal game) but also its per capita share of the society's alienable assets. A coalition is capitalistically exploited if it can improve the lot of its members in the alternative situation by withdrawing with its per capita share of the alienable assets, this withdrawal making the complementary class worse off.⁸

One of Roemer's most impressive analytical accomplishments is his demonstration that his general theory in its special formulation subsumes the surplus labor definition as a special case. When Roemer's definition is applied to those cases where the labor theory of value is applicable, it selects the same classes of exploited and exploiters as the surplus labor analysis. In other words, the coalitions which are characterized as exploited by Marxian definition (in terms of working longer than socially necessary labor time) are precisely the coalitions which are characterized as exploited by Roemer's definition (in terms of having superior alternative under the per capita share withdrawal option).⁹ A coalition that is Marxian exploited because surplus labor is extracted from it and transferred to the exploiting coalition, is also capitalistically exploited since it will be better off and improve its welfare by

withdrawing from the larger society with its per capita share of society's alienable assets and conversely. Marxian exploitation is therefore shown as a special case of capitalist exploitation, the form of exploitation inherent in specifically capitalist property relations. According to Roemer, the historical mission of socialism is to abolish this form of exploitation, exploitation based on the differential ownership of the means of production, or equivalently, private property in alienable assets.

In socialism, as Roemer conceives it, the source of inequality is not capitalist exploitation, since all are presumed to have equal access to the means of production. Socialism is defined to be a society in which private ownership of property has been abolished, so that no coalition can improve its welfare by withdrawing and taking its per capita share of the society's alienable assets. Socialism does not abolish all inequality, however. The source of inequality in socialism is the differential ownership of inalienable assets, that is, skills, education, etc. Roemer calls exploitation based on these inequalities "socialist exploitation." The appropriate withdrawal rule is thus specified: a coalition may withdraw from society not only with their endowments and their per capita share of the alienable assets, but also with their per capita share of the inalienable assets.¹⁰ If the coalition can improve itself and if its complementary coalition is worse off under

the alternative arrangement, then the original coalition is socialistically exploited. Socialist exploitation therefore exists in a society where agents relate to each other as owners of differential inalienable assets and are rewarded according to their contributions. Its abolition is, according to Roemer, the historical mission of communism. Communism will abolish exploitation and inequality based on the differential ownership of the inalienable assets and, ultimately, realize the slogan, "from each according to his ability, to each according to his needs."

2. Dominance Condition

A component of Roemer's definition of exploitation which we have so far overlooked is the dominance requirement: "Coalition S' is in a relationship of dominance to coalition S."¹¹ In other words, for exploitation to occur, coalition S', the exploiter must be in a relation of dominance to coalition S, the exploited. This entails that "the coalition S' prevents the alternative from being realized, which gives rise to its exploitation of S."¹² Although Roemer does not define what he means exactly by the notion, "dominance", he sees this condition as "...necessary to rule out certain bizarre examples" to his

core definition of exploitation.¹³ Two such examples are given.¹⁴

First is the case of an invalid who is supported by society at a very high cost. On the basis of the first two components of Roemer's game theoretic definition of exploitation, the invalid is a capitalist exploiter because if he withdrew with his share of the resources he would be worse off and the rest of society would be better off. But when the dominance condition is taken into account, this judgment (which sees the invalid as capitalistically exploiting the rest of society) fails, because the invalid does not stand in a relation of dominance to the rest of society. If anything, it is the society that dominates him through its decision regarding the support he is entitled.

The second example is the case of two islands, one that is rich and the other that is poor, which have no relationship with each other (and not even trade). According to the first two components of exploitation, the rich island appears to be capitalistically exploiting the poor island since the latter would be better off were it to withdraw its per capita share of the combined resources, while the rich island would be worse off. But when the dominance condition is invoked, the rich island does not capitalistically exploit the poor island because there is no relationship between them.

The dominance condition is thought by Roemer to be of

an incidental necessity. Its function within the core definition of exploitation is strategic, particularly in helping to eliminate bizarre cases. But for all practical purposes, Roemer says, the first two components of the general theory taken together are a satisfactory definition of exploitation.¹⁵

B. Moral Assumptions

We have noted that Roemer's theory generalizes and subsumes Marx's theory of exploitation as a special case. But in doing this, Roemer's theory appeals to a moral principle different from the one in Marx. The moral presupposition underlying Roemer's game theoretic definition of capitalist exploitation is the moral right of a member of a collective to its per capita share of the collective's resources, the alienable assets. This is the assumption of "egalitarian property entitlements,"¹⁶ that is, the assumption that property rights ought to be equally distributed. This assumption, Roemer says, ". . . poses the alternative against which one evaluates whether a coalition

is capitalistically exploited."¹⁷

We should note that exploitation is not due, fundamentally, to certain people being excluded from the means of production, and hence compelled to sell their services for a wage. Roemer demonstrates that even if everyone owns the means of production necessary to produce their subsistence, and even if there is no surplus and no exchange of labor, exploitation will still occur, as long as the initial endowments in the means of production are unequal. What this means is that differential endowment is the cause (or to use Roemer's term, "the chief culprit") of capitalist exploitation. The negation of exploitation therefore requires that endowments be equally distributed. On this ground, Roemer believes that once the initial distribution of endowments is equal, then there would be no (capitalist) exploitation.

Socialist exploitation is something quite different for Roemer. Given that this definition has a different counterfactual, he also has a different ethical presupposition. The ethical assumption underlying Roemer's characterization of socialist exploitation is there is something unfair going on if each individual does not have access to the equal share of the talents in the society.

There is an interesting parallel here to be drawn between the ethical presupposition in socialist exploitation and the ethical principles in Rawls's theory of justice.

Rawls maintains that just because one is more talented does not by itself entail one having a greater share of societal assets.¹⁸ He argues that it is just to give talented people more of the societal assets, not because they have a right to them but because of the difference principle: one needs to give them more of the societal assets to create that incentive which is necessary to make societal goods larger than they would have otherwise been. Rawls is very egalitarian in his impulses. Absolute equality is the prima facie case. Any deviation from this rule has to be justified on the grounds that it will create the incentive in people to make the total output bigger and that a portion of this increase will benefit the least well off segment of society. If differential rewards are to be allocated to people who work harder, or who have extra talents or entrepreneurial skills, these need to be justified on the grounds that they will make the quantity of societal goods larger while making the people at the lower strata of society better off than they would have otherwise been.

Similarly, Roemer believes in the prima facie case of absolute equality: if everyone has an equal share of societal inalienable assets, there would be no feudal, capitalist or socialist exploitation. Unlike Rawls, he is willing to call deviations from equality due to unequal talents "exploitation," though he is willing to concede that such exploitation is probably necessary during a period of

transition from socialism to communism.

To return to capitalist exploitation: in terms of result, Roemer's theory seems to be identical with Marx's, but when we look at the ethical presuppositions behind the two theories, they are quite different. This would seem a good reason to discuss and compare the moral assumptions of the two models.

Marx's ethical presupposition is (as pointed out in Chapter III) that people who produce the economic surplus should control it. For Roemer, what is wrong with (capitalist) exploitation is that people are denied equal access to the means of production. Prima facie, it is odd that the two models should be the same in terms of their results, and yet, to have different moral presuppositions. The models are homologous in the sense that they pick out the same class of exploiters and exploited, but the reasons for qualifying those parties as "exploiters" and "exploited" are quite different. This oddity calls for further analysis and questioning.

Which of the ethical presuppositions is more intuitively obvious: that everyone ought to have an equal share of the resources of the society or that producers ought to control their product? Which of these seems to be more ethically compelling? It seems to me reasonably obvious that if I contribute 10 labor hours of work to society, I should receive or at least control an equivalent

amount of the social product. Roemer's assumption seems less obvious. Why ought I get a per capita share of my country's productive assets? On what basis do I justify my equal share of societal resources?

It would seem that Roemer's moral assumption is more problematic than the assumption which underlies Marx's theory. It seems to be less problematic to say that those people or that group which produces surplus product ought to control it. If it is true that workers do produce the surplus (of course one can argue about this claim), then it certainly seems morally justifiable that they ought to control it. It seems that almost everyone would agree with this conception. People may disagree about whether or not the workers alone produce the surplus product, but if they grant that part of Marx's theory, the moral judgment is not particularly problematic.

Likewise, Emmanuel's moral presupposition seems to be fairly non-problematic: people who put in equal amount of labor, all else equal, ought to get an equal return. Equal pay for equal work is a widely held moral assumption. People might argue that First and Third World workers are not equally skilled, but as I noted earlier, in Emmanuel's model, all those differences are assumed away. Emmanuel shows that even if we do have equal skill, equal intensity, equal hours of work, etc., still one country will get a lot more return than the other, because free trade will generate

unequal exchange if wages or capital intensities are unequal. So, the moral principle underlying Emmanuel's theory seems to be reasonable. It would likely count as one of Rawls's "considered moral judgments."

On the other hand, Roemer's moral principle that everyone ought to have equal access to the collective's resources is less universally accepted. This is not to say that it is wholly counterintuitive, but suffice it to say that there are cases where this moral presupposition would seem to be less than obvious. Here, I am referring to the kind of cases that Roemer himself gives. For example, there is the case of two islands, totally unconnected and having no trade or relationship with each other.¹⁹ One island is rich in resources and the other is poor. Do people in the wealthy island have a moral obligation to share their resources with those of the poor island? And in particular, once we make this example a little more concrete, we need to ask: how do some of those resources come about? Suppose the inhabitants of the rich island have worked hard, developed some efficient technology, dug mines, etc. while the inhabitants of the poor island have lazied around, have not dug mines, etc., can we not then correctly maintain that the inhabitants of the poor island are poor as a result of their own doing.

But how does this example fare under the moral assumption of Roemer's theory? Roemer claims that everyone

ought to have equal per capita share of the resources and if they do not, then they are being exploited. In other words, if the rich island is developing and is much richer than the poor island, on Roemer's moral assumption, the former will be exploiting the latter. This claim seems bizarre and counterintuitive. If the inhabitants of the rich island do not have any dealings with the inhabitants of the poor island, how could they exploit them?

It is in order to counter such an objection that Roemer invokes the dominance condition²⁰: the rich island has to dominate the poor island in some way in order for the relationship to be really exploitative. With the introduction of the dominance requirement, we now have a second condition that has to be violated in order for exploitation to arise. First, the condition has to be violated that individuals have an equal right of access to the collective per capita assets. Secondly, people's right not to be dominated has to be violated. These are the two moral principles that underlie Roemer's theory.

We have earlier on compared the moral assumptions underlying Marx, Emmanuel and Roemer's models. In Marx's model, what is violated is the right of producers to control their surplus product. What is violated in Emmanuel's model is the right of an individual to get an equal return for his labor. At first sight, it would seem that what is violated under Roemer's assumption is only equal right of individuals

to the alienable assets of the society. But this condition in and of itself is not sufficient. A second condition, the right to be free from domination, has to be violated. But one of the problems with Roemer's theory is that it does not explicate much about what constitutes "domination."

If workers are exploited by capitalists or Third World countries by First World countries, is it because the former are denied equal access to resources or because they are dominated? Roemer says both but he elaborates only the first condition.

C. Problems with the Theory

Roemer's general theory of exploitation specifies the withdrawal rules which makes an exploitative situation either to be feudal, capitalist or socialist. These rules tell us that there is exploitation going on whenever we set up a counterfactual situation where the exploited coalition is supposed to be better off and its complement coalition worse off.

This technique of defining exploitation by means of counterfactuals, however, seems to result in a proliferation of anomalies, several of which have already been mentioned. Such anomalies seem to arise because Roemer stresses the status of the exploiter and the exploited in the counterfactual situation rather than their relations within the given concrete situation from which their status is derived. Exploitation arises as a consequence of the relations between the exploiter and the exploited in a given distribution system. "Exploitation," says Elster, "is exploitation because of the structure and the outcome of the interaction, not because of hypothetical distributions."²¹ It is the interaction between the coalitions which brings about the exploitation of one by the other.²² As Elster says,

Intuitively, exploitation has a causal as well as a moral aspect. The fact that some end up as exploiters and others as exploited must be due to some interaction between them (or to some network of interaction through which they are linked to one another). Now it is generally true that causal statements cannot be captured exhaustively by counterfactual statements: "A caused B" is neither a sufficient nor a necessary condition for the truth of "If A had not occurred, B would not have occurred." Hence we know in advance that Roemer's attempt to capture the causal notion of exploitation by statements about hypothetical withdrawal rules is bound to fail.²³

The neglect of the relations between the exploiter and the exploited creates a lacuna in the general theory precisely because there is no direct connecting link between the exploiter and the exploited, a link that would have made us to say that a coalition is the exploiter exploiting another coalition who is the exploited. In other words, there is the absence of a causal relationship between the coalitions such that we can say that coalition S' is an exploiter because it exploits or utilizes to its own advantage coalition S that is made worse off in the process. Because there is no causal connection specified between the exploiter and the exploited, Roemer's withdrawal rules are unable to determine what causes exploitation, are unable to determine the mechanism through which exploitation comes about. Roemer tries to get around this objection through his "dominance condition" which is supposed to supply the connecting (causal) link between the exploited and the exploiter. Unfortunately, as noted previously, this

condition is not adequately developed by Roemer to counter this objection in any meaningful way.

D. Significance of the theory

The fact that Roemer's theory suffers from some internal problems does not invalidate it as a theory of exploitation. As earlier observed, a theory of exploitation must be evaluated in the large, in light of other theories when all such theories when carefully examined are likely to be found deficient in one respect or another.

Of major significance in evaluating Roemer's general theory of exploitation is the fact that it does not appeal to the labor theory of value. It makes no reference at all to embodied labor. It seeks to dispense with the labor content of goods and instead, to focus on the property relations concept.²⁴ A coalition is considered to be exploited if it has some other alternative which is superior to the present allocation. "One startling outcome of this analysis," Roemer says, "is a formulation of Marxian exploitation without reference to the concept of surplus labor."²⁵

Roemer demonstrates the equivalence between the surplus labor definition of exploitation and the property relations concept holds for simple economic models where labor is homogeneous. But when applied to more complex models of differential or heterogeneous labor endowments, the labor theory of exploitation falters while the property relations concept remains tractable. The property relations approach, being more of a general definition, makes an advance over the surplus labor approach and includes it as a special case. Says Roemer, "the Marxian surplus labor of exploitation . . . [is] a special instance of a more general theory which is expressed in the language of property relations, not the labor theory of value."²⁶ What Roemer's theory does is to sever the link between exploitation and the labor theory of value. Since the labor theory of value itself is highly controversial and obviously not appropriate in certain situations involving differential skills, this separation must be counted a positive development. Roemer's theory circumvents the perennial criticisms of Marx's theory of exploitation arising from the latter's reliance on the allegedly defective labor theory of value.

Even though Roemer's theory has the advantage of generality, which is normally considered an advantage in theories, and even though it also has the advantage of not relying on the controversial labor theory of value, it now has the drawback of resting its moral case on two moral

principles, the first (that everyone has an equal right to a per capita share of the world's resources) which is less intuitively obvious and less widely acceptable than the principles upon which the Marxian and Emmanuel's theories are based, and the second (that everyone has the right to be free from domination) which is left unspecified and undeveloped. For further understanding of the notion of "domination," which we have seen as being important for understanding exploitation, we need to turn to a more concrete treatment of exploitation.

Notes

¹Roemer, A General Theory of Exploitation and Class, p. 1. Already, Roemer has defined this goal in his earlier book when he stressed the necessity for Marxists to ". . . extend the theory of exploitation so as to be able to evaluate whether exploitation can exist under socialism." See, Roemer, Analytical Foundations of Marxian Economic Theory (Cambridge, Mass.: Cambridge University Press, 1981), p. 6.

²Roemer, A General Theory of Exploitation and Class, pp. 194-237; See also, Roemer, "New Directions in the Marxian Theory of Exploitation and Class," pp. 275-283 and Roemer, "Exploitation, Alternatives and Socialism," The Economic Journal 92(March 1982):89-98.

³Roemer, A General Theory of Exploitation and Class, pp. 194-95.

⁴Roemer, "New Directions in the Marxian Theory of Exploitation and Class," p. 276.

⁵Roemer, A General Theory of Exploitation and Class, p. 20.

⁶Ibid., p. 200.

⁷In the development of his theory, Roemer distinguishes, as Marxists and neoclassical economists usually do, between two types of means of production: the "alienable" and the "inalienable." The "alienable" are identical to the physical means of production or "non-human property." The "inalienable" are identical to skills, education, etc. The agents in society may possess more or less of both types. An agent's endowment of either the "alienable" or the "inalienable" means of production is referred to as the agent's productive assets. See, Roemer, A General Theory of Exploitation and Class, pp. 202 & 212.

⁸Roemer, "New Directions in the Marxian Theory of Exploitation and Class," p. 279.

⁹Roemer, A General Theory of Exploitation and Class, p. 202.

¹⁰The withdrawal of per capita share of the alienable assets is, of course, physically impossible, but recall that we are here in a hypothetical world.

¹¹Roemer, A General Theory of Exploitation and Class, p. 195.

¹²Ibid.

¹³Ibid.

¹⁴Ibid., p. 237.

¹⁵Roemer, A General Theory of Exploitation and Class, p. 195.

¹⁶Ibid., p. 202.

¹⁷Ibid.

¹⁸John Rawls, A Theory of Justice (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1971), p. 101.

¹⁹Roemer, A General Theory of Exploitation and Class, p.237.

²⁰Ibid., p. 195.

²¹Elster, "Roemer versus Roemer: A Comment on 'New Directions in the Marxian Theory of Exploitation and Class,'" p. 366.

²²The counterfactual situation only serves to reinforce what is observable under the real situation and when its results contradict the observable facts of the real situation, the latter is to be preferred.

²³Elster, Making Sense of Marx, p. 203.

²⁴See Roemer, A General Theory of Exploitation and Class, Part III, esp. Chapter VII, pp. 194-237; and also, his "Property Relations vs Surplus Value in Marxian Exploitation," Philosophy and Public Affairs 11(1982):281-313.

²⁵Roemer, A General Theory of Exploitation and Class, p. 192.

²⁶Ibid.

CHAPTER VI

DEVELOPMENTALISM AND DEPENDENCY

A. Preliminary Considerations

What dependency theory does is to elaborate on the "dominance" question by explaining it in terms of concrete historical reality of the process and mechanisms of domination. This is what we see when we look at dependency theory in relation to Roemer's theory of exploitation, though, of course, dependency theory has not developed solely to solve a problem with Roemer's theory. Essentially dependency theory looks at the problem of the First and Third World countries, and tries to suggest the reason for the enormous wealth that the First World countries have vis-a-vis the poverty of the Third World. This is the basic question confronting dependency theory.

The theories of exploitation we have been examining are concerned fundamentally with these moral questions: Is there exploitation going on in various contexts? Are the workers being exploited by capitalists? Are Third World countries being exploited by the First World countries? What are the mechanisms of exploitation? On the other hand,

dependency theory asks the question: why are some countries rich and others poor? It takes its point of departure from developmentalism, an alternative theory. To explain what dependency theory is, we have to see it in the context of this alternative theory, "developmentalism" which is tied to the liberal tradition, of which Steiner's theory (discussed in Chapter II) is a classic example. Precisely then, what is developmentalism?

Developmentalism, as a self-conscious movement, is a theory that arose in the 1950s following the reconstruction and consolidation of the economies of Western European countries that had been devastated by World War II. Secretary of State George C. Marshall's initiative in June 1947 caused the United States to undertake an unprecedented, massive program of economic assistance to the war-shattered countries of Western Europe. At the end of World War II, the countries of Western Europe possessed all the requirements for recovery and continued development except the command over sufficient foreign exchange to replenish their stocks of working capital, to repair and replace destroyed production facilities, and to make it possible to restore the flow of intra-European trade. This the Marshall Plan provided. This Plan, which extended over four years and cost over \$13 billion, was a triumphant success. The free nations of Western Europe not only recovered and rebuilt the foundations of their societies, but were enabled

as well to achieve new standards of wealth and unity.

But World War II also ushered in another important change, whose global implications were not felt immediately. The weakening of the European powers and the logic of a war effort aimed at preserving self-determination marked the final collapse of the vast colonial empires of the nineteenth century and the establishment of a multiplicity of new States, each claiming sovereign and independent status. The new nations soon drew the attention of the United States' policymakers concerned with the claim that Marxism presented the best and most logical road to full incorporation into the modern world. They also captured the attention of U.S. scholars who saw the solution in another Marshall Plan designed for the Third World. These theorists of developmentalism argued that now that the legal constraints of colonialism had been broken, the newly independent countries of the world, if protected of course from communism, would inevitably develop along the path followed by Europe. With independence would come increasing urbanization and education, the adoption of Western political attitudes and structures, increased Western aid and capital investment, the consequence of which would be the promised material advance and a modern society. The success story of the Marshall Plan in the case of Western Europe led to the acceptance of the belief that since Western Europe has enjoyed such spectacular economic

progress as a consequence of American economic assistance, similar results can be achieved by providing similar aid to the less developed areas of the world. This belief inspired President Harry S. Truman's Four Point Program, which was designed to provide aid and technical assistance to the underdeveloped areas.

Unfortunately U.S. scholars and policymakers overlooked the tremendous difference between the advanced economies of Western Europe and those of the less developed countries. The Marshall Plan served as a powerful catalyst which stimulated and released the tremendous potential inherent in the mature industrial societies of Western Europe. Unfortunately, such potential did not yet exist in most of the underdeveloped areas of the world. Also overlooked were the fundamental differences between the developmental experience of Europe and the underdeveloped areas, which mitigated against the success of such a strategy in the latter. For Third World countries, it was not simply a matter of reconstruction. Consequently, developmentalism failed to find a solution to the problems of these new emerging Third World nations. There were theoretical problems as well. The fact that most of Latin America, which had been free of colonial rule for over 125 years, had not developed along the lines followed by capitalist development in Europe could, of course, not be explained by the overly optimistic developmental theory.

There were obvious problems in applying the assumptions of developmentalism to the developmental problems of Latin America. In university research centers Latin American scholars tried to come to grips with the widespread economic stagnation which affected the region in the postwar period. These scholars from various disciplines - economics, sociology and political science - turned to the broader and more basic question of the roots of Latin American underdevelopment. Many intellectual strands came together in the 1960s with the elaboration of a more general and comprehensive framework. The "dependency" theory became the dominant approach in most Latin American circles by the mid to late 1960s.¹ Generally, this theory explains underdevelopment throughout Latin America as a consequence of outside economic and political influence. More specifically, the economy of certain countries is believed to be conditioned by the relationship to another economy which is dominant and capable of expanding and developing. This explanation approximates Dos Santos's definition which states that dependency is

an historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others, and limits the development possibilities of the subordinate economies.²

Developmentalism and dependency are thus two sharply

different frameworks giving different explanations of development and underdevelopment. The former maintains that the development of Latin American countries will come about through external influence and assistance, while the latter sees foreign penetration as the cause of underdevelopment. These two models originated in different areas with different methodologies, different explanations different evaluative judgments and different assumptions. On account of their contrasting premises and assumptions, analyses of development and underdevelopment in Latin America differ from one another to the extent that such analyses rely on either the developmental or dependency model. Within the developmental model, underdevelopment appears as a starting point on the path to development, a condition which has characterized every region and nation-state, from which some have advanced toward development. In contrast, the dependency model understands both development and underdevelopment as the product of the same historical process, the expansion of international capitalism. Dependence claim that through this process, the economic forces of the system's center have penetrated underdeveloped areas, creating development in the metropolis and underdevelopment in the periphery.³

I sketch briefly the theories of developmentalism and dependency and in the remainder of this chapter we shall investigate the forms more carefully - and more critically.

We shall then turn to dependency theory and this would also be examined in more depth, with attention paid to its underlying moral assumption.

B. Developmentalism

Basic to the developmental theory is the assertion of the mutual-benefit claim.⁴ This is the claim that free economic relations between two countries will be mutually beneficial. These relations must yield gains for both countries or else the countries would not engage voluntarily in such economic transactions.

The developmentalists advocate a push from the industrialized countries through aid, expanded trade and technical assistance to help the Third World countries toward the path of development. As earlier noted, this view was enhanced by the success of the Marshall Plan in the economic recovery of Western Europe. Hirschman notes that this view

. . . became an article of faith, reinforced by the rapid postwar recovery and growth . . . of Western and

Eastern Europe, that growth depended critically on the injection of an adequate amount of capital, domestic or foreign.⁵

Probably the most influential and famous theorist of developmentalism was Walt Whitman Rostow whose stages of economic growth dominated the doctrine in the later 1950s and early 1960s.⁶ It seems appropriate therefore to focus our critique of developmentalism on Rostow's specific version. Rostow believes that development is a linear path of five stages along which all countries travel. The stages are the traditional society, the pre-conditions for take-off, the take-off, the drive to maturity and the age of high mass-consumption.

The traditional society is one whose structure is developed within limited production functions, based on pre-Newtonian science and technology. The level of productivity is limited by the inaccessibility of modern science and consequently, a very high proportion of resources is devoted to agriculture. The second stage embraces societies in the process of transition and this is the period when the preconditions for take-off are developed. Traditional societies are transformed such that they are able to exploit the benefits of modern science. The third stage, the take-off, is the interval when the old blocks and resistances to steady growth are finally overcome. The forces making for economic progress, which

yielded limited bursts and enclaves of modern activity, expand and come to dominate the society. Growth becomes its normal condition.

After the take-off follows a long period of sustained if fluctuating progress, as the now regularly growing economy drives to extend modern technology over the whole front of its economic activity. The make-up of the economy changes increasingly as technique improves, new industries accelerate, older industries level off. The economy finds a place in the international economy: goods formerly imported are produced at home; new imports requirements develop, and new export commodities to match them. In the age of high mass-consumption, the leading sectors shift towards durable consumers' goods and services. In this stage real income per head rise to a point where a large number of persons gain a command over consumption which transcend basic food, shelter, and clothing; and the structure of the working force changes in ways which increased not only the proportion of urban to total population, but also the proportion of the population working in offices or in skilled factory jobs - aware of and anxious to acquire the consumption fruits of a mature economy.

There are obvious problems with the Rostovian theory. How a nation gets from one stage to another is unclear, since all Rostow presents, in effect, is a series of snapshots which freeze the development process in five

different moments of time. What is clear, however, is that economic development, on this view, occurs in a succession of stages, and that today's underdeveloped countries are still in a stage, sometimes depicted as an original state of history, through which the now developed countries passed long ago. But this view, Frank has stressed, ". . . attributes a history to the developed countries but denies all history to the underdeveloped ones."⁷ Rostow neglects the past of the underdeveloped countries but confidently predicts a future similar to that of the rich countries. To classify the underdeveloped nations as "traditional societies" begs the issue and implies either that the underdeveloped countries have no history or that it is unimportant. But it is clear that the underdeveloped countries do have a history, and that it is important. Says Frank,

Even a modest acquaintance with history shows that underdevelopment is not original or traditional and that neither the past nor the present of the underdeveloped countries resembles in any important respect the past of the now developed countries . . . Historical research demonstrates that contemporary underdevelopment is in large part the historical product of past and continuing economic relations between the satellite undeveloped and the now developed metropolitan countries.⁸

There is a substantive evidence to prove that the expansion of Europe, commencing in the fifteenth century, had a profound impact on the societies and economies of the

rest of the world. For example, Rich says

By the end of the sixteenth century . . . the agricultural economies of the Spice Islands, the domestic industries of large parts of India, the Arab trading economy of the Indian Ocean and of the Western Pacific, the native societies of West Africa and the way of life in the Carribean Islands and in the vast areas of the two vice-royalties of Spanish America [were] all deeply affected by the impact of Europeans The results [of European expansion] on non-European societies were . . . sometimes immediate and overwhelming.⁹

In other words, Rich is saying that the history of the underdeveloped countries in the last four centuries is, in large part, the history of the consequences of European expansion. Consequently, we can tentatively conclude that the automatic functioning of the international economy which Europe dominated first created underdevelopment and then, hindered efforts to escape from it. In summary, underdevelopment is a product of historical processes.

Also, Rostow's linear view of development seems to beg a host of questions about the nature and causes of development. It tends to focus on constraints or obstacles (particularly lack of capital), the removal of which would free the "natural" forces making for the steady move toward even higher incomes. Applied to the area of international relations, this view calls on the rich countries to supply the missing components to the developing countries and thereby to help them break bottlenecks or remove obstacles.

These missing components may be capital, foreign exchange, skills or management. The doctrine provides a rationale for international capital aid, technical assistance, trade and private foreign investment.

There are problems with this view on moral, political, and economic grounds as well as historical grounds. Morally and politically, this view rules out options of different styles of development. Inexorably, we are all bound to pass through the Rostovian stages. This view is surely excessively deterministic. Economically, it is deficient because it ignores the fact that the propagation of impulses from the rich to the poor countries alters the nature of the development process; that "late-comers" face problems essentially different from the early starters, and that "late later-comers" again find themselves in a world with a range of demonstration effects and other impulses, both from the advanced countries and from other "late-comers," which present opportunities and obstacles quite different from those that England or even Germany, France and Russia faced in their pre-industrialization phase.¹⁰

Frank also attacks developmentalist's ahistorical explanations of underdevelopment. He views the entire spectrum of developmentalism, from its primordial post-World War II form through Rostow's stages of economic growth model, as sharing the underlying assumption ". . . that underdevelopment is an original state which may be

characterized by indices of traditionality, and tendency of abandoning these characteristics and adopting those of the developed countries."¹¹ Theorists who adopt these assumptions believe in diffusionism: Western ways must diffuse into underdeveloped countries, undermining and transforming their traditionalism. They view underdeveloped countries as precapitalist and see progress in terms of the penetration of capitalism into the precapitalist sectors or into the traditional culture of Third World countries.

Essentially, the diffusion model sees underdevelopment as a condition which all countries have experienced at some time. While some countries have managed to develop, others have not. In Latin America, according to the model, a feudal structure inherited from the Spanish and Portuguese conquistadors has stifled change. Though modern cities have arisen through contact with the developed world, the countryside remains backward, mired in the unproductive agriculture of large feudal estates. If the conditions are to improve, traditional values must be challenged and modern diversified industry must replace current dependence on one or two agricultural products. Change requires the introduction of external capital because the region is poor. Foreign investment can also bring modern technology and organizational methods to these backward countries - a problem which did not confront feudal England and other early developing countries, but one that becomes

particularly critical for the late starters on the path to development. Thus, the diffusion model endorses and even, encourages increased U.S. aid and investment to advance economic development in Latin America.

To counter the developmental perspectives, Frank suggests that it lacks empirical (especially historical) validity and hence, leads to a quite erroneous conclusion, regarding the progressive nature of Western contact with Third World countries. In fact, he totally reverses the argument: the Third World is underdeveloped because it has been capitalist for centuries. Its socio-economic structure is not in some primordial, traditional or feudal state but was created and molded by a centuries-long process of interaction with the capitalist West. The most important conclusion from this argument is that further capitalist involvement is unlikely to bring underdeveloped countries into a state of economic independence; on the contrary, it will intensify the dependency and underdevelopment that it has already created.¹²

C. Dependency Theory

The dependency model originated in an atmosphere of increasing disillusionment with past strategies of development and consequently, was formulated as an alternative to the "developmental" models. These latter models assumed that underdeveloped countries would follow a process of development essentially like that followed by countries which are now highly developed. The dependency model rejects this view on the ground that external conditions are fundamentally different for the present-day underdeveloped countries. They are different in that the present-day underdeveloped countries have always been dominated by and dependent upon the industrialized rich countries. Furthermore, the interdependent nature of the world capitalist system and the qualitative transformations in that system over time make it inconceivable to think that individual nations on the periphery could somehow replicate the evolutionary experience of the now developed nations. According to the dependency model, "Latin American underdevelopment is not a backward condition which precedes capitalism, but a consequence of capitalism and a specific form of capitalist development."¹³

In contrast to the developmentalists who see Western intervention in underdeveloped countries as progressive and beneficial, the dependentistas emphasize that the ills of

underdeveloped countries were to be found in the historical relationships between these nations and the industrialized Western countries. These relationships are to be comprehended in terms of dominance and dependence. The interdependence between the industrialized and the poor countries assumes contrasting forms of dominance and dependence because the dependent poor countries develop as a reflection of the expansion of dominant countries or underdevelop as a consequence of their subjective relationship. Instead of hypothesizing underdevelopment as an original state, the dependentistas assert that the now developed countries were never "underdeveloped" and that contemporary underdevelopment was created. They claim that the contemporary underdevelopment of many parts of the world was created by the same process of capitalism that brought development to the industrialized countries. Latin America, for example, is underdeveloped because it has supported the development of Western Europe and the United States.

At the core of the dependency theory is the idea that development and underdevelopment are two sides of the one global capitalist system, an idea which is expressed in the polarization of the world between the dominant developed metropolitan countries on the one hand, and the dependent underdeveloped peripheral countries, on the other. Dependency theorists believe that foreign penetration, rather than being a force for development, has created

underdevelopment in the peripheral countries. Dos Santos gives a general characterization of dependency:

Dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can only expand as a reflection of the expansion of the dominant countries, which may have positive or negative effects on their immediate development.¹⁴

In Dos Santos's view, dependency is a "conditioning situation" which causes underdeveloped countries to be both backward and exploited. The development of capitalism, he argues, led and continues to lead to a combined and unequal development of its constitutive parts: unequal, because development of parts of the system occurs at the expense of other parts; combined, because it is the combination of inequalities and the transfer of resources from underdeveloped to developed countries which explains inequality, deepens it, and transforms it into a necessary and structural element of the world economy.¹⁵

The unequal development of the world, according to the dependentistas, goes back to the sixteenth century with the formation of a capitalist world economy in which some dominant countries in the center were able to specialize in industrial production of manufactured goods because the dependent peripheral areas of the world which they colonized

provided the necessary primary goods, agriculture and mineral, for consumption in the center.¹⁶ Contrary to some assumptions in economic theory, the international division of labor did not lead to parallel development through comparative advantage. The center states gained at the expense of the periphery. The center is viewed as capable of dynamic development responsive to internal needs, and as the main beneficiary of the global linkage. On the other hand, the periphery is seen as having a reflex type of development; one which is both constrained by its incorporation into the global system and which results from its adaptation to the needs of the expansion of the center. Thus, the dependency situation is one in which the state of the economy of dependent countries is determined by the development of the dominant countries, a situation which is often retrogressively disastrous to the former.

Dependency theorists therefore are trying to show that the internal dynamics of Latin American society and its underdevelopment was and is primarily conditioned by Latin America's position in the international economy, and the resultant ties between the internal and the external structures. Even though each theorist emphasizes different aspects of how and why the international economy and its changes, condition changes in Latin America, they all argue, contrary to the developmentalist analysis, that underdevelopment is not the natural state.

"Underdevelopment" for the dependency theorists denotes a dynamic process; a process which began centuries ago but which is still ongoing. In other words, while developmentalism sees underdevelopment as the original state and a process taking place whose end result is capitalist development, the dependentistas see underdevelopment as a condition that deepening and becoming more pervasive. Samir Amin describes it in the following manner:

What is worse is that this definition [liberal development theory] leads straightaway to an essential error: the underdeveloped countries are seen as being like the "developed" ones at an earlier stage of their development. In other words, the essential fact is left out, namely, that the underdeveloped countries form part of the world system, that the history of their integration into this system forged their special structure - which thenceforth has nothing in common with what prevailed before their integration into the modern world.¹⁷

This process is subsumed in Frank's well-known phrase - "the development of underdevelopment."¹⁸ According to Frank, underdevelopment is the result of the process of capitalist development, which led and still leads to a series of metropolis-satellite relations in which the satellized national, regional, and local metropolis are incorporated into a world capitalist process, which ensures their development of underdevelopment and their underdevelopment of development. The mechanisms of this process are the metropolis-satellite relationship, and the expropriation of

the economic surplus from the satellite regions. These views are most explicitly set forth in the early writings of Frank.¹⁹ In his "model of underdevelopment," Frank contends that capitalism had long ago entered every nook and cranny of the satellite world in such a way as to make global capitalism an integrated structure of metropolises and satellites that bound countries, regions, and urban-rural areas into dominant-dependent relationships. Thus, capitalism on a world scale produces a developed metropolis and an underdeveloped periphery.

We can sum up the theoretical perspective in Frank's "model of underdevelopment" as follows: First, development does not occur through a succession of stages, and today's developed countries were never underdeveloped, although they were once undeveloped. Second, underdevelopment is part of the historical product of relations between the underdeveloped satellites and the developed metropolises. Third, the dualist interpretation is to be rejected because capitalism has effectively and completely penetrated the undeveloped world. Frank demonstrates this by showing that Latin America and other areas in the periphery have been incorporated into the world economy since the early stages of their colonial periods. Fourth, Frank hypothesizes that development of satellites is limited by their dependent status. In this respect, he claims that the close contact between the metropolis and the satellite has had a number of

exploitative, retarding and stunting effects on the underdeveloped countries and that spurts of development in the periphery have often been associated with periods of interruption of contact, such as world wars or depressions.²⁰ He marshals evidence in support of this view: the periods of greatest industrial development in Latin America have occurred when the links between the metropolitan and Latin American powers have been weakened or interrupted. Conversely, Latin American underdevelopment and stagnation characterize the periods of intense metropolitan-satellite interaction.

As proof, Frank offers a historical periodization of Latin American economic development.²¹ During periods of economic crisis or war in the metropolitan states, Latin American satellite countries are left in comparative isolation. Frank identifies five such periods: the European depression of the seventeenth century; the Napoleonic wars; World War I; the 1930s depression; and World War II.²² During each of these periods of comparative isolation from metropolitan influence, "marked autonomous industrialization and growth" took place in Latin American economic production. When the metropolis recovers from wars and crisis, and resumes economic links to the satellites, "the previous development and industrialization of these regions is choked off or channelled into directions which are not self-perpetuating or promising. This happened after each of

the five crisis cited above."²³ On account of this, Frank develops a subsidiary thesis:

If it is satellite status which generates underdevelopment, then a weaker or lesser degree of metropolis-satellite relations may generate less deep structural underdevelopment and/or allow for more possibility of local development.²⁴

According to Frank, since the weakening of the satellite-metropolis network can only take place for reasons external to the satellite economies, of a necessarily transient nature, it follows that there is no real possibility of sustained development within the system. According to this analysis, the only alternative becomes that of breaking completely with the metropolis-satellite network through socialist revolution. Frank and the dependentistas favor "autarchy," the only way in which backwardness, stagnation and poverty in the Third World countries can be overcome. "Autarchy" is here understood to mean the severing of all economic links that any particular political economic formation has that extend beyond its boundaries.

This is in distinction to the developmental theory (incorporating Ricardo's law of comparative advantage) which argues that the international economic system is and should be "interdependent," that greater economic integration allows ". . . a greater specialization in a wider division

of labor and often a better utilization of the comparative advantages of each region or population group."²⁵ Thus, what characterizes the existing international economic system is not simply a relationship of dependence on the industrialized countries by the underdeveloped world, but a dependence of both upon each other. While this may be true in the broad overall view, the dependency school argues that this relationship is marked by inequality and domination; that the Third World, rather than being characterized by independent capital accumulation, has been subordinated to the needs of the industrialized capitalist countries.

Now we may ask, what is the moral presupposition underlying dependency theory? In a certain sense, it is Marxist precisely because dependency theory deals with the mechanisms of dominance. Its moral presupposition is that people ought not to be dominated. This is precisely one of Roemer's moral principles, but, as we have seen, Roemer leaves it unanalyzed, whereas dependency theory goes into a great deal of discussion about the specific mechanisms of domination. We see this in dependency theory's careful examination of the history of underdevelopment and development.

With reference to the history of the Third World, it pays close attention to the theory of expansion, the use of force, the question of slave trade, the issue of genocide, etc. It looks at the very concrete forms of physical

domination, military domination and the explicit setting up of mechanisms that disrupted and/or destroyed local crafts so that textiles from the colonizing country could be used instead. In such cases, dependency theory is looking at the very explicitly historical phenomena backed up by the use of force.

The phenomena involving the use of force provide an interesting contrast with the earlier theories. For example, Marx's theory of exploitation is a critique of the wage-labor relation in the absence of the use of force. Likewise, Emmanuel's theory looks at the exploitation that takes place in free trade between nations in the absence of the use of force. But dependency theory shows how force was necessary to set up the structures of dependency so that today, force is no longer needed as much and as explicitly. This is where in a sense dependency theory ties back to Roemer, Emmanuel and then, ultimately, to Marx by showing that once those structures are in place, exploitation can continue without the overt use of force.²⁶

To give but one instance as to how "unforced" free trade works against developing countries, consider for example, in the 1950s, how the terms of trade turned sharply against the underdeveloped countries. To buy one ton of imported steel, the following were the prices paid by these countries of three continents in terms of their respective major export commodity:

		1951	1961
Ghana	(lb. cocoa)	202	570
Brazil	(lb. coffee)	158	380
Malaya	(lb. rubber)	132	441

According to this outline, excerpted from J. Woodis' Introduction to Neo-colonialism,²⁷ Ghana in 1961 had to exchange 570 lbs of its major exports commodity, namely, cocoa, for one ton of imported steel, whereas a decade earlier, in 1951, the import price of steel was equivalent to only 202 lbs of cocoa. Similarly, Brazil exchanged 380 lbs of coffee in 1961 for one ton of steel, as compared to 158 lbs of coffee in 1951. Malaya was able to import 1 ton of steel with only 132 lbs of rubber in 1951 but a decade later, the import price had increased to 441 lbs of rubber. Observing this same situation, Raymond Vernon points out that ". . . the prices of raw materials tend to decline over the course of time in relation to the prices of manufactured products. A ton of copper, according to the argument, will bring fewer tractors in 1976 than in 1956."²⁸

D. Implications and Conclusions

Through a comparative analysis of developmentalism and dependency, we have attempted to weigh the relative utility of these competing frameworks in explaining underdevelopment. The weight of evidence, it seems, favors the dependency analysis which roots underdevelopment in exploitation rather than in a not-well-explained absence of "take-off." In fact a striking difference between dependency theory and developmentalism is the almost complete absence of any discussion of exploitation in the latter account - the absence that seems to violate the historical record.

On the other hand, liberal developmentalists could acknowledge exploitation; they could claim that third party's exchange rights are violated within the country, that "the remnants of feudalism," and/or the metropolises are violating the rights of other countries to trade freely with the peripheral countries. This, presumably, would be the track Steiner would take.

In this case both theories could claim there is an ongoing exploitation. One explains it in terms of some kind of unequal exchange (in relation to domination and dependency) while the other explains it in terms of exchange-rights violation. The policy prescriptions that seem to flow from these theories are quite different.

Developmental liberalism recommends free trade as the solution, because it claims that had there been free trade, everything would have been all right. Dependency theorists, on the other hand, contend that even in a situation of perfect competition, everything would not have been all right because exploitation would still occur due to unequal exchange and the consequent transfer of value from the less capitalized low-wage countries to the more capitalized high-wage countries. According to this view, free trade between unequal countries does not lead to mutual benefits but greater inequality and the intensified dependence of the poor on the rich countries.

Theorists write about "dependency" or "developmentalism," but they rarely put them side by side to see which is most preferable in terms of its superior explanatory power and better application to concrete reality. We will do so in our concluding chapter, dealing with the case of Ghana. We are not going to settle this issue conclusively, but at least the test case will help us to determine which of the competing frameworks is methodologically more promising.

Notes

¹Variations of the dependency theory have been formulated by the leading theorists on this subject. There are four recognizable formulations in the literature:

a. "development of underdevelopment," a thesis set forth by Andre Gunder Frank. See Frank, "The Development of Underdevelopment," Monthly Review 18 (September 1966):17-31; Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil (New York: Monthly Review Press, 1967); Latin America: Underdevelopment or Revolution? Essays on the Development of Underdevelopment and the Immediate Enemy (New York: Monthly Review Press, 1969); Lumpenbourgeoisie and Lumpendevlopment (New York: Monthly Review Press, 1972).

b. the "new dependency" proffered by Theotonio Dos Santos who observed the technological and industrial dominance established by multinational corporations after World War II. See, Dos Santos, "The Structure of Dependence," American Economic Review 60 (May 1970):231-36;

c. "dependent capitalist development," a view applied by Fernando Henrique Cardoso to the Brazilian condition. See, Cardoso, "Dependency and Development in Latin America," New Left Review (July-August 1972):83-95; Cardoso and Enzo Falleto, Dependency and Development in Latin America (New York: Monthly Review Press, 1979);

d. dependency as a reformulation of classical theories of imperialism, found in the work of Aniba Quijano. See, Quijano, Nationalism and Colonialism in Peru: A Study in Neo-Imperialism (New York: Monthly Review Press, 1971).

For a comprehensive overview, see Gabriel Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?" World Development 6 (1978):881-924.

²Dos Santos, "The Structure of Dependence," p. 231

³See, for example, Frank, "The Development of Underdevelopment," and Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil.

⁴For a detailed discussion of the mutual-benefit assumption, see Albert O. Hirschman, Essays in Trespassing: Economics to Politics and Beyond (Cambridge: Cambridge University Press, 1981), pp. 3, 12-14.

⁵Ibid., p. 61.

⁶For a full treatment of this doctrine, see Walt Whitman Rostow, The Stages of Economic Growth: A Non-

Communist Manifesto (Cambridge: Cambridge University Press, 1960) and "The Take-Off into Self-Sustained Growth," Economic Journal 66(March 1956):25-48.

⁷Frank, "Sociology of Development and Underdevelopment of Sociology," Catalyst 2(Summer 1967):37.

⁸Frank, "The Development of Underdevelopment," p. 18.

⁹E.E. Rich, "Preface," in E.E. Rich and C.H. Wilson, eds., The Cambridge Economic History of Europe, Vol. IV, The Economy of Expanding Europe in the Sixteenth and Seventeenth Centuries. (Cambridge: Cambridge University Press, 1967), p. xiii.

¹⁰For further critiques of Rostow's linear stage theory, see the following: Frank, Latin America: Underdevelopment or Revolution, pp. 39-47; Gerald Meier, ed. Leading Issues in Development Economics (New York: Oxford University Press, 1964) which contains appraisals and critiques of Rostow's doctrine by Meier, Kuznets, Cairncross, Habakkuk and Gerschenkron; and also, Paul A. Baran and Eric Hobsbawn, "The Stages of Economic Growth," Kylos 14(1961):57-65.

¹¹Frank, Sociology of Development and Underdevelopment of Sociology (London: Pluto, 1971), p. 5.

¹²The basis for Frank's conclusion is best seen in his historical case studies of Chile and Brazil. See, Frank, Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil.

¹³Dos Santos, "The Structure of Dependence," p. 232.

¹⁴Dos Santos, "The Crisis of Development theory and the problem of dependence in Latin America," in H. Bernstein, ed., Underdevelopment and Development (Harmondsworth: Penguin, 1973), p. 72.

¹⁵See Dos Santos, "The Structure of Dependence," pp. 231-36.

¹⁶Dependency theory has been criticized for its central focus on the emergence of the global capitalist system. For example, David Ray has argued that "soviet satellites are also in a dependent and unequal relationship vis-a-vis the Soviet Union and that the key variable should not be capitalism but political power. Cf. Ray, "The Dependency Model of Latin American Underdevelopment: Three Basic Fallacies," Journal of International Studies and World Affairs 15(February 1973):7-9. Also, Robert Packenham has

argued that a significant critique of the dependency literature is that it does not consider the implications of power. Cf. Packenham, "Latin American Dependency Theories: Strengths and Weaknesses," World Development 26(May 1974): 16-54. These criticisms miss the crucial point in dependency theory. It is not the current power relations in the contemporary world which cause underdevelopment, but the historical emergence of a world capitalist system which led to economic specialization more favorable to some than others. It is precisely this concern with the evolution of world capitalism which has led to the preoccupation in the dependency literature with rejecting interpretations ignoring the capitalist nature of colonial and neocolonial Latin American economy. Immanuel Wallerstein has given a persuasive exposition of the importance of studying the emergence of the world capitalist system in order to understand underdevelopment which focuses more on the center states than on the periphery. See Wallerstein, The Modern World System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century (New York: Academic Press, 1974).

¹⁷Samir Amin, Accumulation on a World Scale: A Critique of the Theory of Underdevelopment (New York: Monthly Review Press, 1974), p. 8.

¹⁸Frank, Capitalism and Underdevelopment in Latin America (New York: Monthly Review Press, 1967), esp. Chapters 1 & 3.

¹⁹Frank, "The Development of Underdevelopment," and Capitalism and Underdevelopment in Latin America.

²⁰Frank, "The Development of Underdevelopment," p. 18. Here, he states that "the satellites experience their greatest economic development . . . if and when their ties to the metropolis are weakest."

²¹Ibid.

²²Ibid., p. 10.

²³Ibid., p. 12.

²⁴Frank, Capitalism and Underdevelopment in Latin America, p. 11.

²⁵Karl W. Deutsch, The Analysis of International Relations (Englewood Cliffs, N.J.: Prentice-Hall, 1978), p. 259. Also, see Hermann Sautter, "Underdevelopment and Dependence as a result of Foreign Trade Interdependence: An Economic Evaluation of Dependency Theory," Economics

10(1978):18.

²⁶Of course the industrialized world frequently uses force to maintain the status quo. But so long as its considerable economic, cultural and military structures of the status quo are in place, overt force is not necessary.

²⁷J. Woodis, Introduction to Neo-colonialism (New York: Monthly Review Press, 1967), p. 94.

²⁸Raymond Vernon, Storm Over the Multinationals: The Real Issues (Cambridge, Mass.: Harvard University Press, 1977), p. 152.

CHAPTER VII

THE GHANAIAN ECONOMY AS A TEST CASE: AN APPLICATION OF COMPETING THEORIES

Developmental and dependency theories are two different approaches that claim to explain the problem of underdevelopment in the Third World. Since World War II, developmental theorists have attempted to promote rapid development in the Third World through massive financial aid, capital investments and an emphasis on a free market economy. On the other hand, dependency theory emerged in 1960s as an alternative way of explaining the underdevelopment in the "peripheral" countries. Though dependency analysis originated among Latin American social scientists as a response to developmental problems in Latin American countries, it has gained wide acceptance in Third World countries. Recently it has been transferred to black Africa in an effort to explain the continent's underdevelopment problems.¹

Invariably, both the developmental and dependency approaches have something to say about the current phase of underdevelopment in the African nations. Both purport to

offer appropriate solutions from their determinate standpoints. But could both approaches be ultimately correct? Which of them explains better the developmental problems of the Third World? Which approach offer the most plausible solution to these problems in terms of its practical realization? How do we evaluate these competing paradigms?

Philosophically, there are two different criteria one might use to evaluate a theory. The first criterion is to see how well it explains the data vis-a-vis alternative theories. In other words, how well does dependency theory account for the facts of the present world vis-a-vis its main alternative, developmentalism. The second criterion would be to evaluate a theory on pragmatic grounds in terms of its usefulness for accomplishing a certain purpose, specifically in formulating policies for the Third World.

This concluding chapter is an attempt to apply these criteria to a specific case. This application relies on an examination of the economic realities of Ghana, a country of 8,600,000 people situated in West Africa. The case study of Ghana will be instrumental in determining the more preferable of the two theories in terms of its plausibility based on its greater explanatory power and better application to the objective conditions of the Ghanaian society.

A. Developmentalism and the Ghanaian Economy

Developmentalism is a neo-classical view which asserts that economic development in the Third World can be described in linear stages. This model, which evolved in the decades following World War II, received wide-spread support from Ghanaian scholars and policy makers in the post-colonial era who argued that the advanced industrialized countries of the world all started with economies which were predominantly agrarian. Parallels were drawn from the results of the application of the Marshall Plan. The achievements of those European countries who were recipients of aid under the Marshall Plan were put forward as an argument for canvassing for an increase in the level of financial aid flowing into Ghana. Underdevelopment, it was argued, was a function of capital shortages. International organizations like the World Bank and the International Monetary Fund (IMF) were lobbied to transfer an appreciable amount of funds to Ghana in an attempt to eliminate the severe capital constraints experienced by Ghana at this time.

However, in retrospect, we do not find that the shifts of financial resources from the industrialized world to Ghana resulted in a rapid economic development. Contrary to the prediction of the Rostowian model, the injection of

substantial capital into Ghana has not brought about the desired level of economic growth and development.

The protagonists of the Marshall Plan argument failed to take cognizance of the fundamental structural differences that existed between nineteenth century European economies and the twentieth century Ghanaian economy. For example, in nineteenth century Europe we witness a gradual transition from post-feudal society to industrial society with a large, but manageable rate of population growth. But the Ghanaian transition in this century is not gradual. Certain features of Western society have been superimposed upon Ghanaian economic and political structures with devastating effect. The importation of advanced medical techniques into Ghana has facilitated a population explosion of unanticipated magnitude, so that the rate of economic growth has lagged behind the rate of population growth.

Despite its failures, developmental theory of economic growth and development has not gone undefended. Developmental theorists, in their emphasis on a perfectly competitive model, now blame the institutional structures of Ghana - its state imposed constraints and market imperfections - for underdevelopment. They prescribe a policy package designed to remove market imperfections, arguing that a competitive market will be able to effectively perform its allocative function so that factors of production will receive a reward equivalent to their

contributions. However, what the developmentalists seem not to realize is that these institutional structures are often an outgrowth of the international capitalist system designed to make the peripheral countries dependent upon and subservient to the needs and interests of the developed centre. In particular, these structures have fostered massive inequality in the distribution of income and wealth.

Dependency theory seeks to overcome the inherent weakness of developmental theory by relating the persistent inequality to the web of international relationships which has evolved as a result of colonial, neocolonial and imperialistic policies. Resnik argues that there are three phases in the development of the relationship between the centre and the peripheral countries.² The first phase was characterized by looting, plunder, and slavery, all of which facilitated massive capital accumulation in the centre countries. The second phase is characterized by the development of infrastructure in the peripheral countries which facilitates colonial exploitation of a cheap labor supply on which the exports of raw materials and agricultural commodities depend. In the third phase, we note the strategic positioning of multinational corporations within the areas of abundant cheap labor and natural resources. By virtue of their size and concomitant economic power, these multinationals are able to influence the policy decisions of governments in the peripheral states.³

Much of the literature on underdevelopment stresses the capitalist nature of the world economic system and the various parts of that system since the sixteenth century. While Ghana's incorporation into the Eurocentred expanding world capitalist system did begin shortly after this time with the rise of the transatlantic slave trade in the late sixteenth and early seventeenth centuries, this macrolevel approach to development takes account of the continuing presence of important aspects of the precapitalist modes of production. During the heyday of the slave trade, the exchange linkage between black Africa and Europe restructured the precapitalist modes of production in Ghana. It was not until the latter half of the nineteenth century, however, that capitalism fully penetrated into Ghanaian economy. Specifically, formal colonization of Ghana, coming at the end of the nineteenth century, provided the political framework for a withering away of the precapitalist lineage mode of production and the actual penetration of capitalism into the Ghanaian economy. The colonial state was instrumental in securing the economic hegemony of European capital in the colony and in subordinating the interests of an embryonic indigenous capitalism. The overall impact of the colonial period in Ghana was not only the furtherance of capitalist transformation but also an internal disarticulation and reintegration of the precapitalist mode of production into

the world economic system in the interests of European capitalism.⁴

It cannot be denied that the colonial domination of Ghana caused lasting damage to its economic and social fabric and created obstacles to development that still persists today. There are many examples of this. Take for example, the decline of the weaving and textile industry in Ghana as a result of the importation of textiles imposed by the British. It was not because they were unable to withstand free market competition owing to "comparative cost disadvantage" that domestic producers went out of business; their disappearance was more the result of restrictions imposed on their activities by the colonial power and the simultaneous granting of privileges to importers.⁵ The disastrous effects of Great Britain's colonial policy on craft industries in Ghana are also well known, and follow a similar pattern.

If the production structure of Ghana has been distorted for centuries so as to serve the interests of foreign powers, one can hardly expect that "market forces," if left to themselves, will correct the distortion and modify the structure in the direction of the socio-economic optimal. That would require, at minimum, an extra-ordinarily high degree of factor mobility, entrepreneurial vision and political stability, attributes that have not been present in Ghana. Consequently, when

"market forces" were able to operate, they tended to consolidate the structural distortions rather than removing them.

It would seem then on the basis of the evidence that developmentalism has not been successful in generating appropriate policy prescriptions for the Ghanaian economy because of its neglect of the historically generated structural features - rooted in exploitation - its policy prescriptions have been floored. Dependency theory, which seems to give a better account of these historical structural features does not suffer this disadvantage.

B. Dependency Theory and the Ghanaian Economy

1. Its Appeal

Dependency theory gained control over the formulation of economic policy in Ghana after December 31, 1981 when the military junta led by Flight-Lieutenant Jerry Rawlings took over power from the civilian regime of Dr. Hilla Liman. Why did dependency theory has such a considerable appeal in

black Africa and particularly in Ghana?

First, the theory is heavily rooted in economic history. It is easy to verify that, under colonial government protection, foreign capital penetrated the colonized countries. It is also easy to verify that while the colonizing countries and their supportive elites grew economically, particularly from the eighteenth to the mid-twentieth centuries, the incomes of the masses in the colonized countries grew relatively little. Attempts to promote rapid development in the Third World since World War II have not on the whole been very successful, giving continuity to the previous dynamics of world development.

Secondly, dependency theory is appealing because, like traditional Marxian economic analysis in which it is rooted, it carries a call for justice on behalf of the perceived victim, the developing country. Justice and equity are the qualities of the virtuous, and it is hard to argue against a theory with such seeming objectives without appearing to be mischievous, misguided or unjust.

Thirdly, dependency theory, at least as popularized, does not require an understanding of neoclassical analysis. Many of the conclusions of neoclassical economics tend to be counterintuitive, and it takes effort to understand their not-always-unsound economic arguments. For instance, *prima facie*, it may sound absurd to be told that if we desire to

see cheaper goods and services over time, governments should not control prices; or that the devaluation of a country's currency assures a greater supply of imports in the future than an over-valued exchange rate does; or that interest rates are more likely to be lower in the future if the growth of money supply is restricted than if the quantity of money is increased rapidly.⁶ Because dependency theory presents an alternative explanation of economic development not so fraught with counterintuitive conclusions, it is easy to accept, especially when dependency theory itself asserts that neoclassical economics is essentially an ideology parading in the guise of science.⁷ Finally, neoclassical economic analysis tends to warn of difficulties on the road to economic development and leaves the impression that development is a slow, gradual process. Dependency theory seems to promise immediate prosperity, equity and justice, once the political obstacles to economic transformation have been overcome.

These factors help to explain dependency theory's relative success in Ghana. Ghana was colonized for over a century by the British, a period during which mining, timber and cocoa industries were developed. The level of economic development was nevertheless poor in 1957, when the country became independent, though Ghana was relatively more developed than many other countries in sub-Saharan Africa. When dependency theory came into vogue in Ghana in the early

1970s, it was easy - and not wrong - to blame the country's economic problems (a balance-of-payment crisis, inefficient import-substituting industries, a lagging food-producing sector, and increasing budget deficits) on the economic structure inherited from the British colonial administration and on the world trading system, particularly as it affected the country's revenues from cocoa, timber and gold. By the end of the 1970s, Ghana's economic problems had grown to alarming proportions. The inflation rate had reached triple-digit levels, and the government continued to blame it on world factors. Underutilization of capacity in manufacturing industries had risen from about 50 to about 80 per cent, and unemployment and underemployment were growing.⁸ The currency overvaluation that devaluations in 1971 and 1978 were supposed to have cured persisted and was getting worse, and rumors abounded of another devaluation.⁹ Corruption in government circles was rife. The less privileged in society were getting relatively poorer as foreign-exchange, price, and import-control systems, meant to alleviate the growing poverty of the majority of the population, visibly benefited a select few with connections to people in government and the control agencies.

Finally, in 1980, the government started to campaign to attract new foreign investments with some generous tax breaks and other package of incentives.¹⁰ All of these conditions lent considerable credence to the assertions of

dependency theory as to the sources of underdevelopment - a vicious world trading and financial system, a corrupt and nonprogressive elite, and inadequate developmental or neoclassical economic theories attempting to justify the status quo.

2. Its Implementation

At its inception in Ghana, in the early 1970s, dependency theory was well received.¹¹ At first it had a small following mainly among the faculty and students of law, political science, and geography at the University of Ghana.¹² By the end of the decade, the number of adherents had grown significantly, to include some faculty and students of history, African studies and economics, and even members of the military and the public.¹³

The success of dependency theory was marked by the extent to which the tenets of the theory were incorporated into the government's policy pronouncements and programme. Consequently, dependency gained not only numbers but also Flight-Lieutenant Jerry Rawlings, the focal point of the

government of Ghana since December 31, 1981. This gain was particularly significant, because in a government he led from June to September 1979, Rawlings had resisted transforming the country's institutions into those that would sustain a people's revolutionary state. He is reported to have rejected any formal ideological commitment for the Armed Forces Revolutionary Council (AFRC) which he led, that ruled the country after soldiers mutinied on June 4, 1979.¹⁴ Rather, Rawlings, it appears, was an idealist and nationalist whose main purpose in 1979 was to frustrate his military bosses' efforts to guarantee the wealth they had acquired through illegal means and to avoid future legal action through the insertion of protective clauses in the then draft constitution of the country. In September 1979, Rawlings handed over power voluntarily to the civilian government of Dr. Hilla Liman. And by December 1979, Dr. Liman sent Rawlings into compulsory retirement. It was during his forced retirement that Rawlings converted to the persuasions of dependency theory. During this time, he lived mostly in the company of dependency adherents on the University of Ghana campus, was confronted with dependency's interpretations of poor economic performance and with stories of corrupt practices of the new civilian regime, and was ultimately persuaded of the need to change the institutional arrangements of Ghanaian society to promote justice, economic growth and development.¹⁵ Rawlings later

admitted this conversion:

I was slightly naive (between June 4 and handover in 1979), in the sense that it never struck me that some kind of supportive system, maybe new institutions would have to be organized to ensure that the people of this country held on to their newly-won freedom, to ensure that they dictate the terms of their survival . . . Now I know better. . .¹⁶

In terms of pronouncements by members of the new government, the evidence of Rawlings's conversion is rather soft. His speeches of December 31, 1981, January 2, 1982 and January 5, 1982 had little dependency theory content. There were explanations of why the Third Republic had been overthrown and appeals to Ghanaians to seize the opportunity which he again presented to them, to organize, and take decisions that would improve the situation of everyone.¹⁷ Later, however, dependency theory's characteristic accusations, particularly that the development potential of poor countries had been thwarted by colonial and neocolonialist exploitation often with the cooperation of unpatriotic local individuals, start to appear in his speeches.¹⁸ As these statements were made in prepared speeches, it could well be that they were written by the fundamental advocates of dependency theory around him. Others who are more rooted in dependency theory have echoed similar views, among them the finance secretary, Kwesi-Botchwey (a former law faculty member at the University of Ghana) and such members of the governing Council as Chris Atim and Amartey Kwei.¹⁹ One

government document is particularly explicit in its dependency assertions. The "Policy Guidelines of the Provisional National Defence Council (PNDC)" specifically states that:

The historical roots of our present state of underdevelopment stem from British colonialism which bequeathed a set pattern of economic development, social structures, attitudes and a parasitic state machinery. The retention of the structures of colonialism had assured the continued domination of our economy by foreign financial interests, with the attendant losses of the country's resources and hard earned wealth in a new phase of colonialism, which has been aptly described as neo-colonialism.²⁰

These guidelines further commit the "Revolution to the direct task of achieving total economic independence by ensuring a fundamental break from the existing neo-colonial relations."²¹ Finally, they assert that the policies projected under the "December 31st Revolution should bear the characteristics of a genuine National Democratic Revolution. They must be anti-imperialist, anti-neo-colonialist and must aim at instituting a popular democracy."²²

The prescriptive orientation of the new government seemed clearly in accord with the spirit of such Latin American dependentistas, Theotonio dos Santos and Andre Gunder Frank.²³ De-satellization, according to these guidelines, is the only cure to underdevelopment. The chief argument in support of the de-satellization thesis is that international involvements lead to exploitation. This makes

dependency theory a prescriptive theory. Rodney claims: "African development is possible only on the basis of a radical break with the international capitalist system which has been the principal agency of underdevelopment in African over the last five centuries."²⁴ The policy of self-reliance embarked upon by Ghanaian government seems to support this prescription. The tenets of its "Policy Guidelines" were asserted by or guided the pronouncements of the Provisional National Defence Council (PNDC). But this did not preclude the existence of a few dissenters in the Ruling Council who consistently opposed the dependency approach of government policy.²⁵

In the overall, the actions taken by the government, especially during its first year in office, were certainly consistent with the spirit of dependency theory. The violent overthrow of the elected government by a group of people with such views on Ghanaian society and its economy in relation to the rest of the world fulfils the first and necessary stage of the transformation seemingly envisaged by dependency analysis. Against multinational corporations, the government's main target, especially during its first six months in office, was persistent threats of nationalization or confiscation of assets. The inaugurations of people's defence committees or workers' defence committees were often opportune moments for such threats to be made.²⁶ The companies in question were Valco

(Volta Aluminium Company, a subsidiary of Kaiser & Chemical Corporation and Reynolds Metal Company of the United States), Agripetco (an American petroleum drilling firm), commercial firms such as UAC (United African Company), UTC (Union Trading Company), the French subsidiaries CFAO and SCOA, and a British subsidiary, Lonrho. The government not only made threats, but took practical measures against several foreign companies. It sought to renegotiate contracts by Valco and Agripetco. The importation of goods for which the government was responsible for allocating foreign exchange was made virtually a state monopoly, to the exclusion of foreign-owned commercial houses. Imports were to be handled by the Ghana National Trading Corporation (GNTC) and other state agencies, such as the National Procurement Agency (NPA).²⁷ Furthermore the government announced its intention to amend the Banking Act of 1970 to "bar foreign controlled banks from retail banking and to redirect them to specialist banking."²⁸ The government simultaneously declared its intention to raise its share-holdings in foreign-owned banks and insurance companies from 40 to 80 per cent, effective January 31, 1983 for Barclays and Standard Bank (Ghana) Ltd.

The government did not do much in the primary exports sector, which had been mainly under local control for several decades. Foreign ownership, even in such areas as mining and forest products, had been drastically curtailed

in the post-independence period through nationalization, majority-shares participation, or outright exclusion.²⁹ No attempt was made to restructure the internal organization of such firms.

The government did attempt to curtail the influence of foreign western culture by establishing a "Citizens' Vetting Committee" (CVC) with the power to investigate people "whose lifestyle and expenditure substantially exceed their known incomes."³⁰ Though no clear definition of acceptable lifestyle was given, one criterion for investigation was to have had more than c50,000 in one's bank account by December 1981 (at which time the black-market rate of exchange was about c40 to the U.S. dollar). By May 1982, the Citizens' Vetting Committee had imposed jail sentences on two individuals³¹ and by August 1982, it had collected c32 million out of the c71 million it had imposed as taxes on 52 people who had appeared before it.³² The government also banned the importation of private cars (with a few exceptions) and severely limited the personal effects that Ghanaians returning from abroad could import.

Perhaps the most significant actions of the government were those consistent with the denial of the relevance of neoclassical economic principles.³³ In the marketplace, it was suggested that high prices of commodities arose from the greed of sellers. The government threatened "revolutionary methods" to reduce prices unless sellers voluntarily lowered

them to meet workers' wages.³⁴ Subsequently, some markets were burned down, and in some cities, sellers were beaten up by mobs with the assistance of the "People's Police" and "People's Army."³⁵ In the market for rental accommodation, there were drastic reductions. For example, the government slashed rents in a suburb of Accra from the existing rate of c100 to c35 per month. The landlords who refused to comply with the government's directives had their properties confiscated by the State.³⁶ In the credit market, the government reduced interest rates (believed to be providing exploitative income to "a new crop of phoney businessmen and lazy annuitants") from 25.5 to 14 per cent on bank loans and from 18 to 12 per cent on savings deposits by June 1982, and to 9 per cent on savings deposits by April 1983.³⁷ Also, the government reduced the producer price of cocoa from c720 to c360³⁸ and imposed the death penalty on cocoa farmers who might try to smuggle cocoa out of the country into neighbouring countries.³⁹ Some of these actions and policies yielded predictable positive results in the short run. Market women, land-lords, spare-parts dealers, lorry and taxi drivers, cocoa farmers, etc. announced reductions in their prices and rates.⁴⁰

Neoclassical economics has two explanations for the initial downward response of prices to threats and violence: first, suppliers get rid of their stocks faster than they would have preferred and accept financial loss as

a payment for their own safety and security, and second, in the case of foreign exchange, buyers significantly reduce their demand for foreign currencies needed to import goods for sale in the country. Such a reduction in demand should exceed the increased demand from those wanting simply to leave the country. Theory, however, also predicts that as stocks of goods and currencies significantly decline, prices will recover and in time exceed those that existed before the violence started. It is this predictable response of prices and stocks, as well as the reactions of some foreign companies, that weakened the grip of dependency theory on the government and started a search for alternative policies.

3. Its Results

The impact of various policies and actions of the government can be bluntly stated: they did not produce prosperity and greater independence for the Ghanaian economy. Rather, they gave rise to much poverty and misery and a greater dependence on international aid and charity. Impoverishment stemmed from severe reductions in the stocks and flows of consumer and producer goods; reductions in production capacity and worker layoffs, especially in the manufacturing sectors, significant increases in both official and black-market prices, and increased social tension and violence. It is difficult to document the reduction in the stocks and flows of goods in the economy. However, the IMF statistics indicate that the value of imports declined by 36 per cent in 1982 as compared with 1981 and was 78.9 per cent of 1979 values.⁴¹ If these values are adjusted for inflation, they indicate a miserable supply situation.

A second indicator of impoverishment is the extent of price reductions reportedly announced at a rally in January 1983 by market women in the city of Accra. Cuts included 60 per cent for charcoal, 62 per cent for groundnuts, 63 per cent for beans, 69 per cent for cooking oil and 67 per cent for corn-milling fee.⁴² If these reductions brought prices

to officially sanctioned levels, then it meant that consumers were previously paying more than double the official prices for these items in spite of all the violent measures adopted to reduce prices in 1982. Yet even these price reductions did not hold for long. Rawlings complained later in January 1983 that

all of a sudden, and without justification, traders, food-sellers, transport owners and shopkeepers have arbitrarily raised prices and fares. This callous and undisciplined attitude that has emerged within the distributive trade has made life unbearable for the ordinary workers.⁴³

Though the government intensified its attempts to control prices for the next two months, it finally conceded its inability to hold prices down in its first budget (April 1983) by increasing official prices, which almost tripled their 1981 values.⁴⁴ But these official prices were in many cases still much lower than what the majority of people paid in the "open" market. For example, even though the 1983 budget raised the price of tyre from c188 to c495, or by 163 per cent, the price in the unofficial market was between c2,000 and c3000.⁴⁵

The pricing policy of the government also encouraged the smuggling of goods out of the country, in spite of repeated threats of the death penalty. Indeed, there is little evidence that smuggling ceased even after the government took the desperate measure of closing the

country's land borders from September 1982 to March 1983. That measure only seems to have restricted legitimate commerce with neighboring countries mainly to the disadvantage of Ghanaians in dire need of goods that were absent in their own country.

A third indication of the degree of impoverishment produced is the black-market rate for foreign currencies. After falling gradually from c40 to c20 per dollar following the December coup, the black-market rate soared to over c100 per dollar in the following year. Since the government was successful in slowing the rate of money creation from 55 per cent during the fourth quarter of 1981 to 19 per cent by the fourth quarter of 1982; the sharp depreciation of the local currency must be due more to the contraction of goods and services in the economy than to anything else.⁴⁶ It is to the credit of the government that, after fifteen months of unsuccessful effort, it finally acknowledged in its April 1983 budget that ". . . the rigid enforcement of prices unrelated to costs of production is not a satisfactory basis for action" and that henceforth its "pricing policy will be based on production costs together with appropriate incentive margins."⁴⁷ Though the budget rejected the "laissez-faire market determination of prices," its chosen method, if implemented with significant flexibility, would do much less harm to the economy. But even if only the rhetoric of policy had changed, that change was significant

in its own right. The reason for this will become clear later on.

Though the government was still rejecting devaluation as a policy in March 1983, it did change taxes on international transactions and granted significant subsidies to exporters in the April 1983 budget, in effect implementing an implicit devaluation. In October 1983, the cedi was officially devalued by 991 per cent. from c2.75 to c30 to the U.S. dollar. Three subsequent devaluations brought the official exchange rate to c50 to the dollar in December 1984.⁴⁸ However one looks at them, the devaluations represent a remarkable "U-turn" from the previous belief that currency devaluations was a repressive invidious tool of the IMF to open the Third World countries for international capitalist exploitation.

The hardship suffered by the Ghanaian population due to layoffs and reductions in production, especially within foreign-owned corporations were to be seen to be the consequences of the government's hostile rhetoric and actions. Some corporations cited a lack of raw materials, a consequence of the government's attempt to force them to grow materials locally by cutting back on their import allocations. By November 1982, some workers at a UAC subsidiary seized their textile factory in order to recall 560 of their colleagues previously laid off and to save their own jobs. But layoffs still took place or were later

scheduled in such foreign corporations as Valco, Cadbury-Schweppes's Allied Foods, Union Carbide, CFAO, and "at least 14 other firms."⁴⁹ These reactions by foreign corporations, including an announcement by Valco (a corporation employing about 2,000 workers) that it would cut its operations by 20 per cent, did produce some remarkable changes in rhetoric and policy from the government.

The government tried to persuade Valco to rescind its decision by declaring that it did not mean "to be hostile to Valco and other investors . . ." but wanted only that ". . . their investment [should] prove beneficial and fair to all parties."⁵⁰ After Valco had rescinded its decision, the government demanded that ". . . Valco confirm formally its decision not to shut down and more importantly give an undertaking that it will not reduce any of its capacity for at least one year."⁵¹ Even in its more recent negotiations with Valco, the government declared that it was ". . . the wish of the people of Ghana that Valco should continue to operate as freely and profitably as is consistent with the justified interests and aspirations of Ghanaians."⁵² The leader of the government's contract-negotiating team, Akilakpa Sawyer, later confirmed that it was ". . . not in Ghana's interest to drive Valco out."⁵³

Contrary to its previous claims about the negative impact of multinational operations in Ghana, the government organized a 1983 Conference in the U.S. for foreign oil

corporations in an attempt to sell geological surveys of Ghana's oil potential and to attract prospective investors.⁵⁴ The May 1984 speech by the finance secretary, Dr. Botchwey best illustrates the "U-turn" in the government's attitude toward multinational corporations:

Ghana will actively encourage direct foreign investment and ensure that while safeguarding the interest of the economy and honor of the people, investors will not be frustrated when the time comes to transfer their profits and dividends to their shareholders overseas. Investors would be particularly welcome in such priority areas as petroleum exploration and production, mining and mineral processing, timber, logging and wood processing, quarrying, deep-sea fishing, food processing and local resource-based manufacturing industries.⁵⁵

In its 1983 budget, the government also acknowledged that "in the short run, increases in capacity utilization . . . can only be achieved with raw material imports," and therefore, ". . . adequate provisions have been made in the import programme."⁵⁶ This acknowledgement contrasts with attempts during 1982 to force manufacturing corporations to produce their own raw materials locally. The policies pursued by the government, especially before April 1983, so severely reduced the incentives for production, savings, investment, and increased productivity in the economy that Ghana was forced to accumulate significant further debts to international financial institutions, especially the IMF and the World Bank, in order to attempt a recovery.⁵⁷ Also,

Ghana had to rely on substantial international aid from countries and agencies, among them the United States, Britain, West Germany, the Red Cross and the World Food Program.

The glaring failures of the government to improve the welfare of Ghanaians were responsible for changes in economic policy and moderation in revolutionary rhetoric. Though the government has not completely abandoned all of its dependency persuasions, the certainty with which it believed its policies capable of improving the economic status of the country has dwindled considerably. Instead, the government's call since January 1983 has been for everyone "no matter who he is," to study ideas critically and "endeavour to examine the problems confronting the nation and together find lasting solutions to them."⁵⁸ Rawlings also demanded moderation in revolutionary rhetoric and activities in his August 1983 speech: "We can no longer postpone the time for halting the populist nonsense . . . and making a noticeable leap forward." He further said, "We must not get into the way of thinking that revolutionary activities are substitutes for productive work [and] that Ghanaians must not deceive themselves with 'empty theories.'"⁵⁹

C. Implications and Conclusions

There are significant implications to be derived from Ghana's mixed experiences in respect to the application of dependency theory in Third World countries. Even though dependency theory may give an accurate account of the facts of the present world by telling us why the underdeveloped countries have remained underdeveloped, it does not necessarily follow that this theory provides a policy prescription as to how to overcome this situation. In fact, some of the advice it seems to suggest is questionable, namely, that countries ought to "delink," they ought to "pull out," they ought to get rid of multinational corporations, they ought to nationalize foreign enterprises. The experience of Ghana demonstrate clearly that policies which rely on delinking or autarchic development through a break in relations of dependency, may not lead to development of the kind already arrived at in the developed countries because of the inability to recreate the same historical conditions, but it might lead to a greater impoverishment of the society in question.

Another implication is that the emphasis placed by dependency theory on the historical development of the developing countries, which is one of its greatest strengths, is also a danger. By concentrating on an interpretation of the past, the theory does not encourage

its adherents to think clearly about the future. Indeed, history may help us to understand the present, but it does not of itself provide us with advice on how to change the present situation. Consequently, dependency theory, in its received raw form, may not be a sufficiently pragmatic framework within which to design economic policies for the developing countries of the Third World.⁶⁰ Policy reversals in Ghana suggest this conclusion, and so does Frank, after studying the experiences of China, Cuba, Jamaica and Tanzania, all of whose leaders have at one time expounded some variant of dependency theory of underdevelopment.⁶¹

The experience of Ghana also points out that it is possible for governments of the developing countries to evaluate critically the embedded hypotheses of theories. But such an evaluation may be achieved more quickly with results that can be identified with policy actions rather than with abstract principles. Here we should note that the fragility or non-existence of democratic institutions that can sustain open and critical debates complicates the problem in most developing countries. Also to be noted are the difficulties in these countries in obtaining accurate economic data and the technical skills required for the quick evaluation of the consequences of economic policies. On account of the enormous human and economic costs of policy mistakes, as in the case of Ghana under the influence of dependency theory, adherents of ideas with such great

power and appeal need to exercise much caution in attempting to transfer to black Africa unrevised versions of Latin American based theories of dependency.⁶²

Dependency theory needs serious revision if it is to be of pragmatic value to the developing nations of the Third World. Its underlying moral assumptions are acceptable, and its historical analysis is often compelling, but as a prescriptive theory, it is seriously lacking.

On the other hand, developmentalism, with its reductionist approach (i.e. in claiming that the Third World countries must follow the same path of development that the presently developed countries have passed through) does not offer much help either. By concentrating its analysis on the internal structures and endogenous factors obstructing development, it ignores the international dimension and external factors obstructing development. Consequently, it is unable to achieve practical success owing to its unrealistic strategies against underdevelopment, for example, the strategy of integration into the world market on the basis of free trade regardless of the asymmetrical structure of the world economy, the strategy of reducing tariffs and other trade barriers, the strategy of open door policy in attracting foreign direct investments, etc., etc. Unfortunately, the record of the effects of such strategies leaves much to be desired.

Although dependency theory seems more appealing than

developmentalism, the experience of Ghana has shown both theories to be bedevilled with problems. Even though dependency theory is a powerful tool in explaining underdevelopment in the Third World, it by no means answers satisfactorily enough the question of what needs to be done about the impoverished state of of these countries. Perhaps there is no universally applicable recipe for success in the Third World. The countries of the Third World are so different in terms of their cultures, historical backgrounds, political environments and resources that it is difficult to be any optimistic that one can find a universal recipe for development.

Notes

¹This transfer has taken two forms: (i) rather uncritical borrowings from Latin American theorists such as Andre Gunder Frank and (ii) original and creative attempts to develop dependency analyses appropriate to African circumstances by writers like Samir Amin, Immanuel Wallerstein and Walter Rodney. See, for example, the "Introduction" in Richard Harris, ed., The Political Economy of Africa (New York: Halsted Press, 1975), pp.1-47; Amin, "Development and Structural Change: the African experience, 1950-1970," The Journal of International Affairs 24(1970): 203-23; Amin, "Underdevelopment and Dependence in Black Africa: origins and contemporary forms," Journal of Modern African Studies 10(December 1972):503-24; Amin, "Underdevelopment and Dependence in Black Africa: Historical Origin," Journal of Peace Research 2(1972)L105-119; Amin, Neo-colonialism in West Africa (New York: Monthly Review Press, 1973); Amin, Accumulation on a World Scale: A Critique of the Theory of Underdevelopment (New York: Monthly Review Press, 1974); Wallerstein, The Modern World System: Capitalist Agricultura and the Origins of the European World-Economy in the Sixteenth Century (New York: Academic Press, 1974); Wallerstein, "Dependence in an interdependent World: the limited possibilities of transformation within the capitalist world economy," African Studies Review 17(1974):1-26; Wallerstein, "The rise and future demise of the world capitalist system," Comparative Studies in Society and History 16(September 1974):387-415; Wallerstein, "Class and class conflict in Africa," The Monthly Review 26(February 1975):34-42 and Rodney, How Europe Underdeveloped Africa (Washington D.C.: Howard University Press, 1972).

²A. Resnik, "State of Development Economics," American Economic Review 65(1975):317-22.

³Studies of multinational corporations show them as the new form of economic imperialism dedicated to the proposition that the global reach spells global profit maximization with the consequent underdevelopment and impoverishment of the developing countries. See, for example, Richard Barnet and Ronald E. Muller, Global Reach: The Power of the Multinational Corporations (New York: Simon & Schuster, 1974), p. 25; and Paul A. Baran and Paul M. Sweezy, Monopoly Capital (London: Penguin Books, 1966), p. 58. Likewise, Harry Magdoff sees the entry of multinational corporations into the developing countries as a form of imperialist domination. According to him, "the underlying purpose of imperialism is nothing less than

keeping as much as possible of the world open to trade and investment by the giant multinational corporations" for the economic benefit of the American economy. Cf. Magdoff, The Age of Imperialism: The Economies of U.S. Foreign Policy (New York: Monthly Review Press, 1969), p. 14. J. Ade Oyelabi, writing from the developing countries' perspective, maintains that ". . . no matter how one looks at it, foreign investment involves exploitation (in Marxist terms) of the resources of the host country." Cf. Oyelabi, "The Developing Countries' Point of View: I," in Don Wallace and Helga Ruof-Koch, eds., International Control of Investment (New York: Praeger, 1974), p. 107.

⁴See, Hamza Alavi, "Ghana and the Colonial Mode of Production," Socialist Register (June 1975):183 and Amin, Accumulation on a World Scale, p. 74.

⁵Alavi, "Ghana and the Colonial Mode of Production," pp. 190-91.

⁶The counterintuitive nature of sound economic analysis has been responsible for considerable disagreements, even among trained economists. See, for example, J.A. Schumpeter, "The 'Crisis' in Economics," Journal of Economic Literature 20(September 1982):1049-59.

⁷Dos Santos, "Structure of Dependence," p. 235.

⁸There are frequent citations of these estimates in Ghana. See, for example, The Budget of the Republic of Ghana, April 1983, p. 14.

⁹In 1970, the official exchange rate was c1.02 per U.S. dollar and the black-market rate was about c1.70 per dollar. The devaluation of 1978 raised the rate to c2.75 while the black-market rate was about c5 per dollar, climbing to about c20 in 1980. Cf. West Africa, April 15, 1980, p. 1523.

¹⁰In my interview with His Excellency, Eric Otto, the Ambassador of Ghana to the United States, he mentioned that ". . . conferences were organized in London, England (1980), and Accra, Ghana (1981) to promote an increased flow of foreign investments into the country." Cf. Interview with the Ambassador of Ghana, Eric Otto, March 10, 1986.

¹¹Some of the basic tenets of dependency theory, particularly the allegedly exploitative role of international capital and its destruction of traditional arts, crafts and home industries, were familiar to Ghanaians much earlier but incognito or in a different guise. Kwame Nkrumah vigorously employed these arguments to galvanize

support for his campaign against British colonial rule in the 1940s and 1950s. See, for example, his Towards Colonial Freedom (London: Heinemann, 1962). But after Nkrumah's overthrow in 1966, his ideas were considerably discredited. Thus it is possible that some of the early advocates of dependency theory perspectives simply found a new umbrella under which they could restate Nkrumah's ideas without necessarily admitting his influence.

¹²Cf. Interview with the Ambassador of Ghana.

¹³K.A. Nubour has given the detailed figures and percentages of the followers that dependency theory has gained between 1974 and 1980 among these different groupings. See, Nubour, "Towards a National Democratic Revolution," Legon Observer 12(January 1980):11-17.

¹⁴For a description of the nature and operation of the Armed Forces Revolutionary Council (AFRC), see "Secrets of Rawlings' Rule," New African, March 1980, pp. 12-19.

¹⁵The apparently bleak prospects that lay ahead of Rawlings, given his early retirement by the new government (he was in his early 30s) and his principal unwillingness to turn his personal popularity at the time into an asset for the government, may also have played a significant role in his conversion.

¹⁶Quoted in West Africa, January 25, 1982, pp. 224-25.

¹⁷See West Africa, January 11, 1982, pp. 68-76. There were also hints about the need to "restructure (the) society" and to undertake adequate local production to avoid being thrown into the "claws of powerful multinational industrial and trading firms" but "friendship and cooperation with all countries regardless of ideology" were being sought.

¹⁸At the opening of a ten-day cadre school of the Armed Forces Defence Committee, Rawlings argued that ". . . the problems of Ghana stemmed from the activities of the multinationals" [and that] ". . . the current revolution was meant to cut off the strangle-hold these companies have got on Ghana." See, Ghana News, July 1982, p. 8.

¹⁹Kwesi Botchwey claimed that cocoa prices were low because Ghana did not determine them and that the country's dependence on "foreign economy costs the nation a lot," hence the government's efforts to reduce this dependence. Cf. Ghana News, August 1982, p.9. Chris Atim insisted that the government would not "allow multinational companies to continue to oppress and treat Ghanaian workers as sub-human

beings to enable them to make huge profits." Cf. Ghana News, April 1982, p. 7. Amartey Kwei, on his part, argued that the country had been dominated in the past by imperialist ideas and that "it is our duty to develop new and fresh ideas, to develop anti-imperialist ideas, ideas that teach us about foreign countries and their governments, about foreign companies and their local collaborators and how they all act together to exploit and swindle us." Cf. West Africa, March 31, 1982, p. 1484.

²⁰Quoted in West Africa, April 22, 1982, p. 1631.

²¹Ibid.

²²Ibid.

²³Given the analytical schema of dependency theory, which states that incorporation into the world capitalist system necessitates underdevelopment, Robert Brenner (speaking for the dependentistas) argues, ". . . the logical antidote to capitalist underdevelopment is not socialism, but autarchy." See, Brenner, "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism," pp. 91-92.

²⁴Rodney, How Europe Underdeveloped Africa, p. 7.

²⁵The most consistent dissenter among the Council members was Brigadier Joseph Nunoo-Mensah who went "against the wind" early in January 1982: "We are making friends with everyone," he said. "We do not intend to take part in big power politics. We are too small and weak to get involved in that. So we have stretched out our hands to make friends with everyone, regardless of his ideological thinking or his political persuasion." Cf. West Africa, January 25, 1982, p. 225. Later, speaking of multinational corporations, the brigadier said that ". . . the remarks about agreements between the government {of Ghana} and multinationals not only hurt national interest and discouraged investors but [they] also benefitted detractors," pointing out that "it would be wrong to think that Ghana could develop without private, indigenous or foreign investment." Cf. West Africa, July 12, 1982, p. 1843. On ideology, he added that ". . . it would be suicidal, as Ghana's experience has shown, to import other political systems or ideologies without reference to its peculiar situation." Cf. West Africa, July 12, 1982, p. 1843. The brigadier resigned from the Council eleven months after the revolution, claiming that his hopes of influencing the government in the direction of "common sense and pragmatism" had not been realized. Cf. Ghana News, November 1982, p. 10. Another significant dissenter was a Secretary to the Provisional National Defence Council (PNDC), B.D. Asamoah, who argued

that Ghanaians should not preoccupy themselves with the government's ideology since the country faced a "human problem and not that of ideology" (and) "whether one was a capitalist or a socialist the only to succeed is hard work." Cf. Ghana News, May 1982, p. 4.

²⁶See, for example, Ghana News, April 1982, p. 7; West Africa, April 26, 1982, p. 1982 and West Africa, July 26, 1982, p. 1963.

²⁷See Finance Secretary Botchwey's address to the Nation on December 30, 1982 and also, Ghana News, February 1982, p. 7.

²⁸Ghana News, August 1982, p. 1.

²⁹Even Lonrho, cited above, was a minority shareholder of the Ashanti Gold Fields Corporation in partnership with the government of Ghana at the time of the 1981 coup.

³⁰See, West Africa, February 15, 1982, p. 482.

³¹West Africa, May 3, 1982, p. 1230.

³²West Africa, August 9, 1982, p. 2079. It is not hard to infer from its activities that the Citizens' Vetting Committee was a powerful government organ in harassing those whose lifestyles, including taste preferences, were judged not to be in tune with the new revolutionary order.

³³For example, the finance secretary argued that the Provisional National Defence Council (PNDC) was not "committed to devaluing the cedi, in the name of ideology," which he described as "mere polemic." Cf. Ghana News, January 1982, p. 1.

³⁴Ibid.

³⁵West Africa, February 8, 1982, p. 408 and February 22, 1982, p. 538.

³⁶West Africa, July 5, 1982, p. 1787.

³⁷Ghana News, June 1982, p. 10.

³⁸West Africa, July 19, 1982, p. 911.

³⁹West Africa, February 8, 1982, p. 408; October 11, 1982, p. 2677 and November 8, 1982, p. 2920.

⁴⁰West Africa, January 25, 1982, p. 273 and February 15, 1982, p. 442.

⁴¹IMF Financial Statistics, April 1984, p. 200.

⁴²West Africa, January 10, 1983, p. 113.

⁴³Quoted in West Africa, January 24, 1983, p. 235.

⁴⁴Ibid.

⁴⁵See, "Ghana: Road Transport Crisis - I," West Africa, October 17, 1983, pp. 2404-6.

⁴⁶See, IMF Financial Statistics, April 1984, p. 201.

⁴⁷See The Budget of the Republic of Ghana.

⁴⁸Ibid.

⁴⁹West Africa, November 7, 1983, p. 2552.

⁵⁰Ghana News, July 1982, p. 1.

⁵¹Ghana News, August 1982, p. 8.

⁵²Quoted in West Africa, February 21, 1983, p. 51.

⁵³West Africa, July 18, 1983, p. 1680. It must have taken some courage or an amount of "conversion" for an early leader of the dependency school in Ghana, with a specialty in arguing the detrimental effects of agreements with multinational corporations which Sawyerr was during his tenure at the University of Ghana Law Faculty, to concede this fact.

⁵⁴Ghana News, October 1983, p. 1.

⁵⁵West Africa, June 4, 1984, p. 1155.

⁵⁶See The Budget of the Republic of Ghana.

⁵⁷On the question of productivity decline in Ghana, see Rawlings's speech to the nation of August 1983. Cf. Ghana News, September 1983, pp. 6-7. The IMF alone pledged U.S. \$377 million in loans by the end of 1983. Cf. West Africa, September 19, 1983, p. 2254.

⁵⁸Speeches by Rawlings. Cf. Ghana News, January 1983, pp. 1 and 7.

⁵⁹Quoted in West Africa, September 12, 1983, p. 2103.

⁶⁰It is instructive to point out that the favorable

views expressed by Gabriel Palma about dependency theory in this regard in his award winning 1978 article ("Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situation of Dependency?") are all virtually deleted in his revised version of the same article. See Palma, "Dependency and Development: A Critical Overview," in Dudley Seers, ed. Dependency Theory: A Critical Assessment (London: Pinter, 1981), Chapter I.

⁶¹See Frank, Reflections on the World Economic Crisis (London: Hutchinson, 1981), p. 127.

⁶²It should be noted that important sophisticated revision of dependency theory are underway. For example Cardoso and Faletto, in Dependence and Development in Latin stress that while relations of dependency viewed historically help to explain underdevelopment, it does not follow that dependent relations today necessarily perpetuate across the board underdevelopment. With the evolution of the world system, the impact of dependent relations can change in particular contexts. This is why Cardoso, in studying contemporary Brazil, stresses the possibility of "associated-dependent development," while Osvaldo Sunkel and Edmundo Fuenzalida are able to envision sharp economic growth among countries most tied into the contemporary transnational system. See, Cardoso, "Associated-Dependent Development: Theoretical and Practical Implications," in Alfred Stepan, ed. Authoritarian Brazil: Origins, Policies and Future (New Haven: Yale University Press, 1973), pp. 142-76; and Sunkel and Fuenzalida, "Transnational Capitalism and National Development," in Jose J. Villani, ed. Transnational Capitalism and National Development (London: Monthly Review Press, 1976).

Undoubtedly, the earlier form of dependency theory is too simplistic in its view that as long as a Third World country is tied to the world capitalist system, it cannot develop in any significant sense. This is why, I believe, dependentistas like Cardoso have pointed to Brazil, which in some sense, has developed. South Korea has developed, and so, also Taiwan. But we must also note that Cardoso is not endorsing "dependent development" nor is he claiming that this is the model that Third World countries must follow. He is merely saying that it is possible to have some form of development within the world capitalist system.

SUMMARY AND CONCLUSION

This dissertation has examined and critiqued different theories of exploitation. It has shown that the traditional liberal theory is quite problematic as a theory of exploitation. It has also shown that a series of other theories in the Marxian tradition - Marx's classical theory, Emmanuel's "unequal exchange," Roemer's game theory and Dependency theory - are not unconnected, distinct theories of exploitation but that they all constitute different significant moments in the single, general Marxian theory of exploitation.

These different moments, however, do seem to have different ethical presuppositions. What we have tried to do is to draw out what these ethical presuppositions are and how they relate to each other as different moments in this general theory. And we have also evaluated these theories in terms of different criteria: their internal consistencies, the plausibility of their ethical presuppositions, how best they explain the data under consideration and their usefulness in suggesting strategies or policies for development.

One of the standard criticisms of the Marxian or the Emmanuelian types of theories is that they rest on

implausible ethical foundations. Contrary to this view, we have been able to show that the ethical assumptions they rest upon, are not implausible. In fact, in the Marxian and Emmanuelian cases, the ethical presuppositions are quite straightforward. With Roemer, it is a bit more problematic, although it is not an irrational ethical assumption.

Our penultimate Chapter posed a crucial question: in terms of the different criteria, which of the two theories (dependency or developmentalism) best explains the data, the data being the current division of the world into advanced developed countries and the underdeveloped poor countries? It seems obvious from our analysis in this work that dependency theory fares better than developmentalism. It is not incoherent; its ethical presupposition is reasonable and it does seem to better explain why the world is in the way it is.

But the critical weakness of dependency theory seems to be in the area of policy prescriptions. This is a practical weakness which is obviously true as evidenced in the Ghanaian experience. A group who have been influenced by dependency theory comes to power. They adopt policies which seem to be suggested by this theory. Instead of bringing about actual development, they created a lot of economic chaos which resulted in efforts to revamp the economy through modifications and changes in the policies.

Despite such practical weakness of dependency theory,

developmentalism or neoclassical theory offers no useful solution either. In fact, attempts to apply neoclassical solutions have often resulted in disaster like the case of the "Chicago Boys" in Chile. Maybe there is really no good theory available that would explain what the underdeveloped Third World countries should do about their impoverished situation. And perhaps, there will never be any theory that will have the definitive answer or solution.

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The dissertation is therefore accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

09/02/86

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