Exploitation Theory is a Fraud

1. Nature is not an aggressor. Hunger is part of the human condition, and no one else is to blame for the fact that you become hungry.

2. The labor theory of value is false

Marx tried to bootstrap it with the concept of "socially necessary labor," but this definition is just a vague moving target assuming that "Material productive forces" can be measured

Mises showed that prices are necessary for economic calculation, and prices will not exist in pure socialism

Marginal, ordinal value is closer to true, but also difficult to pin down

People have stated and demonstrated preferences which may differ, and their demonstrated preferences may change over time

Time preference and the disutility of labor are real phenomena

3. Incentives matter--taking from good stewards and giving to bad ones doesn't teach bad stewards to be good ones, it only encourages good stewards to be lazier

Capital requires maintenance and replacement and a lot of losses can be hidden by the gradualness of these phenomena

4. Even if original land grants were based on aggression, expropriation without evidence is no less aggressive

- Modern holders of capital are rarely the recipients of large inheritances
- Must provide evidence that a fortune is ill-gotten, because fortunes can be made without theft
- Mutually beneficial agreements may be made voluntarily
- Mutually beneficial agreements depend on relative value scales of dealers
- Generally impossible to show that someone is gaining "extra" in a transaction
  - Renter of tools must first invest time to produce extra tools
  - Economies with multiple goods and individual valuations make definite estimations impossible

5. Desert Island example

- 10 hours fishing per day by hand for subsistence (5 fish)
- Need 5 fish/day, no savings (fish rot at end of day)
- 5 hours to produce a net
  - net doubles productivity (1 fish/hour) for 10 hours, then breaks and must be replaced
- Subsistence with a net is 5 hrs fishing + 2.5 hrs making nets each day (7.5 hours)
  - But requires upfront investment of 5 hours before this gain can be made

Assume Bob is willing to make that investment. He works 11 hours/day for 5 days, then 7.5 hours per day thereafter

Alice shipwrecks on same island. Alice knows how to make nets and is just as strong as Bob at fishing

However, Alice's time preference is higher. She values 1 hour of leisure per day for the next 5 days over 2.5 hours of leisure per day after that. She will not build a net herself.

What happens if she rents a net from Bob?

1. Bob needs to work an additional 5 hrs upfront to make a spare net
2. They must agree on a price in fish/day for Alice's net rental
3. Bob must work to replace Alice's nets when she breaks them
4. Both Alice and Bob must benefit for the deal to happen

1 fish/day rent:

Bob: 4 hrs fishing + 2 hrs o.n. + 3 hrs a.n. = 9 hrs/day (worse off)
Alice: 6 hrs fishing (better off)

2 f/d rent:

Bob: 3 hr f + 1.5 hr o.n. + 3.5 hr a.n. = 8 hrs/day (worse off)
Alice: 7 hrs fishing (better off)

3 f/d rent:

Bob: 2 hr f + 1 hr o.n. + 4 hr a.n. = 7 hrs/day (better off)
Alice: 8 hrs fishing (better off)

4 f/d rent:

Bob: 1 hr f + 0.5 hr o.n. + 4.5 hr a.n. = 6 hrs/day (better off)
Alice: 9 hrs fishing (better off)

5 f/d rent:

Bob: 5 hr a.n. = 5 hr/day (better off)
Alice: 10 hrs fishing (break even)

Bob's break-even point is at 2.5 f/d (but you can't fish half a fish)
Possible prices for deal are 3 or 4 f/d, depending on how much Bob values his initial 5 hours of outlay, how much Alice values each individual hour of extra leisure time, how much Bob values leisure time

In this case, since we have only 1 good (leisure time), we can say where both people gain the same amount of leisure time (3.75 f/d rent) but they may value leisure differently.

Inability to trade fractional fish means that point isn't even realistic

If there are additional goods, can't even calculate an “equal physical gain” point.

Script

Slide 1. (Nature is not an aggressor)

Musical Sting

The first thing to say about exploitation theory is this: Nature is not an aggressor, and you don't get to blame your hunger on other people.

Slide 2. (Barren land)

This is a picture of some barren land somewhere in the world. This is not aggression. It is a fact of life. The world does not automatically and costlessly provide you with sustenance. There will not always be enough berries for you to forage. Wild animals will not lay down and give you tips on how to butcher them.

You are subject to the same hunger and desire to live as everyone else. *You* trying to tell *them* that they owe *you* something because you don't want to work is *you* attempting to exploit *them*.

"But Rudy," you say. Marx wrote out a proof of exploitation, and can't we use that?

NO.

Slide 3. (Part 2 title card)

Musical sting

The labor theory of value is false.

Slide 4. (Marxface)

Marx's exploitation theory is based on the labor theory of value. Marx argued that since labor is the source of value, those who do not labor cannot accumulate value except by tricking others into working longer hours for them, and taking some of the value they produce.

When Marx was writing Kapital, there were already some very well-known problems with the labor theory of value. In fact, the marginal revolution happened before Marx died.

Marx chose not to address this groundbreaking advance in economic theory.

Slide 5. (Marxface-meme)

Instead, he either ignored or was ignorant of this advance. He tried to paper over the contradictions that using the labor theory of value created by coming up with the concept of "socially necessary labor." But like supply and demand curves, socially necessary labor can never be measured without referring to itself. It's an intentionally vague "fudge factor" that can be changed ad hoc to make whatever argument you want.

Slide 6. (Bohm-Bawerk)

On the other hand, we have geniuses like Eugen von Bohm-Bawerk, William Stanley Jevons, and Leon Walras, who actually contributed to economic understanding. Prices, you see, are subjective, based on how *you* value the contribution that using that good makes to your life and well-being.

And yes, choosing to sell a good on a market (which, by the way, is determined by the subjective valuations of others), is one way to "use" that good, from your perspective. It's why specialists can get rich by doing one thing better and cheaper than anyone else--they create the goods at a cost below the market price, far more than they can use themselves, and sell them to others so that others don't have to make them.

It may be that subjective, ordinal value is not the be-all and end-all of value theory, but it's a hell of a lot better than any labor theory.

Oh, and by the way: how much you value the future compared to the present is another thing that's subjective. It's called time preference, and it's the reason why some people buy certificates of deposit from their bank and others pay the minimum payment on their huge credit card balances.

It's a huge part of what makes interest happen, too, just so you know.

And, final note: there is a concept called *demonstrated preferences* versus *stated preferences*.

Basically, you can say you want something a lot, but what really counts is whether you *do something* to get it, or afford it.

There's an old joke about it: Two economists walk by a Lamborghini dealer, and one of them says, "Wow, I really want one of those."

The other economist looks at him, and seeing him doing nothing to actually get one, says, "No, you don't."

Slide 7. (Part 3 title card)

Musical Sting

Okay, if you've never studied any economics, I'm about to blow your mind.

Incentives *bleep* matter. Like, a lot.

The difference between a garbage economist and a good one can be as simple as the good one looking at something and saying, "but what happens next?"

Bastiat, Hazlitt, Mises. They all encouraged people to look at the incentives created by and long-term consequences of policy. Because if your great idea has some way for people to game it, they're going to figure it out eventually, even if they don't at first.

In general, people would rather take it easy than work hard enough to create enough value to live on comfortably. Yes, you might fish for a few hours each weekend and enjoy it, but having your whole life depend on it is a different thing.

This is called the disutility of labor. In general, you're going to get tired of whatever thing you're doing--even things you do productively--before it really pays the bills. You'll want to go do something else, or just take time off, and those other things, that you're not specialized at doing? You produce even less value.

Communists and socialists hate the disutility of labor because it means they're never going to get their New Soviet Man.

For example, if you take value away from good stewards of resources and give them to bad stewards, you don't teach the bad stewards to be better, you tell the good stewards to be lazier.

Slide 8. (Wallace Letter)

If you tell farmers you'll pay them to work less, then they'll work less. And you end up taking value from people who are being productive and giving it to people specifically to be unproductive. It's the same stupid incentive structure.

Slide 9. (New Deal with it)

Thank God that these idiotic policies were so temporary in nature. They are literally civilization-enders if they get out of hand.

Slide 10. (Bridge)

Another important thing to remember is that capital goods typically have some durability. You actually *can* get away with neglecting them a bit, and if you don't know what you're doing, it *looks* like you're getting free profits! After all, you're using a factory without oiling any of the machines! All of those wasted dollars on oil! It's pure profit.

But failing to maintain capital goods always ends up like this bridge. And if you've spent all of those illusory profits without saving to replace or repair those capital goods, then you're kind of SOL.

Do that over and over again and you have what happened to most countries that adopted Marxist socialism. Stuff looks really good at first! Then it doesn't. Hopefully the central planners realize that capital goods aren't free and permanent before it's too late.

But they're never really great at figuring out how and when to use them.

Slide 11. (Part 4 title card)

Musical Sting

So, let's get to the meat here. Expropriation is not always justified. Because value is subjective, because time prefrences differ, it is possible for vertical associations, like employer/employee, teacher/apprentice, and landlord/renter to arise without anyone exploiting anyone else.

That doesn't make backroom deals between the state and its cronies all right.

Slide 12. (Handshake)

If you see anything like this happen between politicians and businessmen, by all means call it out. Politicians have the unique ability to force regular people to do stuff, and when they do this with their businessman buddies, it's cronyism and not a free market thing.

But the fact is that that ability of politicians here is the key point. Some dude who owns a factory doesn't really have any power over you. You being hungry is not his fault, and if he's not getting kickbacks from someone who can point a gun at your head and demand you pay taxes, it's entirely possible that he earned his factory.

Slide 13. (Kropotkin)

That's why it really pisses me off when our second-player unkempt hungry Santa variant, a.k.a. Kropotkin, says stupid stuff like a shoemaker taking on a few apprentices and profiting from it is exploitation. These relationships are voluntary, and calling this exploitation is a literal economic disaster waiting to happen.

People agree to deals when they believe they will benefit from them, and it is perfectly possible for deals to benefit both parties. And that's what I'm going to show you explicitly... right now.

Slide 14. (Part 5 title card)

Musical Sting

Welcome to my desert island example. I'm going to walk you through an example that shows how simple time preference alone can lead to rented capital goods, mutual benefit, and a range of acceptable prices for some good or service.

Slide 15. (Rules 1)

Let's start out with some ground rules.

Imagine a nearly-uninhabited desert island. The only thing available for food is fish, and you reach subsistence at 10 hours of labor per day, or five fish.

Imagine that any fish you get and don't eat rot at the end of the day. There's not enough wood to smoke them or whatever.

However, there are enough vines that you could create a net. Making a net takes 5 hours and it doubles your productivity for 10 hours before it breaks. In short, you spend 5 hours making a net, then you can fish for the next 10 hours at 1 fish/hour, instead of taking 2 hours to catch each fish.

Bob lands on the desert island all by himself. At first, he maybe spends a few days fishing for 10 hours per day, but then he realizes he can make a net. He works for 11 hours per day for five days, and at the end of the day, he has a net!

From then on, he can fish for five hours per day and make nets for 2 and a half hours per day. He makes a new net by the time each old one breaks, and now he has to work only 7.5 hours per day. Good for him.

He can do this in perpetuity. Thanks to his willingness to produce a capital good, he has reduced his daily labor from 10 hours to 7.5. He didn't steal from anyone or exploit anyone.

Slide 16. (Enter Time Preference)

Now imagine Alice lands on the same island. Alice is just as good as Bob at fishing, and she knows how to make nets, too. There's only one difference between them.

Slide 17. (Alice points)

Alice has a high time preference compared to Bob. She prefers her 1 hour of leisure today and the next four days to the 2.5 hours of leisure she would get each day after that. She absolutely refuses to work more than 10 hours per day.

So she does this for a while. She gets her five fish each day, but she notices that Bob is working fewer hours than her. This still isn't a strong enough incentive to get her to work that extra hour each day, but it does give her an idea.

At this point, let's remind ourselves that Bob hasn't exploited Alice in any way. He hasn't taken anything from her. He is just as good at fishing and making nets. It's his willingness to invest that extra hour for a few days that got him from 11 hours of labor per day to 7 and a half.

Bob *could* work only 5 hours per day if he wanted to. He could do it for exactly two days, and then he'd be back to 10 or 11 hours per day.

And Alice *could* get herself down to 7.5 hours of work per day, but she hates working that extra hour each night more than she values the extra leisure a few days out. This is an extreme example, but this is the essence of time preference. I could make the numbers a little softer, but the point would still stand.

In any case, Alice asks if she can rent a net from Bob. Now, Bob doesn't have any extra nets to give her. They break quickly and each costs him five hours of his time. Alice has no claim to *take* a net from Bob. That would be *her* exploiting *him*.

Slide 18. (1 fish/day)

So, let's break down a few different prices that Bob might ask for Alice to rent a net. First off, let's remember that he has to put in 5 hours of labor before he can rent her anything. Then, let's remember that, in order to keep renting her a net, he has to work 1 hour for every 2 she works in order to finish a replacement for hers when hers breaks.

So, let's look at what happens if Alice pays him 1 fish per day.

Bob ends up spending 4 hours fishing, 2 hours working on his own net, and 3 hours working on Alice's.

That's 9 hours per day in total. It's more than the 7.5 he's working now. This deal would make Alice way better off, but it's a way worse situation for Bob. If he decided to accept that deal, it would not be because he expected to gain more leisure time, it would be for something else.

Slide 19. (2 fish/day)

At 2 fish per day, the situation isn't much different. Bob is working 8 hours per day, which is still worse than the 7.5 he could work without making the deal. Alice is a little less better off at 7 hours per day, but she still can't force Bob to accept the deal.

Slide 20. (3 fish/day)

At 3 fish per day, the situation changes. Now Bob only has to work 7 hours per day. He gains a half-hour of leisure each day. Alice now works 8 hours per day--2 hours less than she was before. She gains, too. They *might* make a deal at this rate.

Slide 21. (4 fish/day)

But let's keep exploring. At a price of 4 fish per day, we find that both Alice and Bob still benefit! Bob works 6 hours per day now, and Alice works 9 hours! They *might* make a deal at this rate, too. They both still benefit.

And because their values for those additional hours of leisure are subjective, it's impossible to tell exactly where they "gain" the same amount! Bob might value that extra hour of leisure more than Alice values her extra hour of leisure, or it might be the other way around!

It's up to them to negotiate a mutually acceptable deal. Neither has any claim on the other's labor, and neither has any authority to demand the other labor to enrich him or her.

But let's finish the thought experiment.

Slide 22. (5 fish/day)

Here at 5 fish per day, we see a new thing. Bob works five hours per day, and Alice works 10 hours per day. This is no different from how much she would work with no deal, so she has no reason to accept this rate! This is Alice's break-even point.

By the way, Bob's break-even point would have been at 2.5 fish per day, but we can't trade parts of fish per day because parts of fish cannot be caught and cannot be preserved! Trading part of a fish would result in one party having to throw away some part of a fish, which would be the same as if he or she hadn't received it at all.

Slide 23. (The key point here...)

Now, because there is only one real “good” in this economy--hours of leisure--we can *technically* calculate a point at which both Alice and Bob gain the same number of hours of leisure. This would be at 3.75 fish per day--each would gain 1.25 hours of leisure per day.

However, because value is subjective, it is *not* true that they must necessarily agree at such a point. All we can show is that there is a range of prices for which both parties gain *something*, and if they actually make a deal, then we can say something about their demonstrated preferences.

Remember that Bob hasn't stolen anything from Alice to get his “lavish” 7.5 hours per day work schedule.

Also remember that this rental deal depends on Bob being willing to do an extra five hours of work to even start the deal. Alice has no claim on him to obligate him to do that extra work, and if she decides to quit the deal, any time he spent working on her net is lost to him.

Slide 24. (The final price...)

The final price they agree on (if they agree) will depend on how much they both value their extra leisure time.

This is a complete refutation of exploitation theory as long as there is no force, aggression, or threat involved. Remember, your hunger does not give you a claim on others' hard work.

This means that, without evidence to the contrary, we can dismiss claims by Marx and Kropotkin that a shoemaker is exploiting his apprentices as long as there is no evidence to the contrary.

As the anarcho-capitalist view says, voluntary associations are legitimate, and there are legitimate reasons for employer-employee or other vertical arrangements to arise without any party aggressing against the other.

They can stem from something as small as the willingness to work a little extra time each day, or work a little smarter each day, and do not necessarily arise because the person who owns capital goods has done something wrong.