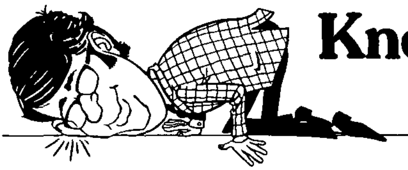
Gary North

Exploitation and Knowledge



THE PROFIT MOTIVE: Everyone knows that the free market economic system operates in terms of the profit motive. The trouble is, hardly anyone understands where profits come from. This includes businessmen who make them. This failure to understand the source of profits has given a real advantage to the critics of the market. When the supposed defenders of the market argue that the hope for profit is the motivating force of capitalism, yet they cannot state clearly where profits come from, they have left themselves intellectually defenseless.

The critics claim that profits come from the ability of the stronger, richer, and more ruthless members of the society to exploit their weaker neighbors. The word "exploitation" has been a favorite one in socialist circles. Marx made the word a weapon against capitalism. The workers are exploited by the capitalists, Marx said, because the capitalists can extract surplus value from laborers. The laborer has to work, say, three hours in order to have enough money to buy minimum food and shelter, but the capitalist keeps him on the job many hours longer. Thus, the capitalist "exploits" extra money from his workers.

The theory was absolutely wrong, and it was demolished by the Austrian economist, Eugen von Böhm-Bawerk, before Marx died.[1] Workers

© Gary North, 1982. Gary North, Ph.D., is President of the Institute for Christian Economics. The ICE publishes a newsletter, *Biblical Economics Today*. A free six-month trial subscription is available by writing to Subscription Office, ICE, P. O. Box 8000, Tyler, Texas 75711.

[1]*The Exploitation Theory of Socialism-Communism* by Eugen von Böhm-Bawerk. An extract from *Capital and Interest.* Third revised edition 1975, 176 pp. paperback. Libertarian Press, P. O. Box 218, South Holland, Illinois 60473.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

are paid the value of their output, or very close to it. When they are not paid according to the value of their output, other profit-seeking employers start offering them more, since they want the "surplus value" for themselves. The market price of the formerly "exploited" labor services climbs, since no capitalist wants to allow his competitors the advantage of hiring underpriced labor services. Capitalists may well be greedy; this is the best assurance for workers that they are being paid what they are worth.

The Ignorance Factor

It might be argued that laborers really do not know what their labor services are worth on the free market. Therefore, they refuse to take a chance and threaten to quit. They are afraid of losing their jobs, and they are not aware of the better opportunities available to them elsewhere.

This is quite true; *accurate information is not a free good.* It is, perhaps more than any other scare economic resource, the most valuable of assets. If men are unaware of an opportunity, then they cannot take advantage of it. But all men do not need to be informed of the existence of higher wages, or better working conditions, or jobs that offer more days of paid vacation per year. A few workers are sufficient to alert all the others. "Say, did you hear that XYZ Widgets have raised their pay scale 25 per cent?" That story, if true, is all that is needed to alert workers. The information comes to a few. They start quitting. Others wonder why their old friends are leaving the job. Nothing spreads faster than information about opportunities. Rumors are efficient means of spreading information; in fact, the problem facing the listener is to sort out false from true information. But there is an economic incentive for laborers to check out rumors of major employment opportunities.

Consider a particular worker. For the sake of the argument, let us assume that he is indeed "exploited." His employer knows that he is worth, say, $10 per hour. But we will not call them dollars, since inflation tends to make dollar-denominated arguments look silly after a few years, or at least very old-fashioned. So we will not pay him in dollars. We will pay him in a hypothetical currency units, shekels. (A shekel in ancient Israel was a unit of weight, which made it easier for people to know what units they were dealing with: shekels of silver, shekels of gold, etc.) The employer is paying him only eight shekels per hour, and the company is pocketing the extra two shekels. Or maybe the company is only pocketing one shekel, but is charging less for the product, and is thereby underbidding the competition, and increasing its share of the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

market. Whatever the case happens to be, the laborer is not receiving the value of his output.

What Can He Do?

What can he do to better himself? He can start investing. He starts putting time and effort into a "new company," himself. He starts investing in a search for information. He looks in the classified ad columns of his newspaper to see what other corporations are paying for labor services like his. He starts calling old friends on the phone, asking them what conditions are like at ABC Widgets, Inc. He starts calling the personnel offices of rival companies. Sooner or later, if he is really being exploited, he may find proof of the exploitation: some firm that is offering more than eight shekels per hour for labor services like his.

This investment involves sacrifice. When he searches for better information concerning the market he is participating in, he is an investor. He is a kind of capitalist. More important, he becomes an entrepreneur. He *thinks* there is a better opportunity around. He *hopes* he can find it by investing time and effort into his search. He *expects* to better himself if he discovers higher pay, or better working conditions, being offered by another company. He *wants* to take advantage of any such offer. But the key fact is this: *initially, he does not know for certain.*

If he knew for sure, he would not have to spend time searching. He would simply take the better offer. There is ignorance involved. He may not be exploited after all. Perhaps his employer is paying him a market wage. In fact, perhaps the market is about to drop; his employer may be paying him too much, by mistake. Also, even if a better offer is ready and waiting, he may not find it in time. He may never find it at all. There is no way for him to be sure just what the market is offering to people who sell services comparable to his. And even if he finds a better deal, he may not be able to convince the prospective employer that he, as a skilled worker, actually possesses the qualifications. After all, the prospective employer really is not certain just who this prospective employee is, or what he can do on the job. *The ignorance factor is inescapable.*

The worker who begins a search to better his position is, in fact, an *entrepreneur*. He is making a forecast: with work, and time, and telephone calls, he thinks he can find a better opportunity. He cannot be certain, but he thinks so. He faces an *uncertain future*. He is not omniscient. No person is omniscient. Nevertheless, he "senses" that there are better opportunities available. He is willing to invest time in the search. He skips Saturday afternoon television in order to find a better

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

opportunity. He skips bowling with the boys. He skips an afternoon of fishing. In other words, *he invests a scarce resource*—leisure—by *forfeiting* it. He tries to get a return on his investment: money, or working conditions, or a job that offers possibilities of advancement, that will be more valuable to him in the *future* than the leisure time activities are valuable to him in the present.

Is He Exploited?

Is the worker really exploited? How has his present employer exploited him? Only by not giving him a gift, namely, the precious gift of accurate knowledge. He has not come to the worker and said to him, "Look, Charlie, I'm paying you eight shekels an hour, but ABC Widgets is paying at least ten per hour. I've known that for a long time. I feel guilty for not telling you. Now, if you want to call the personnel department at ABC Widgets, go ahead. See if you can get a job lined up there. If you do, come to me and tell me. Then I'll be forced to give you a raise. Fair enough? Have a nice day." How can we distinguish "exploitation" from a mere refusal to give away information that is economically detrimental to the income of the one who is giving it? (And how could we distinguish the *gift of information* from possible *stupidity* on the part of the company's management?)

Furthermore, how can we distinguish the worker who goes shopping for a better job from a capitalist? And if he finds the job, and refuses to run to all his fellow workers to tell them about the job down at ABC Widgets that pays 25 per cent more, how can we distinguish him from an exploiter of labor himself? After all, he has information that would help his buddies. He wants to take advantage of the information to increase his income. But that is precisely what his present employer is doing to him: taking advantage of better information. If there is only one job available at ten shekels per hour, and he takes advantage of it, has he become a selfish exploiter of his fellow man? If he forfeits the raise, despite his investment of time and effort in searching for a better deal for himself, has he acted rationally? Is rational action—taking advantage of the opportunity a man searches for—inevitably immoral, selfish, and exploitative?

Employer-Entrepreneur vs. Worker-Entrepreneur

How can we distinguish the worker from the employer? What is different about an employer-entrepreneur, who takes advantage of his access *to information* by *refusing to* give that information away, from a worker-entrepreneur, who takes advantage of his access to information by *refusing to give that information*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

away? The employer-entrepreneur spent years in establishing his business, and his profits stem from using accurate information wisely. He has *invested in information-gathering,* and it has finally paid off. He is beating his competition, since ABC Widgets does not know that there are workers available—or at least one worker available—who will work for slightly over eight shekels per hour. He is profiting at the expense of the competition: the other Widget company. He is also profiting from the worker's lack of knowledge. But if the worker finds out, and other workers do not find out, then the worker is also profiting at the expense of the other workers (his competition) and his present employer, who now will have to pay him more, or do without his services. What is the difference?

The people who proclaim that capitalism exploits workers are really proclaiming something very, very different: capitalism allows people to take advantage of better information, at least until the competition finds out and starts taking advantage of it themselves. What the opponents of capitalism are really proclaiming is that men have a moral and legal obligation to *give away* the world's most valuable scarce economic resource: accurate, profitable knowledge. The critics expect men to give away a resource as if it were a free good, when we all know it is anything but a free good. It takes an *investment in an uncertain future* to gain ownership of this asset. Yet the critics want us to believe that it is exploitative to use it once we have discovered it. *The critics want to kill the private markets for information.*

Hidden Treasure

Some of the finest economic wisdom in history can be found in Jesus' parables. He aimed His parables at the average listener. He knew that they were not trained theologians. They would not respond to detailed theological analysis. So he went to them with parables, and several were "pocketbook parables." (Others were agricultural parables: seeds, growth, sowing, reaping.) His parable of the buried treasure was based on His understanding of the market's process of searching for information and using it to one's advantage: *Again, the kingdom of heaven is like unto treasure hid in a field; the which when a man hath found, he hideth, and for joy thereof goeth and selleth all that he hath, and buyeth that field* (Matthew 13:44).

Consider what the man in the parable was doing. He stumbles across an important piece of information. There is a valuable treasure hidden in a field. He is not sure just who it was who hid it, but it is there. He presumes that the person who hid it was not the present owner of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the field. He is not certain of this at first, but he is willing to take a major step. He hides the treasure again, and goes out and sells everything that he owns. I suppose he did some preliminary investigating, just to see if the present owner will sell it. But the present owner may change his mind. Or he may have known about the treasure all the time, and he is luring the speculator into a disastrous decision. The discoverer cannot be certain. But he takes a chance. He sells everything, and goes to the owner with his money. He buys the field. Now he owns the treasure. He took advantage of special information: his knowledge of the existence of a treasure in a particular field. He took a risk when he sold everything that he owned to come up with the purchase price. Then he went back to the owner, thereby alerting the owner to a possible opportunity—the possibility that something valuable is connected to the field. Maybe it would be unwise to sell it after all. But finally he decides to sell. The entrepreneur—the man with the information and some venture capital—has closed the deal. He has attained his goal.

The Socialist View

The modern socialist would be outraged at this parable. The entrepreneur, who was striving to better his position, was clearly immoral. First, the land he was on should have been owned by the people, through the State. Second, he had no business being on the land, without proper papers having been filed with the State in advance. Third, he should never have hidden the treasure again. It was the State's. Fourth, if it was not the property of the State, then he should have notified the private owner of the property. Fifth, failing this, he was immoral to make the offer to buy the property. He was stealing from the poor man who owned the property. Sixth, should he attempt to sell the treasure, the State ought to tax him at a minimum rate of 80 per cent. Seventh, if he refuses to sell, the State should impose a property tax, or a direct capital tax, to force him to sell.

What the socialist-redistributionist objects to is *the lack of mankind's omniscience*. The economy should operate as smoothly, as efficiently, and as profit-free as an economy in which all participants had equally good knowledge—perfect knowledge—as all other participants. Knowledge, in a "decent" social order, is a universally available free good, equally available to all, and equally acted upon by all. It is only the existence of private property, and personal greed, and a willingness to exploit the poor, that has created our world of scarcity, profits, and losses. Knowledge about the future should be regarded as a free good. Profits are therefore evil, not to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mention unnecessary, in a sound economy. This has been the argument—the real, underlying, implicit argument—of all those who equate profits and exploitation. Men are not God; they are not omniscient. This angers the socialists, and they strike out in wrath against the market order which seeks to encourage men to search for better information so that they can profit from its application in economic affairs. The socialists prefer to stop the search for information concerning the uncertain future, rather than to allow private citizens to profit personally from the use of knowledge in society.

The Transfer of Knowledge

Accurate knowledge of the future is a valuable asset. How can society profit from its discovery and application? Not everyone wants to take the time and trouble to search out the future. No one can take the time and trouble to search out *all* the possible bits of information concerning an uncertain future that might be useful to him or his family. So we allow others to do the work, bear the risk of action, and sell us the results at a price we are willing and able to pay. We consumers become the users, and therefore the beneficiaries, of the entrepreneur's willingness and ability to peer into the future, take steps to meet the demand of the uncertain future, and deliver the finished product—consumer good, consumer service, or spiritual insight—at a price we are willing to pay. Why should we care what price he paid, or what risks he bore, when we pay the price? Sure, if we knew what he paid, we might guess that he is willing to take less than what he is asking, but why should we care from a *moral* standpoint what he paid versus what he is asking us to pay?

Besides, the existence of his profit on any transaction encourages other entrepreneurs to search out similar opportunities to present to us in the future. Let us consider our old friend, the entrepreneur-worker. He accepts the job with ABC Widgets. The other workers throw a farewell party for him. The conversation inevitably gets around to the reason why he is leaving. "Hey, Charlie, why are you leaving XYZ Widgets? Haven't we had great times together? What are you trying to do, get on their bowling team or something?" And Charlie may be willing to say, now that he knows he has *his* job, and there are others just like it available. Now he can look like a smart cookie in front of his friends. "I'm leaving because I'm going to make 25 per cent more each week, that's why. Why should I stay here at XYZ Widgets and work for less than I'm worth?" That bit of information will make itself felt in the labor market of XYZ Widgets very, very fast. The management at XYZ Widgets will have

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to do some explaining, and perhaps make some wage adjustments for the workers, as the effects of that new knowledge are felt. *The spread of information is rapid because the pay-off for those who have it is immediate, and personally beneficial for those who act in terms of it.*

A Chance to Profit from the Use of Better Knowledge

If knowledge is a scarce economic resource, and if it is a good thing for members of society to act in terms of accurate information, then it is certainly a wise policy to allow citizens to profit from the use of better knowledge. That way, there is an economic incentive for others to enter the "knowledge market" and take advantage of whatever knowledge is available. The spread of accurate knowledge is increased because of the profit potential offered to acting individuals. If better knowledge is a valuable asset, then its sale in the market should be encouraged.

Inaccurate knowledge should be dropped rapidly. How do we best stop the transfer of inaccurate knowledge? *Make it expensive to act in terms of inaccurate knowledge.* This is why we need opportunities to make losses as well as profits. Make the use of inaccurate knowledge expensive to those who use it, and you will discourage its transfer through the whole society. This is perhaps more important than encouraging the production or discovery of new, accurate knowledge. There are always more good ideas available than capital to finance them. But the continued use of bad ideas—loss-producing ideas—inhibits the build-up of capital. It is always very risky to launch a new project, since there are so many variables. But dropping a bad idea is an immediate benefit to society, for it increases the capital base—the information base—by removing a major source of capital consumption. The existence of *losses* testifies to the existence of *inappropriate plans* in an economy. Without negative feedback—the loss portion of the profit-and-loss sheet—society has no effective way to eliminate bad ideas. If men see the danger of establishing censorship boards to reduce the spread of knowledge, they had better cling to the free market's mechanism of eliminating resource-absorbing, erroneous information.

Conclusion

The word "exploitation" should be understood by those people who are likely to be the victims of true exploitation. Exploitation in a market order means the personally beneficial use of accurate economic information. Socialist programs to reduce exploitation are, in the final analysis, programs to make it unprofitable for forecasters to launch risky ventures based on their predictions concerning the uncertain

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

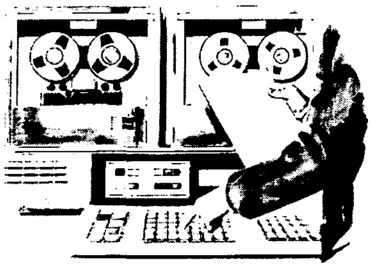
future. These socialist programs are also based on a false view of knowledge: that it is a free good that is available to all, if only private ownership were abolished. By abolishing "exploitation"—the profitable use of knowledge—the socialists will inevitably *reduce the flow of accurate knowledge* of economic conditions. The public will have more inaccurate knowledge in its capital structure, and therefore more losses, with fewer profits to compensate for the losses. Men will not be the beneficiaries of uncertainty-bearing forecasters. The State becomes the active suppressor of the spread of accurate knowledge. If this is not exploitation, what is?

What we need is a means of reducing "exploitation"—the profitability of suppressing knowledge. The exploitation of another man's ignorance cannot long continue in a society in which there is freedom of expression, *if* this freedom is accompanied by the freedom to act on the information provided by the freedom of expression. It means that each man's "exploitation" of the resource of knowledge is always threatened by his competitors' "exploitation" of that same knowledge, as well as the "exploited" person's use of the knowledge. Knowledge is like any other asset: it is not a free good. Those who want it must pay for it.

The socialist brings a moral critique of profits: "Capitalists would try to reduce exploitation by making opportunities for exploitation available to all. They tell us that the spread of the legal right of exploiting others leads to a reduction of exploitation. Who can believe such nonsense? Exploitation should be made illegal. The best way to stop exploitation is to make it costly to be an exploiter." But this assumes always that knowledge is a free good. But it is a scarce good. So the best way to produce better knowledge—that is, the best way to *reduce the zones of ignorance* in a society by *increasing the flow of accurate knowledge*—is to get everyone who wants to be in the "discovery business" the right to get involved. The best way to obtain better knowledge is to make it profitable for people to increase the production of knowledge. By giving all men the right to sell all that they have and buy the fields of the world—if the sellers have the right to turn down the offer (i.e., have the right to keep "buying" their fields, day by day)—the hidden treasures of life will see the light of day. There is no treasure more precious than knowledge of the truth. That is why the kingdom of heaven is like a field in which a treasure is hidden. Give all men an incentive to search out the treasures of life. If we want more treasures, we had better encourage men to go out and look for them.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Russell Shannon



And Now for Some GOOD Economic News!

THIS PAST SUMMER, the economic news was good. Congress and the Reagan Administration agreed on an unprecedented package of budget cuts and tax incentives designed to curb inflation and boost the economy. The Dow Jones average rose above 1000. The much-taunted "supply-side" economics had arrived, and the stock market, seeing it, found it good.

Then came the fall. Prospects of huge budget deficits and persistent double-digit inflation kept interest rates high and interest in stock purchases low. The construction industry continued to flounder, and savings and loan associations hovered on the brink of catastrophe.

What's worse, alarming signs suggested extensive government controls and subsidies could be restored. The Reagan Administration's agreement to limit Japanese auto imports served as a frightening precedent for other industries to seek similar trade restraints. Farm groups, having lent their support for Reagan's tax and budget adjustments, pressed for further federal financial aid.[1] In short, the outlook became so bleak that "supply-side" economics now seemed likely to become just another version of what Carlyle called the "dismal science."

Yet a pleasant prospect glows beneath the gloom. Harking back to the refreshing optimism expressed by Adam Smith, the founder of modern economics, it relies upon the dramatic possibilities for expanding output via the advantages of specialization, innovation, and free trade.

Smith showed what the division

Russell Shannon is a professor in the Department of Economics, College of Industrial Management and Textile Science, Clemson University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED