
Robert Nozick's Critique of Marxian Economics

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Robert Nozick's *Anarchy, State, and Utopia*¹ is, alongside John Rawls's *A Theory of Justice*, one of the two most widely read works in contemporary political philosophy. This paper is an attempt to respond to the arguments presented by Nozick in the section of his work entitled "Marxian Exploitation." Nozick concludes this section with the comment, "one might be left with the view that Marxian exploitation is the exploitation of people's lack of understanding of economics" (p. 262). If the arguments Nozick presents were compelling, this would indeed be the appropriate conclusion. A careful argument by argument examination of his text, however, reveals that this conclusion is as unwarranted as it is caustic.

In the "Marxian Exploitation" section, Nozick argues for three main points. His first claim is that the Marxian notion of exploitation is inadequate. He hopes to establish this through a thought-experiment in which a supposedly compelling counterexample is proposed. Nozick's second concern is to offer a justification of a capitalist social system based upon the manner in which it distributes risks. Finally, Nozick attempts to refute the cornerstone of Marxian economics by establishing that the productive resources theory of value in general, and the labor theory of value in particular, are inadequate if not incoherent. I shall briefly present Nozick's arguments in each of these three areas and then offer my replies.

1. The Theory of Exploitation

Marx divided the working day into two periods. During the entire length of the working day the laborer creates economic value. However, only during the first part does the worker create a value equivalent to that which he or she receives back in the form of

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wages. The remainder of the working day is termed by Marx “surplus labor time.” During this period the laborer works gratis for the capitalist, producing the “surplus value” which is the ultimate source of the capitalist’s profit. The exploitation of workers under capitalism often is taken to refer to the fact that under this system workers are forced to engage in surplus labor time, creating an economic surplus in which they themselves do not share. “Exploitation” is thus a critical concept; it can be employed in a critique of a capitalist social system.

Nozick presupposes this notion of exploitation at the beginning of his discussion. He asserts here that the Marxian theory of exploitation loses its “charm” when it is realized that “exploitation” is to be found in *any* society which undertakes investment for the future and the subsidization of those who cannot work (p. 253). For these two tasks could not be fulfilled without the creation of a surplus which the producers of that surplus, the workers, themselves do not consume. If all social systems—with the sole exception of subsistence economics—are “exploitative,” then none are. The concept, Nozick implies, is useless as an instrument of critique.

It is quite true that in a society of the sort advocated by Marx a surplus product also would be produced. It is also true that in a Marxist society investment and subsidization would take place.² The surplus would not be all consumed by its producers. But one could conclude from this that such a society was exploitative only if the most essential feature of that category has been missed. “Exploitation” does *not* have to do primarily with the mere production, appropriation and employment of a surplus product; rather, it refers essentially to the *social relations* which form the context within which such production, appropriation and employment takes place.

Let us consider two societies. In both a surplus product is produced, part of which is then appropriated for the sake of future investment and subsidization. But in society *A* the production and subsequent use of the surplus product is controlled by a particular social group (and representatives of their interests) which happens to dominate the producers of that surplus product, whereas in society *B* the production and subsequent use of the surplus product is controlled by those who have produced it themselves (and representatives of their interests). In Nozick’s initial usage of the term, both societies would equally count as “exploitive” from a Marxist perspective despite the different social relations. But this is not at all

the case; a Marxist would *not* term the latter society exploitative. Nozick's initial explication of the concept abstracts from the question of social relations, and this is a mistake which no Marxist would commit.

Nozick quickly drops this point and shifts his analysis of the concept in a way which does take cognizance of the role of social relations. As we shall see, however, this is not done in an adequate fashion.

Nozick states that under capitalism the means of production are privately owned by those whose "abstinence" and "entrepreneurial alertness" allowed them to accumulate the capital required for their purchase.³ He then asserts that the idea of "exploitation" really has to do with a lack of access to the privately-owned means of production on the part of workers (p. 253). This interpretation of the concept is unlike the first in that it does take social relations into account. From this more adequate viewpoint Nozick next deduces that Marxists are committed to the following claim: if the means of production are publicly owned, then, since the workers are no longer forced to deal with private owners, exploitation would be eliminated. Nozick proceeds to construct a thought experiment which he feels undercuts this supposedly Marxian claim (pp. 254–55).

Let us suppose, Nozick begins, an economy in which at some $T1$ there is both a private sector as well as a quite significant public sector. Since workers are free to choose whether they will work in the public sector or for those who privately own the means of production, no exploitation can be said to exist. Nozick then imagines that significantly higher wages are offered in the private sector over a period of time. This attracts more and more workers to the private sector, and as it expands the public sector gradually contracts. At some $T2$ the public sector no longer would play a significant role in the economy. Given their definition of "exploitation" in terms of a lack of access to privately-owned means of production, Nozick continues, Marxists would have to say that a quite important change had taken place from $T1$ to $T2$, a change for the worse from a non-exploitative situation to one which is exploitative of workers. And yet such a judgment seems to be quite unwarranted. The only change in the actual situation of the workers has been an improvement, an increase in their wages. Further, the workers themselves have chosen freely to enter this improved situa-

tion. If the Marxian concept of exploitation demands that one draw such an implausible conclusion, then there is something fundamentally mistaken with the concept. So, at least, Nozick suggests.

This “counterexample” does not at all establish Nozick’s point. He has failed to grasp the specific mode of social relations relevant to the question of exploitation. Nozick takes a particular type of social relation into account here, that of the legal ownership or nonownership of the means of production. But the essential social relation involved in the concept of exploitation is that of the substantive control or noncontrol of the production, appropriation, and subsequent use of the surplus product produced in the society.⁴ These two types of social relations are by no means identical, as can be seen by a rethinking of Nozick’s thought experiment.

At *T1* Nozick assumes that the mere fact that workers are free to choose to work in a sector in which the legal ownership of the means of production is public, as opposed to one in which legal ownership is held privately, is sufficient to qualify this as a “nonexploitative” situation. But while public ownership of large-scale means of production may be a necessary condition of a non-exploitative society, it is hardly a sufficient one. It is quite possible that despite legal ownership being public, the production of a surplus product is under the control of a dominating social group which appropriates that surplus product and directs its future use with private rather than public interests in mind.

We can easily imagine that state enterprises in question are controlled by persons with various personal and institutional links with the possessors of private wealth. Let us further suppose that bonds have been sold to the holders of private wealth. The state enterprises would operate so as to maximize the return on those investments, rather than in a manner embodying the interests of the public at large. In this case a Marxist would say that at *T1* the workers only are “free” to choose between two different manners of being exploited. And from a Marxist perspective the move to *T2* would *not* be the significant change from a nonexploitative situation to an exploitative one.⁵ It would be viewed instead as a transition from one type of exploitative situation to another. We can see from this how the question of legal ownership is by no means the essential factor in the Marxian concept of exploitation. Nozick can view his thought experiment as presenting a counterexample to the Marxian position only because he has failed to grasp how exploitation essen-

tially involves the question of the actual control of the production of a surplus product and of its appropriation and subsequent use.

Nozick easily could rewrite his thought experiment in a manner which would avoid this difficulty. He could imagine that at *T1* there is substantive public control as well as ownership of the means of production, while by *T2* the vast majority of workers have chosen to work in the privately controlled sector. Here it indeed would be the case that a move from a nonexploitative situation to an exploitative one would have occurred. Would *this* thought experiment count as a refutation of the Marxian concept of "exploitation"?

Three points must be kept in mind here. First, in a nonexploitative society there does not exist what Gramsci called the "parasitical classes,"⁶ whereas such groups do exist when the means of production are privately owned and controlled. These groups include not only the leisure rich but also those tax lawyers, bankers, speculators, government officials, and others whose energy is directed towards siphoning as much as possible of the surplus product to themselves and to the other members of their class. Engaging in labor which is neither directly nor indirectly productive, such groups impose a burden upon the rest of society. It is most unlikely that a social system which had to support such classes could afford to offer wages higher than those in a society which was similar in all other respects but did not have to support such groups.⁷

Secondly, Nozick could reply that a system of privately owned and controlled means of production is more efficient and more productive than one in which ownership and control is public. Thus it could both support the classes described in the previous paragraph *and* offer its workers higher wages. This is an extremely unlikely hypothesis. Many empirical studies suggest strongly that workers can organize and control the production process themselves with not only no loss of efficiency but with an actual increase in productivity.⁸ Even the business press slowly is being forced to acknowledge this.⁹

Finally, in a system of true public control, people could come to view participation in such control as one of their essential capacities. Workers who participated in the direction of both higher level investment decisions and day-to-day shop floor activity would then come to see themselves in a radically different light. Their self-esteem and sense of political efficacy would grow tremendously.¹⁰ How likely is it that they would give up all this for the sake

of higher wages, assuming for the sake of argument that it is possible for higher wages to be offered in a privately-controlled sector? Certainly one can *imagine* such an occurrence. But just as surely it is quite unlikely. It would be as if one imagined that people voluntarily gave up their right to control the choice of their marriage partners themselves in return for somewhat more expensive wedding presents.

For these reasons even though our revision of Nozick's thought experiment makes his case stronger than the story which he himself presents, its implausibility prevents it from illuminating social reality. Hence it too provides no compelling reasons for abandoning the concept of exploitation.

2. The Notion of Risk

Workers, Nozick notes, have accumulated a substantial degree of capital in the form of pension funds (p. 255). It is therefore within their power to set up non-exploitative enterprises within which to labor. Nozick first suggests that this has not been undertaken because workers lack the requisite entrepreneurial ability. But he then notes that they simply could hire a person with the appropriate skills to operate in their name.¹¹ In Nozick's view the real reason this step has not been taken is that workers are not prepared to accept the risks involved in setting up a productive enterprise. Under socialism "the risks associated with a process of production are borne by each worker participating in the process . . . some hard-working laborers [would be paid] almost not at all (those who worked for hula hoop manufacturers after the fad had passed, or those who worked in the Edsel plant of the Ford Motor Company)" (p. 261). In contrast, in a capitalist society workers are "divested" of risks (p. 256): "The workers in the Edsel branch of the Ford Motor Company did not bear the risks of the venture, and when it lost money they did not pay back a portion of their salary" (p. 255).

From Nozick's perspective, workers under capitalism resemble croupiers at gambling casinos who "Expect to be well tipped by big winners, but they do not expect to be asked to help bear some of the losses of the losers" (p. 256). Nozick at this point refrains from moralistic condemnation of workers. He instead marvels at the efficiency of a system which separates the bearing of risks from other activities. For fortunately under capitalism there exist

“specialized investment institutions and sources of venture capital” (p. 255) to assume the burden of risk which workers refuse to bear.

The best one can say regarding Nozick's views here is that a clearer example of ideology could hardly be desired. It is quite true that under capitalism economic insecurity pervades the entire system. Even the controllers of considerable capital must calculate continually how to accumulate yet more or else risk succumbing to their competition. But to conclude from this that the workers employed by the controllers of capital are “divested” of risk is, when all is said and done, simply absurd.

A more accurate picture of risk distribution under capitalism is that of a fortress protected by a number of surrounding lines of defense. Only after each line of defense has been broken through in turn is the fortress itself in danger. Those who control capital are hiding in the fortress while it is the working class which mans and womans the various lines of defense.

Let us suppose that for one reason or another the profit picture of a firm appears dark. A first line of defense might be formed by speed-ups in the production process, layoffs, and demands for wage rollbacks. The latter two measures obviously directly threaten working class standards of living. And the first measure cannot be taken without considerable physiological and psychological hardship to laborers. The unsafe working conditions to which speed-ups contribute result in daily casualties suffered by working people many times greater than what the U.S. suffered during the Vietnam War. “Every year 16,000 workers are killed on the job. Another 100,000 die prematurely from work-related diseases, such as black lung, brown lung, and cancer, and still another 390,000 become seriously ill from work diseases each year. At least one out of every four workers suffers from occupationally connected diseases.”¹² One cannot help but wonder how many possessors of venture capital are killed on the job.¹³

A second line of defense is the runaway shop. When firms relocate, the earnings of displaced workers remain much less than what they had been, their health benefits are lost, as well as their pensions in many cases. Also the savings of these workers are soon wiped out and their mortgages often are foreclosed. It should be noted that workers are exposed to these risks even when the firm for which they labor is profitable. A recent study has shown that the typical plant closing is not a result of business failure or declining

profits. Instead profit-making plants are closed or allowed to run down so that a corporate conglomerate may liquidate its assets and transfer them to locations where they can earn even higher profits. In the case of such runaway shops, not just isolated workers but entire working class communities risk extreme hardship.¹⁴ Again one wonders what risks the owners of private capital suffer when firms move in order to ensure them yet higher dividends.

In those cases where such actions as speed-ups, layoffs, and runaway shops do not increase profits sufficiently, capitalists have discovered yet another way to shift the burden of risk to the working class. This brings us to an examination of Nozick's remarks on pension funds.

Once again, Nozick's failure to draw the elementary distinction between formal ownership and actual control invalidates his argument from the start. As Rifkin and Barber note, "Control over pension funds means control over capital allocation and economic planning, and that control is now concentrated in a handful of financial institutions. At the end of 1975, the one hundred largest banks controlled over \$145.6 billion in pension funds and the top ten controlled some \$80 billion. Banker's Trust and Morgan Guarantee each control nearly \$15 billion of these funds."¹⁵ The primary objective of these banks, of course, is to make a profit. Edward Herman, a professor of economics at the Wharton School of Finance, points out that to protect their profits, bank trust departments systematically will maintain their holdings in the form of a commercial customer of the bank *even when this means a loss for the pension funds*.¹⁶ In a study of the institutional investment of pension funds between 1964 and 1974, Jason Epstein concludes that employee pension funds recurrently were used "to prop up the market while much of the smart money got out more or less intact."¹⁷

These are only some of the lines of defense protecting the capitalist class. Others include tax laws and bankruptcy regulations, direct and indirect state subsidies, the limited liability of corporations, and so forth. All of these measures eventually shift the burden of risk to the public at large. Nozick sees venture capitalists in heroic terms; their bravery in boldly facing risks makes them fully deserving of whatever economic gain they may attain. This picture is about as accurate as that drawn by the feudal minstrels who attempted to ennoble in song a ruling class whose wealth was based

on plunder. Only *after* the working class has suffered from every conceivable risk are the controllers of venture capital themselves subject to risk.

One last question raised by Nozick remains. Why doesn't the working class assert control over the pension funds which it owns? Given the above account of the risks to which workers are subject under the present state of affairs, an aversion to risk on their part surely is not a satisfactory answer. On a first level, a more adequate answer would be that legislation consciously has been designed to prevent this from happening.¹⁸ On a deeper level the explanation lies in the selection process which makes some problems topics for public discussion while systematically filtering out others.¹⁹ Specifically, there has been an astounding conspiracy/coincidence (take your pick) of silence in the capitalist press on how pension funds bear a disproportionate share of risk in the economy:

The story of how the private investment fraternity has used and manipulated this new form of social capital in order to subsidize an equity market that might otherwise have long since collapsed is one of the most important chapters in contemporary American economic history. Yet, interestingly enough, a computer index search at the Library of Congress turned up not one single article from a major U.S. daily newspaper or popular magazine on the subject.²⁰

This section will conclude with a brief examination of Nozick's views regarding how a Marxist economic system would function. As remarked above, his view is that under socialism workers would bear the brunt of risk, causing those who worked for hula hoop manufacturers or those who built the Edsel to go unpaid. Incredibly, Nozick here simply assumes that the immanent dynamic of a Marxian economic order would be the same as that under capitalism with the sole exception being the manner in which payment is made to laborers. Specifically, he assumes that in a Marxian framework production and distribution would occur within a market functioning according to the exact same imperatives as those followed in a capitalist framework.

Under capitalism the basic imperative is that of profit maximization. It is the exchange value of commodities, their ability to bring a return in the market, which is most relevant to capitalist production,

rather than their use value, their ability to satisfy human needs. As a result, given certain other historical conditions, the phenomenon of “fads” is built into the logic of capitalism. If more or less sophisticated advertising techniques can create a demand for commodities that satisfy no essential needs, and if the sale of those commodities would bring a sufficient profit, then production of those commodities will proceed rapidly. This point holds with respect to changes in the design of automobiles, changes which for the most part concern appearances which in no way improve the reliability, safety, or efficiency of the autos in question. A key factor in determining the extent of production is the ability of advertising techniques to create a demand. But even the most sophisticated advertising techniques are not infallible. Cases arise in which the public recognizes an overpriced piece of plastic for what it is, or judges that superficial and aesthetically problematic design changes are not sufficient grounds for purchasing a particular brand of automobile. Since the decision to produce these commodities had been based upon a prediction of success in manipulating demand, in the cases where this manipulation fails, over-production results.

Now what would be the foundation for decisions regarding production under a Marxist economic order? It is not the maximization of profit for the sake of private accumulation of capital. Instead, production would be oriented towards meeting consumer needs as articulated by the public in uncoerced discussion.²¹ This is the crucial factor which Nozick has failed to see. With production oriented towards use values rather than towards exchange values, there is no reliance upon the effectiveness of advertising techniques in manipulating demand. With production responding to needs which the public freely has defined for itself (for example, for quality aids to exercise and for safe and efficient means of transportation) there is no *systematic* tendency towards overproduction of unwanted goods, as there is when the extent of production is dependent upon predictions regarding an artificial creation of needs.

Of course needs are historical. The needs articulated in uncoerced public discourse will shift over time. As production adjusts to this historical development of human needs there will result a temporary overproduction of some goods and an underproduction of others, even in a Marxist society. In such cases measures would have to be taken to ensure that workers in those productive units which had overproduced could continue to maintain their standard of living.²²

Since this would require a deduction from the total social product it is correct to assert risks are borne by all the members of the society collectively. However, given the one-sided manner in which risks are distributed under capitalism, the lack of a systematic tendency towards over-production under socialism, and the collective sharing of the risks that remain under this latter system, the fact that workers are not fully "divested" of risk under socialism hardly counts as a convincing refutation of that system.

3. The Theory of Value

Nozick's most extensive discussion in the section under consideration is devoted to an attempt to refute the productive resources theory of value (henceforth "*PRT*") in general and Marx's labor theory of value (henceforth "*LT*") in particular. The former measures the value of products in terms of the productive resources required to make them, while the latter goes a step further and claims that labor is the productive resource to which all others can be reduced.

Nozick sees a problem in the attempt to formulate any *PRT* in all cases where there is more than one productive resource. This difficulty arises whenever an attempt is made to state how much of one productive resource counts as being equal to a given amount of another (something which must be done if the different resources are to be added together to figure the value of the final product). If two productive resources, *X*, *Y* each produce a *Z*, and if it takes only one *X* to produce *Z* whereas two *Y*'s are required, then it seems as if we can simply say that the value of *X* is twice that of *Y*. But, Nozick points out, the *Z* may not be what each of the productive factors is best suited for making. It may be that *Y* more efficiently can be used to produce *Z'*; perhaps one *Y* is sufficient to produce a *Z'* whereas two *X*'s must be used to get this same result. Are we to say that $X=2Y$ or that $Y=2X$? (See pp. 257–58.)

Before turning his attention to the *LT* defended by Marx, Nozick suggests an alternative to all types of *PRT*, an alternative which he claims avoids the problem just mentioned. Here the relationship of determining/determined is reversed from what it is in a *PRT*. It is now the value of the final product which determines that of the productive resources, with the value of the final product "determined in some way other than by the value of the resources used in it" (p. 257). On p. 259, Nozick suggests that with the notion of

“wants,” “one can get a complete theory of value.” Therefore, we can presume that in this “other way” the value of the final products is determined by their marginal utility for satisfying “wants.”²³ And so Nozick writes,

If one machine can be used to make X (and nothing else) and another can be used to make Y, and each uses the same raw materials in the same amounts to make a unit of its product, and X is more valuable than Y, then the first machine is more valuable than the second, even if each machine contains the same raw materials and took the same amount of time to make. The first machine, having a more valuable final product, will command a higher price than the second. This may give rise to the illusion that its products are more valuable because *it* is more valuable. But this gets things backwards. It is more valuable because its products are. (p. 257)

One need not be an economist to discover that this argument is at best inconclusive. Nozick quite conveniently has omitted discussion of the only relevant question: Can his alternative adequately resolve the *same sort* of difficulties as those which he posed to the *PRT*? With the seemingly innocent parenthetical phrase “and nothing else” Nozick has sidestepped this issue. He previously had mentioned no problem with a *PRT* when each productive resource makes only one product. When we assume, as Nozick did when discussing a *PRT*, that the same productive resource can make more than one product, the same sort of apparent paradoxes beset his alternative. If the value of one of the products is higher than the other(s) which can be made, Nozick’s alternative forces us to say that the same productive resource has both more and less value than itself. To take another case, if $1X$ and $2Y$ can produce a product A , while $2X$ and $1Y$ produce a B , and the utility of A equals that of B , then with Nozick’s alternative X is both half and double the value of Y .

I am not claiming here that one could not resolve these apparent paradoxes with the tools provided by marginal utility theory. The point rather is that Nozick gives us no reason to think that a *PRT* is any less equipped to deal with these problems. And so I conclude that on logical grounds Nozick’s critique of *PRT* is at best inconclusive, leaving the attempt to resolve the paradoxes to those more qualified in economics than myself.

Nozick concludes his analysis of Marxian theory by turning to the labor theory of value, a theory in which labor is seen as ultimately being the sole productive resource by means of which the value of products is to be determined. Nozick's analysis can be divided into three major topics. First the notion of "simple labor time" is criticized. This is followed by a listing of a number of standard objections to the labor theory of value. Finally, Nozick examines a fundamental category of the *LT*, that of "socially necessary labor time."

Simple labor time. "Labor time" can be used as the measure of the value of products only if it is possible to reduce the different modalities of labor to one common unit. And so Marx proposed that the various forms of "complex" labor are to be seen as multiples of "simple," "undifferentiated," "abstract" labor. Paul Sweezy interprets this in the following manner.²⁴ Skilled labor depends on training and natural differences. Differentials in training can be measured in terms of the number of hours different workers have spent in training. Differences in natural ability can be measured by having the two persons produce as many units as possible of the same thing in a given period of time. From the different quantities produced during that period a ratio of natural ability can be derived. With these two methods, Sweezy concludes, it is possible in principle to measure skilled labor as a multiple of simple labor time.

Nozick objects to both of these methods. With respect to the former, he insists that quantifying training in terms of the number of hours spent being trained ignores the role played by the skill of the teacher. And treating natural differences as merely the ability to produce the same thing faster ignores the fact that the most significant result of skill is a different and better product. Rembrandt, Nozick notes, is not universally acclaimed as skilled on the grounds that he could paint faster than other artists.

Both of Nozick's points clearly have some validity. However, a number of things can be said in response. First Nozick does not seem to understand the specific object of Marxian economics, commodity production under industrial capitalism. Reflection on the artistic labor of a Rembrandt is simply not very relevant to an analysis of the labor processes involved in the industrial production of standardized commodities. Also, it can be shown empirically that there is an historical tendency immanent in the logic of capitalist production for a de-skilling of labor.²⁵ Hence even if there were no

mathematical formula which allowed us to calculate neatly the reduction of skilled to simple labor, the historical development of capitalism is proceeding to reduce the one to the other nonetheless in vast sections of the work process. And so a theory of the capitalist mode of production may be justified in assuming the cogency of this reduction. It is true that scientists and engineers are required to design and carry out this de-skilling process.²⁶ *Their* labor is not “simple.” Nozick’s case would have been stronger had he stressed this instead of disturbing the ghost of Rembrandt. But at least two options are open to defenders of Marxism in response. The more heterodox move would be to grant that scientific and technical labor *cannot* be reduced to simple abstract labor. It rather forms a second type of value creating activity.²⁷ This does not abandon the *LT*. It revises it. Calculations determining value would be considerably complicated, but would not be impossible in principle. A more orthodox option is to point out that day in and day out a reduction of skilled labor to simple labor occurs in the workplace. I am referring to the Job Evaluation and Job Ratings programs common in industry today. Such plans, whether administered by private or government employers, by labor unions, or by employers and unions jointly, fix a relative wage-rate structure between skilled and unskilled modes of expending labor power within the factory:

The general objective of Job Evaluation Plans is to reduce labor turnover and improve worker morale by reducing interoccupational jealousy and keeping interoccupational peace on the factory or office floor. The plans never work well unless there is a consensus among the workers, themselves, that the plan is fair and equitable. Within the scope of the factory or firm, a Job Evaluation Plan constitutes the occupational equalization system which reduces concrete labors into “human labor in general.” Incidentally, the inventory of differentials in job characteristics and requirements which these plans tend to take into account is usually more extensive than the differentials referred to in Marxist discussions of the skilled labor reduction problem.²⁸

Even if Nozick were correct that we do not yet possess the tools required to reconstruct the skilled labor reduction theoretically, the fact that this reduction is done in practice shows that this is hardly a

sufficient reason to dismiss the *LT*. No matter which option is taken, Nozick's objection loses its force.

Counter-examples. Nozick next simply lists a number of "standard counter-examples" to the *LT*, justifying his decision not to examine them further on the grounds that this would be "tedious" (p. 258). One of the alleged counter-examples, "the difference skilled labor makes," merely repeats the point discussed immediately above. Another, "changes caused by fluctuations in supply and demand," will be discussed along with the concept "socially necessary labor time" below. A third supposed counter-example "differences in value between identical objects at different places," can be dismissed altogether, being merely a particular case of fluctuations in supply and demand.

This leaves the following: "Found natural objects (valued above the labor necessary to get them); rare goods (letters from Napoleon) that cannot be reproduced in unlimited quantities; . . . aged objects whose producing requires much time to pass (old wines)." All of these situations, of course, are also cases of fluctuations in supply and demand. But another point can be made as well. In *all* economic systems there are examples of goods such as those mentioned being highly esteemed. To make examples such as these central to one's theoretical framework, then, is to lack the conceptual tools required to distinguish tribal, slave, feudal, socialist, and other economic systems from a capitalist order. Neither found natural objects nor rare goods such as letters from famous people are results of capitalist commodity production. And while aged objects can be such commodities, they clearly are not central to the logic of industrial capitalism.²⁹ These counterexamples therefore do not get at the heart of the logic of production in industrial capitalism. A theory such as Marx's which claims to be historically specific, whose object is that inner logic, is fully justified in abstracting from them. For all scientific activity proceeds by abstracting from phenomena not relevant to the object under investigation.

Someone who is not persuaded by this response can try the following thought experiment. Assume for a moment that all found natural objects which are valued (for example driftwood sold in shops, rare goods such as letters from Napoleon, and aged objects such as expensive wines), were to disappear overnight. What would result? Those who purchased these goods could find access to other areas to exercise their purchasing power easily enough; those few

who are occupied in the discovery and exchange of such goods would have to find other employment. And that is all. But now let us assume that all commodities produced for exchange by capitalist industries disappeared overnight. Industrial capitalists who had purchased the means of production necessary to produce those commodities would be ruined, along with those who had invested in their firms. Workers in those industries would no longer be paid wages. Soon the service sector of the economy would be hit and the state, having no significant source of revenue, would collapse. The entire capitalist mode of production would be irrevocably undermined. Can it not be concluded that it is the inner logic of capitalist industrial production which must be examined if one wishes to comprehend this mode of production? And if so, is it not permissible to abstract from those phenomena which in no way illuminate that inner logic?

Nozick's most telling objection, therefore, does not have to do with these counterexamples, but with the claim that the *LT* fails to illuminate the inner logic of commodity production under industrial capitalism. It is to this final objection that we now must turn.

Socially Necessary Labor Time. No Marxist would say that a firm which invests 1,000 hours of labor time to produce a loaf of bread makes a product with 1,000 times more value than the loaf of bread which takes an hour to produce. And so it is "*socially necessary labor time*" and not "labor time" without qualification which is the true measure of the value of commodities for Marx. Nozick subjects this category of "*socially necessary labor time*" to examination and comes to the conclusion that an internal incoherence lies at the heart of Marx's thought.

At first it might seem as if the sole measure of socially necessary labor time is the state of technology and industrial organization prevalent in society at the given moment. A firm using out-of-date technology within an inefficient organization requires more labor time than is socially necessary to produce a given quantity of goods. This alone, however, is not sufficient to determine what amount of labor time is socially necessary. The state of the market must be considered as well. Nozick quotes the following passage in which Marx himself acknowledges this:

Suppose that every piece of linen in the market contains no more labor-time than is socially necessary. In spite of this, all the pieces

taken as a whole may have had superfluous labor-time spent upon them. If the market cannot stomach the whole quantity at the normal price of 2 shillings a yard, this proves that too great a portion of the total labor of the community has been expended in the form of weaving. The effect is the same as if each weaver had expended more labor-time upon his particular product than is socially necessary.³⁰

The Marxist position was that the level of value, measured by labor time, is logically prior to the level of exchange in the market with its fluctuations in supply and demand. The level of value and labor time is the explanans, the essence, the depth level, the principle; the determining factor, while market phenomena are the explanandum, the surface level of mere appearances, the principled, the determined.³¹ But in the above passage it seems to be the case that the level of value is said to be logically *subsequent* to what supposedly was to be derived from it, with the market determining what counts as socially necessary labor time.

The *LT* has been the object of intense debate for many decades even within Marxist circles. There are Marxists who believe that it can be jettisoned without affecting the basic thrust of Marxist theory.³² There are others who feel that the *LT* cannot be abandoned without abandoning Marxism itself.³³ No attempt will be made to propose a definitive judgment on the status of the *LT* here. Instead the argument will be similar to the above reply to Nozick's analysis of the *PRT*: Nozick's criticism is totally inconclusive. Whatever the ultimate status of the *LT* might be, Nozick himself provides no adequate grounds for rejecting it.

Any reply to Nozick's objection must be based on a consideration of Marx's dialectical method. It will be argued that the objection is based on a failure to grasp this method. Put very simply, this method is first "analytic" and then "synthetic." The initial starting point, "the point of departure in reality,"³⁴ is concrete reality as it is immediately presented in experience. In this immediate experience of reality we possess what Marx terms a "chaotic conception of the whole." Now "the concrete is concrete because it is the concentration of many determinations, hence unity of the diverse." Hence in order to grasp this reality, one must grasp these determinations in their unity. In the initial, analytic stage of the dialectic Marx submits the "chaotic conception of the whole" to analysis with the aim of

uncovering its simplest, most elementary aspects: "I would then, by means of further determination, move analytically towards ever more simple concepts, from the imagined concrete towards ever thinner abstractions until I had arrived at the simplest determinations." Once the "simplest determinations" are reached, the synthetic stage of the dialectic commences. Now, beginning from the "simplest determinations," progressively more determinate (more "concrete") concepts are ordered in sequence. At the conclusion of this process of reconstructing experience the "whole" is once again reached, but no longer as a "chaotic conception." Instead it is now understood "as a rich totality of many determinations and relations." Marx contrasts the analytic and synthetic stages of the dialectic as follows: "Along the first path the full conception was evaporated to yield an abstract determination; along the second, the abstract determinations lead towards a reproduction of the concrete by way of thought." Next we may ask how Marx employs this method in his theory.

The capitalist mode of production is a reality the initial experience of which is only a "chaotic concept of the whole." The result of Marx's dialectical reconstruction in its analytic stage is the claim that the "commodity" with its "use value" and "exchange value," along with the "concrete" and "abstract" labor which are the foundation for use value and exchange value, respectively, are the "simplest determinations" of the capitalist mode of production. After these categories have been explicated in the first volume of *Capital*, the synthetic stage of the dialectic commences. For example, in Volume Two of *Capital* the notions of different branches of production and the circulation of value between them are introduced. This is a more concrete level of investigation than that discussed in the first volume in that it adds conceptual determinations not considered earlier. Likewise Volume Three is on a yet more concrete level in that determinations such as "supply and demand," "competition," "price," the "market" and others, now are introduced which go beyond what was considered in the earlier volumes. There thus is nothing contradictory or paradoxical about Marx asserting both that "labor time" is logically prior to the more concrete category, "the market," and that the explication of the former ultimately leads to the necessity of considering the latter. As one of the "simplest determinations" the category of "labor-time" by definition is not able to account for the full reality of the capitalist

mode of production. It is built into Marx's method that more concrete determinations such as "the market" must be added to it.

The above, of course, is not an answer to Nozick's objection. For our account of Marx's method implies that he can consider "labor time" in abstraction from the "market." Yet in the passage Nozick cites Marx introduces the market precisely in order to define the notion of (socially necessary) labor time. Does not the necessity to introduce considerations of the market here in Volume One reveal the incoherence of Marx's position?

No, it does not. The point to be grasped only sounds paradoxical: Marx introduces "the market" in Volume One *precisely in order to abstract from it*. To understand this we must distinguish the *production* of economic value from its *realization/distribution*. It is abstract labor time, Marx asserts, which brings about the economic value embodied in commodities. But fluctuations in the market place determine how value is realized and distributed. Firms which produce commodities in high demand relative to supply have no difficulty in realizing the value produced in the marketplace. In fact, they will be able to sell their goods for a price higher than the value embodied in them. Firms not so favored, on the other hand, are forced to sell goods at less than their value. Of the total value produced in the economy, some is distributed to the former firms at the expense of the latter. Only in the case when supply and demand are in equilibrium will a firm be able to realize exactly the value produced, no more and no less.³⁵ Only in this case can the labor-time spent in production be all socially necessary labor-time, no more and no less. Firms which can sell their goods at higher than their value have employed less labor-time than is socially necessary, while firms which must sell their commodities at less than their value have employed more labor-time than is socially necessary.

Clearly a full and concrete account of the capitalist mode of production must include consideration of the mechanisms of realization and distribution. But from Marx's perspective it is just as clear that the realization and distribution of value logically presupposes the production of value. Therefore, Marx devotes Volume One of *Capital* to a discussion of the production of value, independent of fluctuations in the market and the effect of such fluctuations on the realization and distribution of value, considering these phenomena in Volume Three. Precisely in order to abstract from these fluctuations, Marx assumes as a *ceteris paribus* clause that the labor-time

employed in production is socially necessary labor-time. Nozick only states the obvious when he points out that this notion cannot be fixed without reference to the market. But he misses the obvious when he fails to recognize that this assumption is made precisely in order to consider the production of value *in abstraction from* market considerations affecting the realization and distribution of value.

Perhaps there are arguments which could present a strong case against regarding the production of value as prior to its realization and distribution. Perhaps there are arguments which could present a strong case against considering abstract labor-time as the key to the production of value. But here, as elsewhere, Nozick is not even in the right ballpark.³⁶

Notes

1. New York; Basic Books, 1974. All page references in the text are to this work.
2. In the "Critique of the Gotha Program" Marx advocates a society in which deductions are made from the total social product for productive investment (to replace, expand, and insure the means of production) and for social consumption (costs of administration, of schools, health services, and so on, and funds for those unable to work) before means of consumption are divided among the individual producers. "Although," as Marx notes, "what the producer is deprived of in his capacity as a private individual benefits him directly or indirectly in his capacity as a member of society." *The Marx-Engels Reader*, ed. by Robert Tucker (New York, Norton, 1978), pp. 528–29.
3. As a historical claim this is nonsense. The classic discussion of the outright coercion behind the original accumulation of capital remains the section on primitive accumulation in Marx's *Capital* (Volume One, Part VIII).
4. In G. A. Cohen's *Karl Marx's Theory of History* (Princeton: Princeton U. Press, 1978), a distinction of "powers" and "rights" is made which is equivalent to our distinction of "control" and "legal ownership." See Cohen, p. 219 ff.
5. A mere improvement in wages under no circumstances necessarily involves a *less* exploitative situation either, as Nozick's case seems to presuppose. If wages increase but at a rate less than increases in labor productivity, exploitation actually *increases*. Nozick's thought construction simply leaves out too many essential details to be helpful in explicating the category of "exploitation."
6. See *Selections from the Prison Notebooks of Antonio Gramsci* (New York: International, 1971) *passim*.

7. How, then, is it possible that in those countries in which these groups are the strongest laborers are paid higher wages than elsewhere? At least part of the answer lies in the fact that these countries are the leading imperialist powers. By using their military and economic power to manipulate favorable terms of exchange these countries have been able to "buy off" their own working classes at the cost of immense misery elsewhere. See Samir Amin's *Accumulation on a World Scale* (New York: Monthly Review, 1974). The view that a domestic class compromise can be bought only with imperialistic foreign policies is not exclusive to Marxists. The more honest of the defenders of capitalism acknowledge this as well, for instance, Max Weber. See *Max Weber and the Theory of Modern Politics* by David Beetham (London: Allen & Unwin, 1974).
8. A number of these studies are reviewed in Carole Pateman's *Participation and Democratic Theory* (New York: Cambridge University Press, 1970). See also Carnoy and Shearer, *Economic Democracy* (N.Y.: M.E. Sharpe, 1980), Chapter 4, "Democratizing the Work Place;" Seymour Melman, "Industrial Efficiency Under Management vs. Cooperative Decision-Making," *Review of Radical Political Economics* (Spring, 1970); and the survey "Productivity and Worker Participation" (Ann Arbor: Institute for Social Research, U. of Michigan, 1977).
9. For example, *Business Week*, May 11, 1981, "The New Industrial Relations," pp. 84 ff.
10. See Pateman, *Participation and Democratic Theory*, pp. 52–3.
11. Nozick, however, cannot refrain from suggesting that this leads to an infinite regress, since it requires certain entrepreneurial skills to recognize those with entrepreneurial skills. This regress presumably can only be avoided by having entrepreneurs set workers in motion rather than vice versa. Nozick would do well to re-read Book III, Chapter 11 of Aristotle's *Politics*. Aristotle makes the point there that just as one does not have to be a cook oneself to judge the quality of the dinner, so too citizens do not themselves need to have the technical skills of administrators in order to judge the quality of administration. Similarly workers' councils could delegate authority without falling into the infinite regress Nozick describes.
12. *Democracy for the Few*, by Michael Parenti (N.Y.: St. Martin's Press., 1980) p. 111. See also Stellan and Daum's *Work is Dangerous to Your Health* (N.Y.: Pantheon, 1973) and D. Berman's *Death on the Job* (N.Y.: Monthly Review, 1978).
13. In Nozick's usage the category of "risk" is limited to risks faced by investors in new ventures, that is, to the possibility of a loss of money. The physical and psychological hardships to which the working

- classes are subjected thus are *a priori* excluded. This in itself would be enough to reveal the ideological nature of Nozick's concept of "risk."
14. For a thorough discussion of these topics see *Capital and Communities: The Causes and Consequences of Private Disinvestment* by Bluestone and Harrison (New York: The Progressive Alliance, 1980).
 15. *The North Will Rise Again: Pensions, Politics and Power in the 1980s*, by Rifkin and Barber (Boston: Beacon Press, 1978), p. 91.
 16. *Conflicts of Interest: Commercial Bank Trust Departments* (N.Y.: Twentieth Century Fund, 1975), p. 54, p. 29, and elsewhere.
 17. "Capitalism and Socialism: Declining Returns," *New York Review of Books*, Feb. 17, 1977, pp. 35–39.
 18. "Section 302 of the Taft-Hartley Act (regarding the regulation of pension funds) set the first major legislative precedent for the institutionalized control of pension capital by the private financial community. First, the act took exclusive control of these funds out of the hands of the unions by requiring that management representatives comprise 50 percent of the board of trustees of jointly administered pension plans. (On other corporate plans covering union workers, labor was to have no representation at all on the board of trustees administering the fund.) Secondly, by implying that the funds should be invested solely with the idea of producing the maximum short-run return on investment for the beneficiaries, the Taft-Hartley Act effectively narrowed the ways that pension capital could be used, so that it would conform to the traditional objectives of a private capital market. For the business community, this was just the opening wedge. Subsequent legislation in 1958 (the Welfare & Pension Reform Act) and in 1974 (the Employee Retirement Income Security Act—ERISA) further strengthened its control over the use of pension capital by further refining the terms of investment to mesh with the needs of a private capital system." Rifkin & Barber, *The North Will Rise Again*, pp. 101–2.
 19. Cf. Claus Offe's article, "Political Authority and Class Structure: An Analysis of Late Capitalism" for a theoretical discussion of the function played by such filtering devices. (*International Journal of Sociology*, 2 (1972): 73–108.)
 20. Rifkin & Barber, *The North Will Rise Again*, pp. 91–92. In periods of crisis, of course, it becomes harder and harder for such conspiracies/coincidences of silence to remain effective. More and more unions are realizing that something is drastically wrong when pension funds are used to prop up bank investments or are invested in firms which transfer jobs from unionized to nonunionized plants. As consciousness of this spreads it can be expected that demands for worker control of pension funds will increase in the coming years, Nozick's notion of workers' "fear of risks" notwithstanding.

21. Countries in which an entrenched bureaucracy dictates production in a manner which excludes public discourse do not count as "Marxist" in the sense in which the term is used here, no matter how much Marxist vocabulary is used to legitimate the rule of that bureaucracy. The critique of bureaucracy was a constant in Marx's work from his early rejection of Hegel's theory of civil service to later works such as "The Civil War in France" in which he proposed substantive measures to ensure public control of state officials (for example, the direct election of administrators, paying officials average workers' wages, subjecting them to recall). On the topic of "uncoerced discussion" see the writings of Jurgen Habermas, for example, "Towards a Theory of Communicative Competence" in *Inquiry*, 13 (1970): 360–75. For suggestions as to how an institutional system embodying this principle might look, see Carnoy & Shearer's *Economic Democracy* (White Plains, N.Y.: M. E. Sharpe, 1980) and "A Proposal for a Democratic Market Economy" by Leland Stauber, *Journal of Comparative Economics*, 1 (1977): 235–58.
22. Only someone totally ignorant of the type of society Marx advocates (see note 2. above) could suggest as Nozick does that under socialism "some hard-working laborers [would be paid] almost not at all" (p. 261). On p. 256, Nozick does mention in an off-hand way that under socialism, it might be the case that "everybody shares in the risks." But he does not even attempt to consider the benefits of such a system.
23. At this point Nozick moves from subtle to crass apologetics. It is not "demand" per se, but "effective demand" which matters in the marginal utility model; it is not "wants" per se that are satisfied but wants that have purchasing power behind them. Those wants which do not have sufficient purchasing power to back them up not only do not determine the value of productive resources in the marginal utility schema; they are ignored by that system altogether.
24. *The Theory of Capitalist Development* (New York: Monthly Review Press, 1956).
25. See Henry Braverman. *Labor and Monopoly Capital* (New York: Monthly Review Press, 1974).
26. It is interesting to note that Marx himself anticipated the growing importance of scientific and technical labor: "To the degree that large industry develops, and creation of real wealth comes to depend less on labour time and on the amount of labour employed than on the power of the agencies set in motion during labour time, whose "powerful effectiveness" is itself in turn out of all proportion to the direct labour time spent on their production, but depends rather on the general state of science and on the progress of technology, or the application of this

- science to production.” *Grundrisse* (New York: Vintage, 1973), pp. 704–5.
27. This position is defended by Jurgen Habermas. See “Between Philosophy and Science: Marxism as Critique” in *Theory and Practices* (Boston: Beacon, 1973).
 28. See Jacob Morris and Haskell Lewin, “The Skilled Labor Reduction Problem,” *Science and Society* 37 (1973–74): 454–72.
 29. Wine is a well chosen example; under the capitalist mode of production there is a systematic tendency to reduce the aging period to a minimum so that production, and therefore profits, can be maximized. In other words, the closer wine approaches becoming a typical capitalist commodity the more it loses precisely that feature which Nozick stresses, a fact which suggests that his examples have little to do with the logic of capitalist commodity production.
 30. Marx, Karl. *Capital*, Vol. 1 (New York: Modern Library, n.d.), p. 120.
 31. Excellent discussions of the logic of Marx’s *Capital* are found in Roman Rosdolsky’s *The Making of Marx’s Capital* (New York: Urizen, 1977) and *Zur logischen Struktur des Kapitalbegriffs bei Karl Marx* by Helmut Reichelt (Frankfurt a.M.: Europäische Verlagsanstalt, 1970).
 32. Marxists influenced by Piero Sraffa’s, *The Production of Commodities by Means of Commodities* (N.Y.: Cambridge Univ. Press, 1960), take this position.
 33. For example, the books by Rosdolsky and Reichelt, cited in note 30.
 34. Marx, Karl, *Grundrisse* (New York: Vintage, 1973), p. 101. All of the following passages are taken from the section of Marx’s introduction entitled “The Method of Political Economy,” pp. 100–101.
 35. This is a necessary and not sufficient condition. For commodities to sell at a price equivalent to their value the firm in question must have a socially average organic composition of value as well.
 36. I would like to thank Ed Royce, Meryl Fingrutd, Charles Hoch, my colleagues in the philosophy department of Iowa State, and the editors of *Social Theory and Practice* for many helpful suggestions. I am also grateful to the National Endowment for the Humanities for support during the writing of this paper.

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