

**Exploitation and Economic Justice in the Liberal Capitalist State.** By Mark R. Reiff. Oxford: Oxford University Press. 2013. 372 p. \$100 cloth.

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A few times, I have walked out of a cinema puzzled by the movie I had just seen: excellent actors, good photography, interesting dialogues, memorable soundtrack and skilled director, and yet the movie was unconvincing. I have had the same reaction after turning the last page of this book.

The aim of the book is to develop a general theory of exploitation that can be used to formulate feasible, justice-enhancing policies in existing liberal capitalist states. Exploitation is defined “as the unjust extraction of value from another as part of a voluntary exchange transaction not otherwise prohibited by law” (p.80). The concept of exploitation is situated within the tradition of theories of just price, which have a long history in philosophy and political thought, going back to Aristotle, Roman law and Canon law. To be specific, in Reiff’s account, the just, non-exploitative price is equal to the average total cost of producing a good. This includes labour, whose total cost of “production” is computed taking into account basic and contextual needs, and any other costs incurred by workers in “producing” their labour (such as costs to acquire knowledge and skills).

The just price provides the fundamental normative benchmark to evaluate the fairness of a transaction. Any exchange taking place at a price different than the normative benchmark is deemed potentially exploitative. Nonetheless, argues Reiff, not all such exchanges are morally wrong and to be banned. An important

constraint to his theory of exploitation is that it should be applied within the framework defined by liberal capitalist institutions. This includes both the economic mechanisms of capitalist societies, and the fundamental liberal principle of toleration. Thus, any action to remedy exploitative transactions should be compatible with the system of incentives that regulates private market economies. In particular, exchanges that take place at prices different from the fair benchmark may be allowed if this promotes entrepreneurship and innovation.

Nonetheless, the approach proposed is not empty, or apologetic: it does not justify liberal capitalism as it currently is. For, it identifies some important violations of the doctrine of fair price which call for action. Two (sets of) markets in particular stand out in Reiff's analysis: labour markets and financial markets. In the former, the doctrine of fair price is violated *both* because some agents are paid less than a fair wage *and* because other agents (for example, top managers) are paid *more* than the fair wage. Similarly, purely speculative transactions are deemed necessarily exploitative and should be banned.

There is much to be praised in this book. The historical survey of fair price theories is fascinating. Unlike in many other contributions, the normative analysis is not reduced to a search in the hyperspace of assumptions: the theoretical analysis never loses sight of actual societies and all claims are supported by empirical data. Indeed, empirical considerations are not just complementary to the main project: they are an essential part of it. For, as noted above, Reiff's empirical assumptions on the functioning of actual capitalist economies play a key role in defining the core of his theory of justice. Finally, many of the policy proposals are reasonable, realistically implementable, and would be both welfare-improving and

inequality-reducing. Nonetheless, I do not find the central ideas and key theoretical claims entirely compelling.

As in movie reviews, it is worth starting at the very end: as an exercise in applied moral philosophy, the book makes various policy proposals, such as raising the minimum wage, putting a cap on executive salaries, regulating financial markets, and introducing serious anti-trust regulation. These proposals are all reasonable and, arguably, necessary. It is hard to disagree with Reiff. Indeed, the proposals are so deliberately mild and minimalist that one wonders why Reiff needs an entire book, a full-fledged theory of justice, and slow and painful argumentation to motivate them. One can think of many, simpler, and much more direct ways of justifying these policies based, for example, on mainstream economic theory.

Even less clear is the value added by framing the discussion in terms of exploitative transactions. Indeed, after more than three hundred pages of detailed discussion, I still do not see in what sense this book is about exploitation theory.

As Reiff notes, at the most general level, the standard notion of exploitation is that A exploits B if and only if A takes unfair advantage of B. This implies that a theory of exploitation should specify *both* the relevant source of unfairness (the distributive dimension of exploitative relations) *and* what allows A to take advantage of B (the relational dimension). Reiff offers a theory of the fair price which – at best – can capture distributive aspects but leaves out completely the relational aspects that are fundamental in our moral intuitions about exploitation, as a phenomenon distinct from inequality. And, arguably, the relational aspects of exploitation are, *prima facie* at least, as morally relevant as the distributive ones: for exploitative relations are characterised by violations of norms of fairness in

exchange involving asymmetric relations of power, force or coercion. These aspects are completely neglected in the book. Yet, to call all exchanges at prices different than the fair benchmark exploitative is not to provide a general theory, it is to lose a word.

But even on its own terms, the theory developed by Reiff is not convincing. It is not clear at all why it is morally appropriate to set the fair price equal to the average total accounting cost of producing a good. First, there is no reason to assign a special moral value to out-of-pocket expenses. Why should the moral status of productive resources in the computation of the fair price depend on how they are obtained? This is not just an abstract issue. For a focus on accounting, as opposed to economic or opportunity costs, implies that the productive inputs whose services are not bought on the market (e.g. unpaid family labour, owned buildings, and so on) should be considered morally irrelevant.

Second, it is not clear why *average* costs should be the benchmark. Observe that if all exchanges took place at average costs then profits would be zero. This is obviously incompatible with the functioning of capitalist economies. In Marxist theories of exploitation, this is fine since a fundamental change in the economic system is seen as a necessary condition for the elimination of exploitation. But this is inconsistent with Reiff's minimalist approach: the disappearance of profits is not seen as a desirable moral objective. It is for this reason that Reiff has to go to great lengths to explain why, although his own theory implies zero (accounting) profits, other normative principles counterbalance this. I find this solution to the inherent tension in his approach quite ad hoc. *If* fair prices should reflect costs, then the most rigorous and consistent solution is to opt for *marginal* cost pricing.

And there is a long-standing tradition in mainstream economics arguing precisely that marginal cost pricing is not just welfare-maximising, but also *fair*. Reiff provides some arguments to reject marginal cost pricing that seem based on some misunderstandings of economic theory. For example, he argues that “Marginal costs are themselves extremely difficult to estimate” (p.116). Yet both average and marginal costs are computed based on the same information about total costs and quantities produced. Hence, if one is difficult to compute, so is the other. Indeed, it is legitimate to wonder whether *any* cost-based definition of fair price should provide the foundations for a theory of exploitation.