Chapter 2
Myth and Metaphor in Orthodox Economics*

End of the Pseudo-Debate between Capitalism and Socialism

These are interesting times to think anew about orthodox neoclassical economics. With the collapse of communism, the bipolar economic-political order is breaking down.

Suppose that the proslavery writers had managed to get "The Slavery Question" posed as the question of whether slave plantations should be publicly or privately owned. Instead of being privately owned and exploited for private greed (the "Athens model"), shouldn't the slave plantations be publicly owned and operated for the public good (the "Sparta model")?

Public ownership of plantations would, however, be inefficient. Publicly owned slaves would be "owned by everyone and thus by no one." Without clear-cut property rights and claims to the residual in the hands of an effective monitor, the slaves would shirk their duties and the plantation assets would be mismanaged. Eventually the public plantations would collapse under the weight of their own inefficiency and would thus prove the superiority of "Athenian" private ownership of slave plantations.

The Great Debate between the public or private ownership of slave plantations would finally be over. Athens and private ownership would have won. Pundits would declare "the end of history." So-called abolitionists might speak of a "Third Way" involving self-ownership but the slaves who have been reduced to near-starvation on the public plantations would not be able to afford some other "experiment." Across the long sweep of human history, the economic system with the greatest longevity and stability is slavery under private ownership. That is the verdict of history. The slaves should forget any half-baked dreams of an untried and untested Third Way. The public plantations should be straightaway privatized.

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This hypothetical "Great Debate" about slavery has a familiar ring to it. With the end of that pseudo-debate, the ground would be cleared for the recognition that the real question was not whether slaves should be privately or publicly owned but whether people should always be "self-owning."

Today, the economic systems of the world are based not on owning workers but on hiring, employing, or renting workers. Today's pseudo-debate is over whether workers might be privately employed for private interests or should always be publicly employed for the public good. However, the real question is whether people might be rented at all (by a public or private party) or should always be jointly self-employed in their place of work [see Dahl 1985 or Ellerman 1990 for a discussion of an economic democracy with democratic worker-owned companies]. Now that the pseudo-debate between capitalism and socialism is over, perhaps the real question can be addressed.

Conventional economics—after over a century of the Great Debate with Marxist socialism—has developed a number of bad habits of mythical and metaphorical thought, particularly when applied to the capitalist firm (i.e., the firm based on the employer-employee relationship). Since the socialist firm is also based on the employment relationship, socialist economics has not been an effective critic.

Neoclassical economic models often seem to possess a bare skeleton of applied mathematics (various models of constrained optimization) with an overlay of shifting metaphors that obscure rather than elucidate the underlying reality. The postmodernist philosopher Richard Rorty has argued against the traditional notion of an "underlying reality" in favor of seeing "truth" along with Nietzsche as "a mobile army of metaphors" [1989, 17]. We shall argue that much of neoclassical economics already is "a mobile army of metaphors" so, by those standards, it may be very near to the "truth."

The Liabilities-Cancellation Metaphor

Applied to Stocks on the Balance Sheet

Stocks of property (three apples and five oranges) and flows of property (an apple a day) can be described in physical terms. Given a set of prices, the stocks and flows of property can be reduced to stocks and flows of value. Values are commensurate. One cannot subtract apples from oranges, but one can subtract the value of apples from the value of oranges.

Suppose an individual owns five oranges as an asset and holds a debt or liability of three apples to another person. It would not be meaningful to subtract the liability of three apples from the assets of five oranges and to conclude that the person has “net assets” of two “fruit.” The individual does not just own two oranges; he or she owns all five oranges and *also* owes a liability of three apples to another party. The liabilities do not somehow cancel part of the property rights.

Given prices for the apples and oranges, the values can indeed be canceled. If oranges are $1.00 each and apples are $1.30 each then the net worth is $1.10 (but there are no “net assets”).

Assets	Liabilities
5 Oranges @ $1 = $5.00	3 Apples @ $1.30 = $3.90
	Net Worth $5.00 - 3.90 = $1.10

Figure 1. Balance Sheet

“Liabilities cancellation” is the practice of metaphorically reinterpreting the perfectly valid value cancellation as some type of *property* cancellation so that the debtor is viewed as only owning two “fruit.”

Assets	Liabilities
5 Oranges	3 Apples
	"Net Assets" 2 "Fruit"

Figure 2.. Incorrect "Liabilities Cancellation"

Applied to Flows on the Income Statement: Distributive Shares Metaphor

The liabilities cancellation metaphor can be applied to property flows as well as to property stocks, e.g., to the income statement as well as to the balance sheet [for the physical versions of these accounting statements, see Ellerman 1982, 1986a]. Consider the usual stylized description Q = f(K,L) of a production opportunity, which means that the workers and managers perform certain human activities described by the labor services L that use up the capital services K and produce the outputs Q during a given time period. If the fixed unit prices of Q, K, and L are respectively P, R, and W, then the net income or profit is ΣΨΜΒΟΛ 112 ∴φ ∀Σψμβολ∀ = PQ – RK – WL. The liabilities cancellation metaphor applied to the income statement yields the "distributive shares" metaphor.

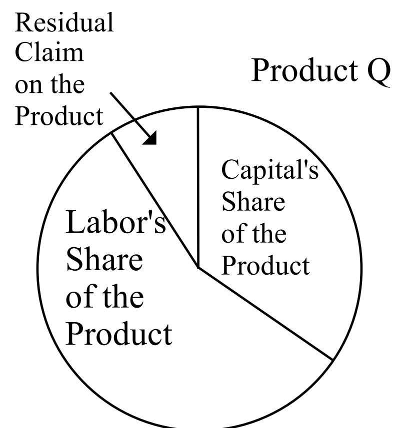

Figure 3. Distributive Shares Metaphor

Each input supplier receiving an expense payment is depicted as a co-claimant on a share of the product with the "residual claimant" claiming any remaining residual. The distributive shares metaphor presents the capitalist firm as some type of partnership. Each input supplier

shares in the product with the residual claimant taking what is left. Attention is directed away from the structure of property rights toward the array of input prices that in part determine the "relative shares" of the product.

The value cancellation used to compute the net income is perfectly legitimate, but the metaphorical extension to a property cancellation is illegitimate. The input suppliers—qua input suppliers—do not own a share of the product. The "residual claimant" owns *all* of the product Q, not just some residual share. How can this be consistent with the income to the input suppliers? The point is that the residual claimant also holds *all* the liabilities for the used-up inputs. In addition, the residual claimant also has *all* the discretionary control rights over the work process within the confines of the input supply contracts.

The residual claimant claims not just the residual but a bundle of incommensurate rights and liabilities (Q, –K, –L) consisting of the produced assets Q *and* the liabilities for the used-up inputs symbolized by –K and –L. In the modern nonmetaphorical treatment of property rights, this bundle of property rights and obligations is called the "whole product" [Ellerman 1982]. Technically feasible whole product vectors are the production vectors used in the modern production set representation of technical opportunities. In the economics literature, a whole product vector is also called a "production possibility vector" [Arrow and Debreu 1954, 267], an "activity vector" [Arrow and Hahn 1971, 59], a "production" [Debreu 1959, 38], or an "input-output vector" [Quirk and Saposnik 1968, 27].

The Metaphor of the Firm as a "Nexus of Contracts"

The latest fashion in the "mobile army of metaphors" is the idea of the firm as "a nexus of contracts" or "a nexus of treaties" [see Aoki et al., 1989]. This should not be confused with the trivial truth that the firm lies *in* a nexus of contractual and quasi-contractual relationships with employees, input suppliers, output demanders, and governmental authorities. The idea is that the firm *is* just a nexus of contracts, a relational entity like a weekend flea market that vanishes on weekdays.

> This is the set of contracts theory of the firm. The firm is viewed as nothing more than a set of contracts. One of the contract claims is a residual claim (equity) on the firm's assets and cash flows. [Ross and Westerfield 1988, 14]

It is not easy to imagine the stocks and flows of property in a corporation like General Motors as "nothing more than a set of contracts," but apparently the idea is a wholesale application of the liabilities-cancellation metaphor. Like a liquidation bankruptcy carried out at the metaphorical level, the assets and revenues are divvied up between the creditors and suppliers. Even the residual claim—ordinarily pictured as getting what is left after contractual claims are satisfied—is depicted as "[o]ne of the contract claims." Thus the newfangled "nexus of contracts" metaphor improves on the old-fashioned distributive shares metaphor by treating the residual claim or equity as another contractual relationship.

An actual nonmetaphorical firm is a legal party that owns 100 percent of the produced outputs, holds 100 percent of the liabilities for the used-up inputs, and has 100 percent of the discretionary control rights over the work process. A legal party that only supplies inputs—such as the workers in a capitalist firm—owns 0 percent of the produced outputs, holds 0 percent of the liabilities for the used-up inputs, and has 0 percent of the discretionary control rights over the work process. Those are the actual institutional facts—not the metaphors. It is not a picture of symmetry; it is total asymmetry.

The fundamental question about production—which is the fundamental question of political economy—is the question of "Who is to be the Firm?" Capital (suppliers of equity capital), the State, or Labor (the people working in the enterprise)?

The distributive shares metaphor obfuscates the question by picturing all the input suppliers in symmetrical roles as contractual claimants on shares of the product. But the noncontractual residual claimant's role still hints that one party is not symmetrical with the others. The nexus of contracts picture mops up that untidy detail by presenting the residual claim as just another contractual claim. Then the fundamental question of "Who is to be the

Firm?" has *completely* vanished; the firm is "nothing more than a set of contracts." The "mobile army of metaphors" marches on.

Laissez-Faire Appropriation

Markets transfer property rights. But to be transferred, a property right must first be "born" or initiated, and it will eventually "die" or be terminated. The birth of property rights is called "appropriation" and the death of property rights is the original meaning of "expropriation" (as opposed to the acquired meaning involving eminent domain).

In a production process, new property is created and old property is used up. In the stylized example, the property rights to the outputs Q are created and the property rights to the input services K and L are terminated. In order to avoid confusion with the acquired sense of "expropriation," we will rephrase the "termination of the rights to K and L" as the "appropriation of the liabilities –K and –L." Thus in the stylized production example, the output assets Q *and* the liabilities –K and –L are *all* appropriated, i.e., the whole product (Q, –K, –L) is appropriated.

What is the legal mechanism of appropriation? When a law is broken, the liabilities are assigned by the legal authorities through the court system. But when no law is broken, a "laissez-faire" system of appropriation is the default. One legal party buys or already owns all the (exclusively owned) inputs needed for production, and that party "swallows" or bears those costs when the inputs are consumed in production. Then that party has the legally defensible claim on the produced outputs. Hence that party legally appropriates the whole product of production.

How is the question "Who is to be the Firm?" answered descriptively in a private-property market economy? First we must define "firm" so as not to beg the question. Consider a production process that is noninstitutionally described in the usual manner by a production function Q = F(K,L). Take "firm" to mean the legal party that legally appropriates the whole product (Q, –K, –L) of the production process in the institutional setting of a private-property

market economy. Then the laissez-faire mechanism of appropriation provides an answer to the descriptive question of "Who is to be the Firm?"—namely, the hiring party.

The Fundamental Myth about Capitalist Property Rights

The Neglect of Appropriation

Conventional economics does not even recognize that appropriation takes place in production. The nonrecognition of appropriation in production is one of the remarkable oversights of the field called the "economics of property rights."

Philosophers follow Locke and discuss appropriation as the birth of private-property rights in some primordial state where goods were held in common or were unowned. Economists follow suit and discuss the formation of private property rights out of common ownership. For instance, Harold Demsetz [1967] considers how private property in land with fur-bearing animals was established as a result of the growth of the fur trade. John Umbeck [1981] considers how rights to gold deposits were created during the 1848 California gold rush on land recently ceded from Mexico. Yoram Barzel [1989] considers how the common property rights to minerals under the North Sea were privatized. But in Barzel's book [e.g., his Chapter 5, "The Formation of Rights"] as elsewhere in the economics of property rights literature, there is no recognition of the appropriation of the outputs and the symmetrical termination of rights to the used-up inputs in the normal production process. That omission, like "the dog that didn't bark," calls for an explanation.

The Fundamental Myth

There is a "fundamental myth" accepted by both sides in the Great Debate between capitalism and socialism.   The myth can be crudely stated as the belief that "being the firm" is part of the bundle of property rights referred to as "ownership of the means of production." Any legal party that operates as a capitalist firm (e.g. a conventional company) actually plays two distinct roles:

- the *capital-owner role* of owning the means of production (the capital assets such as the equipment and plant) used in the production process; and
- the *residual claimant role* of bearing the costs of the inputs used-up in the production process (e.g., the material inputs, the labor costs, and the used-up services of the capital assets) and of owning the produced outputs.

The Fundamental Myth can now be stated in more precise terms. It is the myth that the residual claimant's role is part of the property rights owned in the capital owner's role, i.e., part of the "ownership of the means of production." *That* is why "appropriation" does not appear in the conventional treatment of production; the ownership of the (whole) product is taken as part of the "ownership of the means of production."

It is simple to show that the two roles of residual claimant and capital owner can be separated without changing the ownership of the means of production. *Rent out the capital assets*. If the means of production such as the plant and equipment are leased out to another legal party, then the lessor retains the ownership of the means of production (the capital-owner role) but the leasee renting the assets would then have the residual claimant's role for the production process using those capital assets. The leasee would then bear the costs of the used-up capital services (which are paid for in the lease payments) and the other inputs costs, and that party would own the produced outputs. Thus the residual claimant's role is *not* part of the ownership of the means of production.

The separation of the two roles has become clear even in the Soviet Union. Over a thousand firms in the Soviet Union are organized as "lease firms," wherein the worker collective leases the needed physical assets from the ministry [see Ellerman 1990]. Thus residual claimancy switches to the workers while the ministry maintains the ideological fetish of "ownership of the means of production."

The “Miracle” of Incorporation

This “rent-out-the-capital” argument is very easy to understand. But it is astonishing how many economists fail to understand the argument when the capital owner is a corporation. If an individual owns a machine, a “widget maker,” then that ownership is independent of the residual claimant’s role in production using the widget maker. The capital owner could hire in workers to operate the widget maker and to produce widgets—or the widget maker could be hired out to some other party to produce widgets.

Now suppose the same individual incorporates a company and issues all the stock to himself in return for the widget maker. Instead of directly owning the widget maker, he is the sole owner of a corporation that owns the widget maker. Clearly this legal repackaging changes nothing in the argument about separating capital ownership and residual claimancy. The corporation has the capital owner’s role and—depending on the direction of the hiring contracts—may or may not have the residual claimant’s role in the production process using the widget maker. The corporation (instead of the individual) could hire in workers to use the widget maker to manufacture widgets, or the corporation could lease out the widget maker to some other party. The process of incorporation does not miraculously transubstantiate the ownership of a capital asset into the ownership of the net production vector produced using the capital asset.

The Fundamental Myth in Economic Theory

The Fundamental Myth in Theory of the Firm

In the early models of perfectly competitive equilibrium, constant returns to scale in production was assumed. This implied zero economic profits in equilibrium, so from the viewpoint of value theory, it was immaterial who was the firm, i.e., who appropriated the whole product vector (since it had zero net value). In 1954, Professors Kenneth Arrow and Gerard Debreu published a paper [Arrow and Debreu 1954] in which they claimed to show the existence

of a competitive equilibrium under the general conditions of nonincreasing returns to scale, i.e., decreasing or constant returns to scale. Under decreasing returns to scale, there would be positive economic or pure profits. Hence the Arrow-Debreu model alleges to show the existence of a perfectly competitive equilibrium with *pure profits*. In the following passage, Professor Arrow contrasts the Arrow-Debreu model with the model by Professor Lionel McKenzie [1959] which used constant returns to scale.

> The two models differ in their implications for income distribution. The Arrow-Debreu model creates a category of pure profits which are distributed to the owners of the firm; it is not assumed that the owners are necessarily the entrepreneurs or managers. ...
>
> In the McKenzie model, on the other hand, the firm makes no pure profits (since it operates at constant returns); the equivalent of profits appears in the form of payments for the use of entrepreneurial resources, but there is no residual category of owners who receive profits without rendering either capital or entrepreneurial services. [Arrow 1971, 70]

Since the whole product vectors could have a positive value in the Arrow-Debreu model, the model had to face the question as to how these vectors got assigned to people. The Arrow-Debreu model does not answer the question by postulating "hidden factors" since that would compromise the model in a number of ways [see Ellerman 1982, Chapter 13; or McKenzie 1981]. Arrow explicitly states that "pure profits" are distributed to "the owners of the firm," and that, in contrast, the McKenzie model does not have this "residual category of owners who receive profits without rendering either capital or entrepreneurial services."

The Arrow-Debreu model answers the question by assuming that there is a property right such as the "ownership" of the production sets of technically feasible whole product vectors. The train of reasoning is that production sets represent the production possibilities of "firms" and

“firms” are (mistakenly) identified with specific corporations, which, of course, are owned by their shareholders.

In a private-enterprise capitalist economy, there is no such property right as the “ownership” of production sets of feasible whole product vectors. In the Arrow-Debreu model each consumer-resourceholder is endowed prior to any market exchanges with a certain set of resources and with shares in corporations. However, prior to any market activity, ownership of corporate shares is only an indirect form of ownership of resources such as widget maker machines. It is the subsequent contracts in input markets that will determine whether a corporation, like any other resource owner, successfully exploits a production opportunity by purchasing the requisite inputs.

The Arrow-Debreu model mistakes the whole logic of appropriation. The question of who appropriates the whole product of a production opportunity is not settled by the initial endowment of property rights. It is only settled in the markets for inputs by who hires what or whom. In other words, the determination of who is to be the “firm” (the whole product appropriator) is not exogenous to the marketplace; it is a *market-endogenous* determination. This adds a degree of freedom to the model that can only be ignored in the special case of universal constant returns to scale when it doesn't matter (for income determination) who is the firm. This degree of freedom eliminates the possibility of a competitive equilibrium with positive economic profits (e.g., with decreasing returns to scale in some production opportunity). Any profit seeker would bid up the price of the inputs that could be engaged in any opportunity with pure profits.

The symmetry is restored between decreasing and increasing returns. Competitive equilibrium fails under decreasing returns because everyone tries to be the firm (positive profits)—just as it fails under increasing returns because no one wants to be the firm (negative profits). Competitive equilibrium can only exist under constant returns where profits are zero. Our point is not that the idealized model is unrealistic. Our point is that the Arrow-Debreu

model (with decreasing returns) does not correctly model an *idealized* competitive private property market economy. The structural modeling error is the assumed "ownership" of production set—which in turn disallows profit-seeking arbitrageurs from bidding on inputs to undertake production. Idealized competitive models should allow all forms of arbitrage [see Ellerman 1984]—including the "production arbitrage" of buying the inputs and selling the outputs.

The Imputation Fallacies of Capital Theory

Broadly speaking, capital has two types of uses, "active" or passive. Capital is used passively when it is sold or rented out in return for some market price or rental. Capital is used "actively" when, instead of being evaluated directly on the market, it is used up in production, usually along with other resources. Then the liabilities for the used-up resources and the rights to any produced assets are appropriated. Thus appropriation is involved in the active use, not in the passive use of capital.

One of the basic concepts of capital theory is the notion of the capitalized value of an asset. The definition is usually stated in a rather general fashion; owning the asset "yields" a future income stream and the discounted present value of the income stream is the capitalized value of the asset. But there are quite different ways in which "owning an asset" can "yield" an income stream. In particular, there are the "active" and the passive uses of capital. The capitalized value concept is unproblematic in the passive case where the income stream is the stream of net rentals plus the scrap value. The capitalized value of that stream is, under competitive conditions, just the market value of the asset. Bonds and annuities provide similar examples of income streams generated by renting out or loaning out capital assets (i.e., by the passive use of capital).

The capitalized value definition is, however, applied to the quite different active case where, instead of hiring out the capital, labor is hired in, a product is produced and sold, and the net proceeds are all imputed to the capital assets. When the discounted profits are included in the

"capitalized value *of the capital asset*," then the role of appropriation is overlooked. One might then think that by purchasing the asset or the "means of production," one is thereby purchasing the outputs and the net proceeds–so there is no need to appropriate the outputs.

> When a man buys an investment or capital-asset, he purchases the right to the series of prospective returns, which he expects to obtain from selling its output, after deducting the running expenses of obtaining that output, during the life of the asset. [Keynes 1936, 135]

But that is a factually incorrect description of property rights. A man thereby purchases only the asset. Any further return will depend on his contracts. If he rents out the asset and sells the scrap, then he receives only the rental-plus-scrap income stream. If, instead, he hires in labor, bears the costs of the used-up labor and capital services, and claims and sells the outputs, then he receives the net proceeds mentioned by Keynes.

Another example of assigning the whole product to the capital asset is involved in the notions of "marginal efficiency of capital" or "net productivity of capital." The discount rate that discounts all the future returns (including the profits) back to the market cost of the capital asset is sometimes called an internal rate of return or average rate of return over cost. However, it is also presented as the yield rate *of the capital asset* and then it is called the marginal efficiency of capital [Keynes 1936, 135] or the net productivity of capital [Samuelson 1976, 600—where Samuelson correctly notes that it is not a marginal concept]. This usage presents the profit stream *as if* it were part of the return to owning the capital asset when in fact it is the return to being the hiring party. Thus the "net productivity of capital" is actually the net rate of return to the combined role of owning the capital *and* having the contractual role of being the residual claimant.

Professor Samuelson asserts that "capital goods have a 'net' productivity" [1976, 661] (while the other factors have only a marginal productivity), as a "technological fact" [1976, 600]. That is a clear-cut case where the *social* role of Capital as the hiring party in capitalist society is

presented as a *technological* characteristic of capital goods. It is a capital theoretic version of the Fundamental Myth. Unfortunately, the Cambridge controversy in capital theory failed to uncover these basic imputation fallacies, which have nothing to do with "reswitching and all that."

Labor in Conventional Economics: Uttering the R-word

One of the most astonishing aspects of neoclassical economics is its studied inability to meaningfully differentiate the actions of persons (a.k.a. "labor") from the services of things. When burglaries are committed, it is the alleged burglars—not the burglary tools—who are hauled into court. Burglary tools are nonetheless useful ("productive") for the burglar. But only people can be *responsible*. Things cannot be responsible for anything.

"Responsibility" is the R-word that conventional economists cannot utter (except, of course, metaphorically). For instance, Alfred Marshall [1920, Chapter IV and V of Bk. VI] went to unusual lengths to note a number of peculiarities of labor: (1) workers may not be bought and sold; only rented or hired, (2) the seller must deliver the service himself, (3) labor is perishable, (4) labor owners are often at a bargaining disadvantage, and (5) specialized labor requires long preparation time. Yet none of these "peculiarities" explain why people, not things, are charged in court. Marshall could not find the R-word.

Another example of this studied incapacity is the conventional treatment of the "labor theory of value" in the textbooks. Orthodox economics depicts adherents of the so-called "labor theory of value" as not understanding that land (and perhaps capital) is "productive" in the sense of being causally efficacious. They "seemed to deny that scarce land and time-intensive processes can also contribute to competitive costs and to true social costs…" [Samuelson 1976, 545]. Happily, neoclassical economics has discovered that land is useful in producing the harvest so economics has finally moved beyond the "labor theory." In the "Happy Consciousness" of neoclassical theory, there is no inkling that some other unmentionable attribute might be involved in addition to causal productivity. "Responsibility" is not a concept

of physics. From the viewpoint of physics, human actions are simply causally efficacious services like the services of things. In view of the physics envy of modern economics [see Mirowski 1989], economists can ignore the R-word and thereby be even more "scientific."

One of the original developers of marginal productivity theory, Friedrich von Wieser, found the R-word. Wieser even admitted in print that, of all the factors of production, only labor is de facto responsible. Thus the usual imputation of legal responsibility in accordance with de facto responsibility will go back through the instruments solely to the human agents.

> The judge,..., who, in his narrowly-defined task, is only concerned with the legal imputation, confines himself to the discovery of the legally responsible factor,—that person, in fact, who is threatened with the legal punishment. On him will rightly be laid the whole burden of the consequences, although he could never by himself alone—without instruments and all the other conditions—have committed the crime. The imputation takes for granted physical causality. ...
>
> ... If it is the moral imputation that is in question, then certainly no one but the labourer could be named. Land and capital have no merit that they bring forth fruit; they are dead tools in the hand of man; and the man is responsible for the use he makes of them. [Wieser 1889, 76-79]

These are astonishing remarks. Wieser at last sees the explanation of the old radical slogans "Only labor is creative" or "Only labor is productive," which the classical radicals could never explain clearly. Since labor is the only responsible factor, capitalist apologetics clearly requires that "responsibility" be metaphorically reinterpreted. Simple causal efficacy must be animistically interpreted as the special type of "responsibility" needed by economic theory.

> In the division of the return from production, we have to deal similarly ... with an imputation, — save that it is from the economic, not the judicial point of view. [Wieser 1889, 76]

By defining "economic responsibility" in terms of the animistic version of marginal productivity, Wieser could finally draw the conclusion demanded by his ideological goal: to show that competitive capitalism "economically" imputes the product in accordance with "economic" responsibility. Then neoclassical economists could use words such as "imputation" and even the dreaded R-word—metaphorically.

Metaphors are like lies; one requires others to round out the picture. The ideological interpretation of marginal productivity theory (pioneered by Friedrich von Wieser and John Bates Clark) uses one metaphor to justify another metaphor. We previously considered the distributive shares metaphor which pictured each factor as getting a share of the product. The Wieser-Clark interpretation of MP theory metaphorically pictures each factor as being "responsible" for a share of the product. And, lo, under appropriate competitive conditions, the two metaphors match; each factor "gets what it produces." By justifying one metaphor with another metaphor, capitalist apologetics can "slip the surly bonds" of reality and soar freely in the metaphorical void.

It is, however, the actual property relations of capitalist production (i.e., the employer's appropriation of the whole product) that need to be judged, and the notion of responsibility relevant to the structure of legal property rights is the normal nonmetaphorical juridical notion of responsibility that is used every day from "the judicial point of view."

Labor and Inalienability

We warm to the modernity of Immanuel Kant's call for "universal suffrage" until we see the jarring footnote "except, of course, for women, children, and lunatics"—not to mention servants (now called "employees" in our newspeak). The Founding Fathers' proclamation that "All men are created equal" similarly excluded slaves and women. When a society is based on an institutional form of dehumanization, the people born and raised in that society will see it as

“natural.” It is “hard-wired” into their social perceptions of reality—into their “happy consciousness.”

We live in a society based on the renting of human beings, and that is perceived as being totally natural. The recent “alternative” was a society where all workers were rented by the government. That was the choice: capitalism or socialism.

Yet, something is amiss. Labor is peculiar. Being the sole responsible factor is only one of labor’s peculiarities. This can be illustrated by using the case of the criminous employee as an “intuition pump.” Suppose that an entrepreneur hired an employee for general services (no intimations of criminal intent). The entrepreneur similarly hired a van, and the owner of the van was not otherwise involved in the entrepreneur's activities. Eventually the entrepreneur decided to use the factor services he had purchased (man-hours and van-hours) to rob a bank. After being caught, the entrepreneur and the employee were charged with the crime. In court, the employee argued that he was just as innocent as the van owner. Both had sold the services of factors they owned to the entrepreneur. The use the entrepreneur made of these commodities was “his own business.”

The judge would, no doubt, be unmoved by these arguments. The judge would point out it was plausible that the van owner was not responsible. He had given up and transferred the use of his van to the entrepreneur, so unless the van owner was otherwise personally involved, his absentee ownership of the factor would not give him any responsibility for the results of the enterprise. Absentee ownership of a factor is not itself a source of responsibility.

The judge would point out, however, that the worker could not help but be personally involved in the robbery. Man-hours are a peculiar commodity in comparison with van-hours. The worker cannot “give up and transfer” the use of his own person, as the van owner can the van. Employment contract or not, the worker remained a fully responsible agent knowingly co-operating with the entrepreneur. The employee and the employer share the de facto

responsibility for the results of their joint activity, and the law will impute legal responsibility accordingly. The servant in work becomes the partner in crime.

> All who participate in a crime with a guilty intent are liable to punishment. A master and servant who so participate in a crime are liable criminally, not because they are master and servant, but because they jointly carried out a criminal venture and are both criminous. [Batt 1967, 612]

It should be particularly noted that the worker is *not* de facto responsible for the crime *because* an employment contract which involves a crime is null and void. Quite the opposite. The employee is de facto responsible because the employee, together with the employer, committed the crime (not because of the legal status of the contract). It was his de facto responsibility for the crime that invalidated the contract, not the contractual invalidity that made him de facto responsible.

When the venture being carried out is not criminous, the facts about the nontransferability of de facto responsibility do not change. It is the reaction of the legal system that changes. When no law has been broken, the law does not intervene, so laissez-faire appropriation takes over. When the employee co-operates in the same manner with the employer, that now "counts" as fulfilling the labor contract to "deliver" the labor services to the buyer. The hiring party has then borne the costs of the labor and the other inputs, so the hiring party has the defensible legal claim on all the outputs produced. Thus the employer receives the legal or de jure responsibility for the whole product.

But workers do not suddenly turn into non-responsible things when their actions are not criminous. The working employer and employees are still de facto responsible for the fruits of their joint labor (i.e., for using up the inputs and producing the outputs). Labor is de facto nontransferrable and inalienable. The whole idea of a "labor contract" to buy and sell labor as a commodity—the contract to rent human beings—is fraudulent at its very roots.

Modernity and the Enlightenment Project

None of this is new. It is part of the Enlightenment project. Consider, for instance, the Enlightenment doctrine of inalienable rights based on the de facto inalienability of a person's capacity for responsible decisions and actions. One source was Martin Luther's Reformation doctrine of the liberty of conscience. It is de facto impossible for a person to alienate his decision-making power to the church on matters of faith.

> Furthermore, every man is responsible for his own faith, and he must see it for himself that he believes rightly. As little as another can go to hell or heaven for me, so little can he believe or disbelieve for me; and as little as he can open or shut heaven or hell for me, so little can he drive me to faith or unbelief. [Luther 1942, 316]

Francis Hutcheson, a teacher of Adam Smith, developed this inalienability argument as a part of the Scottish Enlightenment. Hutcheson is important for another reason. The American Declaration of Independence is one of the highpoints in the praxis of the inalienable rights tradition. The conventional scholarly view has been that "Jefferson copied Locke" [Becker 1958, 79]. But Locke had no serious theory of inalienability, and he in fact condoned a limited voluntary contract for slavery, which he nicely called "Drudgery."

In his important study, *Inventing America*, Garry Wills reinvented Jeffersonian scholarship concerning the intellectual roots of the Declaration of Independence. Wills convincingly argued that the Lockean influence was more indirect and even to some extent resisted by Jefferson, while Hutcheson's influence was central and pervasive. In particular, "Jefferson took his division of rights into alienable and unalienable from Hutcheson, who made the distinction popular and important." [Wills 1979, 213]

In Hutcheson's *An Inquiry into the Original of Our Ideas of Beauty and Virtue* [1725], he first distinguished between alienable and inalienable rights. The de facto inalienability argument is developed in Hutcheson's influential *A System of Moral Philosophy* [1755]. He followed

Luther in showing how the "right of private judgment" or "liberty of conscience" was inalienable. He focused on the *factual* nontransferability of private decision-making power. In the case of the criminous employee, the employee ultimately makes the decisions himself in spite of what is commanded by the employer. Short of physical coercion, an individual's faculty of judgment cannot in fact be short-circuited by a secular or religious authority.

> A like natural right every intelligent being has about his own opinions, speculative or practical, to judge according to the evidence that appears to him. This right appears from the very constitution of the rational mind which can assent or dissent solely according to the evidence presented, and naturally desires knowledge. The same considerations shew this right to be unalienable: it cannot be subjected to the will of another: tho´ where there is a previous judgment formed concerning the superior wisdom of another, or his infallibility, the opinion of this other, to a weak mind, may become sufficient evidence. [Hutcheson 1755, 295]

This inalienable-rights doctrine, based on the de facto inalienability of a person's capacity for thought and action, developed into the Enlightenment critique of the contract to sell all of one's labor at once (the voluntary self-enslavement contract) and of the Hobbesian *pactum subjectionis* [see Ellerman 1986b, 1990]. Adam Smith did not follow his teacher, Francis Hutcheson, in this doctrine—and the rest is the intellectual history of modern economic thought.

Postmodern criticism should not give modern economics credit for fulfilling the Enlightenment project in the social sciences. Quite to the contrary, economics has betrayed the ideals of the Enlightenment in order to better serve an economic system based on renting human beings. Economics has offered up applied mathematics smothered with a thick sauce of myths and metaphors in order to obfuscate the structure of property rights, to justify treating the inalienably responsible actions of persons as the transferable non-responsible services of things, and to apologize for the limited *pactum subjectionis* of the workplace, the employment contract.

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