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Is “capitalism” a misnomer?: on Marx’s “capitalism” and Knight’s “civilization”

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ABSTRACT

The name “capitalism” derives from Marx’s false analogy between medieval land ownership and the “ownership of the means of production.” However, unlike medieval land, capital goods can be rented out, e.g., by Frank Knight’s entrepreneur, and then the capital owner does not hold those management or product rights. What then is the characteristic institution in our civilization? It is the voluntary renting of workers. What then is the relationship between Classical Liberalism, the dominant philosophy behind Economics, and a lifetime labour contract? Frank Knight had plenty to say about the doctrine of inalienable rights which disallows such contracts.

KEYWORDS

Capitalism; ownership of the means of production; employment relation; contractual lifetime servitude; inalienable rights

JEL



B21; B31; P12

1. Introduction: Marx named the system

Karl Marx identified “capital” and its private ownership as the culprits in what became known as the system of “capitalism.” Marx’s reasoning was based on an analogy with the role of land in the medieval system. The governance of the people working the land and the ownership of the fruits of their labour were all rolled into the notion of land ownership as “dominion.” As Otto von Gierke put it, “Rulership and Ownership were blent.” (Gierke 1958, 88) Or as Frederic Maitland echoed: “ownership blends with lordship, rulership, sovereignty in the vague medieval *dominium* ...” (Maitland 1960, 174) The landlord was the Lord of the land. Marx substituted capital for land to arrive at his notion of “capitalism.”

It is not because he is a leader of industry that a man is a capitalist; on the contrary, he is a leader of industry because he is a capitalist. The leadership of industry is an attribute of capital, just as in feudal times the functions of general and judge were attributes of landed property. (Marx 1977, 450–1)

The defenders, e.g., professional or otherwise, of the system that became known as “capitalism” were more than happy to accept that characterisation as it grounded the system in private property.

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The basic idea, which might be called the “fundamental myth,” was that (1) the governance or management rights over the people working with the capital and (2) the rights to the ownership of the product were part and parcel of the private ownership of the capital or “means of production.”

The owner of capital resources, or the agent who acts on behalf of the owner or a number of associated owners, controls and determines, *in virtue of such ownership*, the process of production and *the action of the workers* who are engaged in the process. (Barker 1967, 105–6 [emphasis added])

But at least some political theorists understand that the fundamental myth is only a myth.

In a society where labor legally can hire capital, the right of capital owners to command labor cannot logically be founded on the idea of property rights. The right of capital to command labor is thus not based on any property right, as both Marxists and libertarians have argued. Rather, it is based *on the legal construction of the rental contract, in this case the employment contract*. (Rothstein 1992, 116)

But it is hardly surprising that Marx’s blunder about the “ownership of the means of production” has pervaded socialist thought.

It is astonishing that a hundred years of socialist thought have not confronted the basic capitalist idea—that owners of capital have the right of command in the relations of production. The idea behind nationalization, wage earner funds, and the like is in fact fundamentally the same idea as that on which capitalism is based, namely, that ownership of capital should give owners the right to command in the production process (be they democratically elected politicians, state bureaucrats/planners, workers’ representatives, or union officials). Indeed, this is a nice example of what Antonio Gramsci called bourgeois ideological hegemony. (Ibid., 118)

And since the myth is so favourable to the so-called “capitalist system” it is also not surprising that the myth is totally embedded in the Science of Economics. But to fully understand the embedding, we need to first analyse some common ideas about “corporations.”

2. Methods

2.1. *The corporation versus the firm*

The private property system of capitalism was hardly a copy of the feudal system with capital substituted for land. Unlike the feudal system of land ownership, the so-called “capitalist system” involves well-developed markets for the renting or leasing of capital goods. And then it is immediately obvious (to all who are willing to think about it) that when capital goods are rented out, then the owner of the goods does not have the management rights over the people using those goods nor the rights to the products that are produced. The holder of those management and product rights is in general determined by market relationships, by who hires or rents what or whom.

When the “capital” in question is the ownership of a corporation (instead of direct ownership of capital assets such as buildings and machines), then the market determination of the holder of those management and product rights leads to a careful

distinction between the corporation itself and what has been called the “firm.” The *firm* in this distinction is typically a corporation *plus* its set of market contracts (who hires or rents what or whom). This distinction is important because:

- the corporation is a creature of property—so it has owners, but,
- the *firm is a creature of contract*—and the contractual behaviour of the corporation’s market counterparts is not owned.

This distinction between the corporation and the firm has been made several times (Ellerman 1975; Robé 2011) and it is crucial to an understanding of what is real and what is more mythical in the “capitalist” system.

There is a historical example that helps to cut through the fog of sloppy understandings of corporations. In the early 1950s, the Packard auto bodies were produced for the Studebaker-Packard Inc. by Briggs Manufacturing in their Conner Avenue plant in Detroit. When the founder of Briggs died, all of their 12 plants in United States were sold to Chrysler. “The Conner Ave. plant that had been building all of Packard’s bodies was leased to Packard to avoid any conflict of interest.” (Theobald 2004) In this case, an entire factory was leased by Chrysler to Studebaker-Packard. The shareholders of Chrysler still owned the Chrysler corporation whose property included the Conner Avenue plant, but Chrysler was not the *firm* in the operation of that plant since it was leased out to Studebaker-Packard. And Studebaker-Packard has the management rights and the product rights over the operation of the Conner Avenue plant since Studebaker-Packard had made the necessary market contracts (leasing the physical assets, hiring the workers, etc.). But Studebaker-Packard did not own the “means of production.”

2.2. The implications of capital being rentable

This Conner Avenue example alone suffices to show the falsity of the “fundamental myth” that the management and product rights are part and parcel of the private ownership of the means of production in the so-called “capitalist” system. The legal party that holds the management and product rights in a going-concern is properly called the “firm,” but we have seen that “firmhood” is determined by the nexus of contracts that determine who hires or rents what or whom so there is no “ownership of the firm” even though there is the ownership of the corporation. The firm is a creature of contract.

Since it is well-known that capital is rentable, what is the line of reasoning that still supports the fundamental myth that the management and product rights are attached to capital? The fundamental myth is typically supported by the ‘reasoning’ that interprets the ownership of a corporation *that operates as a firm* as the “ownership of the firm”—as if there was some ownership of the future contractual fact-patterns of the corporation’s market counterparts.

In economic theory, this confusion is often expressed in the notion of the “ownership” of a production function or production set. The most high-brow offender in this regard is the Arrow-Debreu model of general equilibrium which

identifies the real ownership of a corporation with the unreal fantasy of “ownership” of a production set.¹ This sponsors the additional fantasy that there can be a “competitive equilibrium” with positive pure profits.

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)

Thus, the two Economics Nobel laureates did not even understand that in an idealised perfectly competitive economy (e.g., no transaction costs, perfect information, no hidden non-marketed assets, etc.), profit-hungry entrepreneurs would swoop in to offer the input suppliers a slightly higher price and thus rearrange the market contracts to take over the firm and receive a slightly lower positive profit. Such arbitrage between input and output markets would continue until profits were zero. Lionel McKenzie (a non-Nobel-laureate) understood that there could only be a genuine competitive equilibrium with zero pure profits (McKenzie 1954) and:

Actually I have directly challenged the Arrow-Debreu paradigm in my papers subsequent to the 1954 piece. (McKenzie, private communication with the author, July 26, 1984).

The low-brow offenders are all the economists who casually just assume a property right to a production function or the like. The production possibilities are represented by a production function, a production set, or a “production-opportunity locus” (Hirshleifer 1970, p. 124), and then they speak of the “owners” of these technical possibilities, e.g., the “owners of the productive opportunity” (Hirshleifer 1970, p. 125).

2.3. Capital theory as the scientific treatment of the fundamental myth

We have seen that when one pays attention to the difference between:

- the conventional corporation whose membership rights are owned as property rights by the shareholders, and
- the contractually-determined firm—typically a corporation plus the contractual fact-pattern of hiring in the inputs, undertaking production, and selling the outputs,

then it is easily seen that the corporation is owned but the extra contractual relations that make the corporation into the going-concern firm are not owned.

¹ Their mathematical formulation allows the error to be pinpointed. The problem is not in assuming corporate ownership, i.e., that the i^{th} consumer owns “a contractual claim to the share a_{ij} of the profit of the j^{th} production unit” (Arrow and Debreu 1954, 270) where “production unit” is a corporation. The error is the assumption that for “each production unit j , there is a set Y_j of possible production plans” (Ibid., 267) and that this corporation is the only party allowed to bid on the inputs for that production opportunity.

Yet Marx's fundamental myth, applied to the corporation, attaches all the future profits from the assumed future contractual relations to the corporation as part of its ownership rights. The formalisation of that myth in conventional economics is also part of capital theory for capital goods and corporate finance theory for corporations.

For instance, for capital goods, Keynes expresses the standard capital theory where what one "expects to obtain" is treated as a presently owned property right.

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 this wonderful fantasy where what one "expects to obtain" in the future is a presently owned property right is only a capital theoretic version of the fundamental myth.

When the capital asset is a corporation, then standard corporate finance theory applies that wonderful capital theory to the corporation as a whole. That is, it imputes the results of the assumed future contractual relations into the value of the corporation.

There, in valuing any specific machine, we discount at the market rate of interest the stream of cash receipts generated by the machine, plus any scrap or terminal value of the machine, and minus the stream of cash outlays for direct labor, materials, repairs, and capital additions. The same approach, of course, can also be applied to the firm as a whole, which may be thought of in this context as simply a large, composite machine. (Miller and Modigliani 1961, 415)

Miller and Modigliani give four equivalent formulations of value of a corporation that incorporate those future contractual returns as if the rights to those returns were part and parcel of the ownership of the corporation (i.e., the fundamental myth). There is a fifth equivalent formula that parses the value into the value of the rights actually owned by the corporation (the net asset value of the corporation) *plus* the non-owned discounted future pure profits obtained from the assumed future contracts (that one "expects to obtain") which is normally called the "goodwill".²

In the caste system of the social sciences, economists are surely the Brahmins, while accountants are closer to untouchable status. The irony is that it is the accounting profession which understands that the discounted profits of assumed future contractual relations, i.e., goodwill, is not a presently owned asset that can be put on the corporation's balance sheet. Thus, the lowly accountants have a better understanding of reality than two more Economics Nobel laureates (besides Miller and Modigliani) who swallow whole the fundamental myths that the "rights of authority at the firm level are defined by the ownership of assets, tangible machines or money) or intangible (goodwill or reputation)." (Holmstrom and Tirole 1989, 123).

The accounting treatment only gets confused when there is so-called "purchased goodwill," i.e., the purchase of capital assets at a value above their actual book value in anticipation of future profits. Then the conventional accounting treatment is that

² For the formal proof, see (Ellerman 1982, Chapter 12) or for the proof in a simplified model, see (Ellerman 2021b, Chapter 3).

“purchased goodwill” can be listed as a balance sheet asset—as if the purchase of anticipated future profits unowned by the seller could transform them into an owned asset of the buyer. One is reminded of the old joke about the country bumpkin going to New York and being sold the Brooklyn Bridge—which he presumably could then list as an asset on his balance sheet.

But there are a few clear-headed accounting theorists who point out that “buying” something unowned by the “seller” does not turn it into an owned asset.

The amount assigned to purchased goodwill represents a disbursement of existing resources, or of proceeds of stock issued to effect the business combination, in anticipation of future earnings. The expenditure should be accounted for as a reduction of stockholders’ equity. (Catlett and Olson 1968, 106)

The debit to shareholders’ equity would then be cancelled if and when the anticipated or projected future contractual relations and resulting profits that the company “expects to obtain” are actually realised and recorded in equity.

3. Discussion

3.1. *What then is the characteristic feature of so-called “capitalism”?*

Careful and thoughtful analysts of the “capitalist” system do not make the mistake embodied in the fundamental myth. Frank H. Knight³ was arguably the most profound and philosophically sophisticated defender of the so-called “capitalist” system, and he didn’t call it by that name.

Karl Marx, who in so many respects is more classical than the classical themselves, had abundant historical justification for calling, i.e., miscalling—the modern economic order “capitalism.” Ricardo and his followers certainly thought of the system as centering around the employment and control of labor by the capitalist. In theory, this is of course diametrically wrong. The entrepreneur employs and directs both labor and capital (the latter including land), and laborer and capitalist play the same passive role, over against the active one of the entrepreneur. It is true that entrepreneurship is not completely separable from the function of the capitalist, but neither is it completely separable from that of labor. The superficial observer is typically confused by the ambiguity of the concept of ownership. The owner of an enterprise may not own any of the property employed in it; and further reflection will show that the same item of property may in different senses be owned entirely, or in widely overlapping degrees, by a considerable number of proprietors. (Knight 1956, 68, fn. 40)

Since the fundamental myth is easily falsified by considering the case where capital is rented out, that mythical view acts *as if* capital could not be rented out (like medieval land in Marx’s false analogy). But the characteristic feature of the so-called “capitalist” system is not that capital cannot be rented out but that people can be rented in.

³ Frank Knight (1885-1972) in the 1930s and 1940s was the decisive influence on the (first) Chicago School of Economics (the ‘second’ Chicago School centered around Milton Friedman). He was widely recognized as “the economist as philosopher” (Emmett 2009, p. 32). His best-known book (Knight 1965) emphasized the role of the entrepreneur in facing non-quantifiable uncertainty in a market economy. There are two book-length monographs on Knight (Emmett 2009; Cowan 2016) but neither even mentions the aspects of his thought discussed here, e.g., his treatment of the contract to capitalize all of one’s labor or inalienable rights.

This characteristic institution wherein people may be legally rented, hired, employed, or leased is the “legal relationship normally called that of ‘master and servant’ or ‘employer and employee’” (Coase 1937, 403). Compared to a voluntary contract to buy all of a person’s labour, the employment contract is only for a limited period of time. A voluntary contract for lifetime servitude is now legally invalid. “Since slavery was abolished, human earning power is forbidden by law to be capitalised. A man is not even free to sell himself: he must *rent* himself at a wage.” (Samuelson 1976, 52 [his italics]) Or in more detail:

The commodity that is traded in the labor market is labor services, or hours of labor. The corresponding price is the wage per hour. We can think of the wage per hour as the price at which the firm rents the services of a worker, or the rental rate for labor. We do not have asset prices in the labor market because workers cannot be bought or sold in modern societies; they can only be rented. (In a society with slavery, the asset price would be the price of a slave.) (Fischer et al. 1988, 323)

Frank Knight himself used the leasing characterisation of the employment relation:

“...in a free society the larger part of the productive capacity employed (as matters stand today in a typical Western nation) consists of the services of human beings themselves, who are not bought and sold but only, as it were, leased.” (Knight 1936, 438)

“Capitalism” is indeed a misnomer; the characteristic and controversial legal institution in today’s system is the employment relation wherein an employer rents, hires, or leases the employees. It is the voluntary and ‘part-time’ version of the older system where the master owned all the labour of the slave. The system is more accurately named the “human rental system” than “capitalism.”

The condition necessary to prove the property aspect of the person could be evidenced here and now, except for certain taboos and social amenities, merely by putting you on the auction block. For most of the history of the human race this practice has been accepted and commonly practiced. In a sense we still practice it everywhere in the world, though at the continuous auction (in effect) many of us keep bidding ourselves in as the highest bidder. Those who are not their own highest bidders customarily limit the sale of themselves to some minor proportion of their lives at some prescribed task- or at least some prescribed location-for a day, a week, a month, or a year, and at some specified sales price. (Harper 1974, 20)

The system of voluntarily rented workers does represent progress over the previous system of involuntarily owned workers.

3.2. Classical Liberalism and contractual lifetime servitude

When one rents an entity, one doesn’t buy the entity itself but only a certain limited amount of its services as when renting a car, an apartment, or a person. The application of the renting, hiring, or leasing relation applied to persons differs from the previous system of slavery in two ways: it is voluntary and only limited segments of human actions are bought and sold.

The political and moral philosophy normally associated with the Science of Economics is Classical Liberalism which takes voluntariness as the necessary (and perhaps) sufficient condition for the legitimacy of a social institution. This raises the

question of what about a genuinely voluntary system of selling *all* of one's labour, "rump and stump" as it were. In the (re)United States after the Civil War, involuntary slavery was abolished but it is virtually unknown or forgotten that voluntary lifetime servitude was also outlawed (Soifer 2012).

On the roots of Classical Liberalism before Adam Smith, Knight points out that "the political and legal theory had been stated in a series of classics, well in advance of the formulation of the economic theory by Smith. The leading names are, of course, Locke, Montesquieu, and Blackstone." (Knight 1947, p. 27, fn. 4)

What were the views of the founders of Classical Liberalism on the voluntary sale of labour by one's working lifetime? John Locke set the pattern that was to be followed by the other founders. Locke first took the high ground of condemning the extreme form of slavery (e.g., Roman slavery) where the master could take the life of the slave with impunity.

For a Man, not having the Power of his own Life, cannot, by Compact or his own Consent, enslave himself to any one, nor put himself under the Absolute, Arbitrary Power of another, to take away his Life, when he pleases. (Locke [1690] 1960, §23).

But then Locke pirouetted and set the standard for consent being sufficient for a more civilised form of contractual lifetime servitude.

For, if once *Compact* enter between them, and make an agreement for a limited Power on the one side, and Obedience ... I confess, we find among the *Jews*, as well as other Nations, that Men did sell themselves; but, 'tis plain, this was only to *Drudgery*, not to *Slavery*. For, it is evident, the Person sold was not under an Absolute, Arbitrary, Despotical Power. (Ibid., §24)

Lord Blackstone followed Locke's choreography.

This, if only meant of contracts to serve or work for another is very just: but when applied to strict slavery, in the sense of the laws of old Rome or modern Barbary, is ... impossible. ... Yet, with regard to any right which the master may have lawfully acquired to the perpetual service of John or Thomas, this will remain exactly in the same state as before: for this is no more than the same state of subjection for life, which every apprentice submits to for the space of seven years, or sometimes for a longer term. (Blackstone [1765] 1959, 71–2, section on "Master and Servant")

And Baron de Montesquieu danced to the same tune. He first ruled out a sale into slavery.

To sell one's freedom is so repugnant to all reason as can scarcely be supposed in any man. If liberty may be rated with respect to the buyer, it is beyond all price to the seller. ...

I mean slavery in a strict sense, as it formerly existed among the Romans, and exists at present in our colonies. (Montesquieu [1748] 1912, Vol. I, Bk. XV, §II)

But that does not rule out a civilised mild form of lifetime servitude.

This is the true and rational origin of that mild law of slavery which obtains in some countries; and mild it ought to be, as founded on the free choice a man makes of a master, for his own benefit; which forms a mutual convention between two parties. (Ibid., Vol. 1, Bk. XV, Chap. 5)

It is perhaps even more noteworthy to find these statements by the founders of Classical Liberalism echoed by the Dean of High Liberalism, Harvard University's John Rawls, who argues that in the original position, the

grounds upon which the parties are moved to guarantee these liberties, together with the constraints of the reasonable, explain why the basic liberties are, so to speak, beyond all price to persons so conceived. (Rawls 1996, 366)

After echoing Montesquieu's "beyond all price" argument, Rawls also goes on to also argue that basic liberties may be alienated in a "well-ordered society."

This explanation of why the basic liberties are inalienable does not exclude the possibility that even in a well-ordered society some citizens may want to circumscribe or alienate one or more of their basic liberties. ... Unless these possibilities affect the agreement of the parties in the original position (and I hold that they do not), they are irrelevant to the inalienability of the basic liberties. (Rawls 1996, 366–367 and fn. 82)

And Harvard's Robert Nozick was the Dean of Libertarianism which is obtained from Classical Liberalism as common sense becomes infinitesimal.⁴ He allowed the alienation of basic political rights to a "dominant protective association" (Nozick 1974, 113).

The comparable question about an individual is whether a free system will allow him to sell himself into slavery. I believe that it would. (Ibid., 331)

Does the Science of Economics reflect these views, old and new, of Classical Liberalism about selling one's labour by the lifetime?

The crown jewel of modern microeconomics is the fundamental theorem of price theory that a competitive equilibrium is Pareto optimal (allocatively efficient). The theorem holds for an idealised model where all markets, present and future, are competitive without restrictions on any transactions between willing buyers and sellers. That means there can be no restrictions on the sale of future labour. For instance, if the market for future labour services was truncated at X years, then there might be willing buyers and sellers of $X + 1$ future-dated labour so an equilibrium in such a restricted market could not be Pareto optimal.

The fact—that the fundamental theorem about the efficiency of competitive equilibrium assumes the possible sale of a lifetime of labour—is oddly unmentioned (to the author's knowledge) in any textbook in the modern Science of Economics. But there is at least one mention by a prominent econometrician in no less a context than Congressional testimony.

Now it is time to state the conditions under which private property and free contract will lead to an optimal allocation of resources ... The institution of private property and free contract as we know it is modified to permit individuals to sell or mortgage their persons in return for present and/or future benefits. (Christ 1975, 337–378)

⁴ This is a variation of a quip by Alexander Gray that "an anarchist is merely the limiting case of a liberal individualist whose commonsense has become infinitesimal." (Gray, 1968, 246).

4. Conclusion: Knight on inalienable rights and “our civilization”

The most common classical liberal criticism of historical slavery seems to be that it was involuntary, but very few would then argue that voluntary slavery or lifetime servitude should be allowed. The prudent social scientist has no reason to delve into the topic. There is, however, a deeper democratic tradition of classical liberalism that developed a critique of voluntary slavery based on inalienable rights (Smith 2013; Ellerman 2021a). While there were ancient roots, the modern theory of inalienable rights descends from the Reformation notion of the liberty and inalienability of conscience in the abolitionist and democratic movements.

As liberty of conscience came to be regarded as the principal inalienable right of human beings, this emphasis was applied over time to other spheres of human activity, as we see in the Declaration of Independence where Thomas Jefferson highlighted the “unalienable” rights to life, liberty, and the pursuit of happiness. (Smith 2013, 12)

The argument was essentially that the rights that a person has *qua* person cannot be legitimately alienated by consent or contract since that does not change one’s factual personhood. Since personhood is factually inalienable, the rights that one has *qua* person are therefore also inalienable. The key question was *not* “voluntary or involuntary.” A legal institution that puts persons, involuntarily or voluntarily, into the legal role of a non-person or thing would violate the rights they had *qua* person (i.e., their inalienable rights) and would thus only be a legalised fraud on an institutional scale. For instance, the Magistracy of the Law in antebellum times classified the slaves as non-persons, but was well-aware of the truth when the slaves committed crimes.

The slave, who is but “a chattel” on all other occasions, with not one solitary attribute of personality accorded to him, becomes “a person” whenever he is to be punished. (Goodell [1853] 1969, 309)

How does the inalienable rights critique of voluntary lifetime servitude square with the Science of Economics? As already noted, Frank Knight was by far the most sophisticated and thorough economist to fathom the current form of “our civilization” based on the voluntary renting of persons. He boldly went where other economists, either out of prudence or superficiality, fail to go. In particular, he understood that any inalienable rights restrictions would prevent some possible mutually voluntary transactions.

The peculiar weakness of the position of one who owns earning power only in the form of personal capacities is, somewhat paradoxically, a consequence of the guarantee of personal freedom, general in modern nations, but logically not a part of the property system; in fact, it is a limitation on the ownership of one’s own person. Because of such “inalienable rights” a man cannot “capitalize” his earning power because a contract to deliver labour in the future will not be enforced. (Knight 1947, 26, fn. 3)

People benefit from transactions with freely given consent.

But the sanctity of personal freedom in Western legal systems, the doctrine of inalienable rights, makes it impossible for a person effectively to pledge his future earning power in exchange for present resources. (Ibid., 152)

And that “doctrine of inalienable rights” is not only “logically not a part of the property system.”

It is one of the defects of our civilization that mechanism has not been involved to enable human ability to hypothecate its productive power in procuring resources to make it effective under its own direction and responsibility. (Knight 1965, 350, fn. 1)

And far from being antagonistic to labour, Knight even suggested how to redistribute more power from property to labour.

Actually, the distribution of power is distorted in favor of property by the possibility of “capitalizing” it, living on the substance and thus securing ability to wait. If laborers were not guaranteed the “inalienable right” of freedom, that is, if they could make enforceable time contracts for work and thus capitalize their labor power they would in an economic sense be more secure—in the sense in which the slave has security. (Knight 1956, 93, fn. 6)

Since there was no significant agitation to legitimise voluntary lifetime servitude in Knight’s or our time, one might wonder why Knight repeatedly criticised the “doctrine of inalienable rights.” But Knight—as the most sophisticated philosophical economist—knew what he was doing. This is perhaps explained in a modern article written under the pseudonym “J. Philmore” of an eighteenth-century abolitionist (Philmore 1760).⁵

Contractual slavery and constitutional non-democratic government are, respectively, the individual and social extensions of the employer-employee contract. Any thorough and decisive critique of voluntary slavery or constitutional non-democratic government would carry over to the employment contract—which is the voluntary contractual basis for the free market free enterprise system. (Philmore 1982, 55)

The “problem” seems to be that the inalienable rights critique of the lifetime servitude contract—on the basis of putting a person in the legal role of a non-person—has nothing to do with the tenure of the contract. Even the apologists for slavery understood this point.

Our property in man is a right and title to human labor. And where is it that this right and title does not exist on the part of those who have money to buy it? *The only difference in any two cases is the tenure.* (Bryan 1858, 10 [italics in original])

And the classical forerunners of the modern Science of Economics, such as James Mill, were well aware of the point.

The only difference is, in the mode of purchasing. The owner of the slave purchases, at once, the whole of the labour, which the man can ever perform: he, who pays wages, purchases only so much of a man’s labour as he can perform in a day, or any other stipulated time. (Mill 1826, Chapter I, section II)

Yes, Frank Knight knew exactly what he was doing in attacking the notion of inalienable rights.⁶

⁵ According to the preeminent historian of antislavery thought, David Brion Davis, Philmore espoused the most “radical antislavery doctrine” (Davis 1971, 592) prior to the French Revolution.

⁶ For the intellectual history and further development of these arguments, see (Ellerman 2021a).

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