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Exploitation-The Invisible Hand Guided by a Blind Eye: Confronting a Flaw in Economic Theory

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Economics is alone among the social science disciplines in failing to have a sound theory to explain behaviors when people do not act according to their self-interest, that is, with compassion. This has resulted in a fundamental flaw in economic thought. As economies have grown in scale and complexity, there has been a corresponding distancing between consumers and producers. This flaw has revealed itself through a lack of economic structures which bridge this distance, restore a level of intimacy within the economic interaction, and hence facilitate the expression of compassion.

Madan Ram, age 7, toils 10-12 hours a day weaving carpets at a rug factory in Utar Pradesh, India. Oftentimes, Madan’s fingers will bleed from the endless toil. At some of the worst factories, supervisors use hot irons to sear the children’s fingers so that blood will not get on the carpet. Madan is just one among millions of children worldwide who comprise the ranks of child labor. Civil Sakaesih, an Indonesian woman, worked for a Nike Inc. factory. She was fired from her job after joining a group of 600 other workers who walked out over wages. The factory refused to implement a minimum-wage increase to $1.25 a day. Unfortunately these are all too common examples in the developing countries of the world.

As economic globalization proceeds apace, these individuals become victims of the world’s march toward modernization.
Shockingly, some even view these hardships as a necessary step. Proponents of modernization theory—strong advocates of free-market capitalism—state that “Social inequity increases in the early stages of modernization (as elites profit from the toil of unskilled laborers)” (Harper, 1989, p.201). Blame for these inequities and injustices is often attributed to the impersonal nature of market forces. And yet, economics is a social science. It describes the behaviors and motivations of people. What is it that makes market forces impersonal? How and why does humanity get squeezed out of the economic equation?

As far back as the early eighteenth century with Bernard Mandeville’s publication of *The Fable of the Bees: Or private vices, publick [sic] benefits*, it was noted that it is human behaviors of self-interest which stimulated economic progress in a capitalist economy. Human virtues of compassion and intimacy were considered not to have a role. This concept is still reflected in today’s thought. The following statement is considered a fundamental principal unifying all economic theory: “The common objective is the explanation of the sequential configurations—the path, the dynamics—of the ‘material’ activities of societies whose order arises as an unintended by-product of the interplay of *self-interested actors*” (Heilbroner, 1986, pp. 23–24 [emphasis added]). This statement distinguishes economics from the other social sciences in an interesting manner. The other disciplines—political science, sociology, psychology, and anthropology—all have sound theories which account for aspects of human behavior when an individual does not act in his/her self-interest—i.e. acting out of compassion for other individuals. Thus, among social scientists, economists are alone in their stance of willingly turning a blind eye to an important dimension of human behavior: intimacy, or one’s connectedness to others. As Bramhill poignantly states in his critique of this one-sided approach:

> Totally obliterated in the definition of commodities and the choice of one over another are the complexities of aesthetics, moral choices, cultural norms, and political positions. Generally it is not possible to let one person’s choices depend on the welfare of another person and still have determinate equilibrium models; because of this, the taboo four-letter word in economics is ‘love’” (1986, p. 51).
Love may not be an economic concept; yet, few would deny that it exists. Kant’s description of practical love seems applicable for the purposes of this paper: “a love which is seated in the will, and not in the propensions of the sense” (Kant, 1988 [1785], p. 24). Compassion and intimacy are two dimensions of human nature which stem from practical love, and motivate actions which are not based upon self interest. Through drawing upon theories from Rousseau, Kant, and Hegel, this paper seeks to offer a basic economic model which incorporates both facets of human behavior—self-interest and compassion—and under the light of this perspective, provide an analysis of the role of capitalism in the context of economic globalization.

THEORETICAL PERSPECTIVE

As Heilbroner aptly states concerning economic analysis: the characterizing judgments that economists make “necessarily embody moral and political preferences in addition to value-free gestalts.” (1986, p. 20). The economic analysis of this paper is no exception and embodies the following characterizing judgements. First is the proposition that there is a dual nature to human beings. Rousseau expressed this dual nature of humans with the terms bourgeois and citoyen. As explained by Jamieson:

Man as bourgeois is egoistic, and materialistic. It is good that he is, since in pursuing private interest with the utmost zeal bourgeois man produces unintended benefits for everyone. Modern man also exists as citoyen. As citoyen he is other-regarding, altruistic, and universalistic and is mainly concerned to promote the common interest (1986, p. 338).

Kant would take this concept to new theoretical heights. He proposed that these two aspects of human behavior reflect not two natures but rather two distinct conceptions of the self:

One resource remains to us, namely, to inquire whether we do not occupy different points of view when by means of freedom we think of ourselves as causes efficient a priori, and when we form our conception of ourselves from our action as effects which we see before our eyes” (Kant, 1988 [1785], p. 82).
Or more succinctly put, "I must exist, as Kant acknowledges, both as an 'empirical self' within the realm of nature, and as a transcendental self, outside it" (Scruton, 1977, p. 73).

The bourgeois nature of individuals is captured within the utilitarian conception of individualism. The individual self exists as a separate ego, and behavior is motivated by meeting the needs and wants of this separate ego. At a societal level, society functions and evolves due to the "invisible hand" at work—individuals pursuing an enlightened self-interest.

The citoyen nature of individuals is captured within Kant's concept of the transcendental self. Being transcendental, it lies outside of the empirical world of nature, and hence, not subject to inclinations of individual self-interest. Thus, it is universalistic—from which a moral equity arises in which other individuals are viewed as ends in themselves rather than means to an end (i.e. one's individual self-interest).

Faced with rampant capitalism at the turn of the century, Dewey and other Progressives embraced this missing element—the transcendental self—in their writings. Concisely stated, "As Mary Follet explained it: the individual ‘is in himself the whole of society. It is not that the whole is divided up into pieces; the individual is the whole at one point’" (Quandt, 1970, p. 29). Thus, the universalistic quality of the transcendental self is not an organicism based upon a biological metaphor (Durkheim's conception of organic solidarity), where specialized parts create a greater whole (Durkheim, 1960 [1893]). This biological conception may more accurately describe the nature of a system. In Kant's conception of the transcendental self, one is a microcosm of a greater whole so that in effect, the one and the whole are the same. A more apt metaphor may be that of one drop of water within a greater number or whole (e.g. a glass of water). This whole may be as small as that represented by a couple—two individuals involved in an intimate relationship—or it may be as large as society itself. One's self becomes universalistic. And as one is the same as this greater whole, desire arises to promote the interest of the whole: the common good.

Hegel would take Kant's conception of the transcendental self, and that of the ego-driven individual self, and seek to explain
how the two become synthesized within the context of relationship through the creation of concrete universals. Hegel’s concept will be elaborated upon more fully later, under the practical analysis section of this paper.

THEORETICAL ANALYSIS

Under the light of the above perspective, this paper will now examine a basic economic interaction—the purchasing of a product or service. Under current economic theory, there are two descriptive characteristics to a product: price and quality (Gordon & Lee, 1977). Quality will determine the extent to which the product meets the consumer’s needs. The better the quality the higher the price. If a higher quality product better meets the consumer’s needs, the consumer will pay a higher price for the product. Certainly, no one in one’s right mind would knowingly and willingly pay a higher price for an inferior product or service.

And yet, in reality this often occurs. Take the example of an individual paying $10 to have his/her car washed by a group of high school students seeking to raise money for their school organization. The individual may be paying twice as much as he/she would at an automatic car wash facility. Certainly this choice is not due to the person believing that the quality of service from the high school students is twice as good. Another dimension of human behavior is at work, one not captured by economic theory.

The explanation for this scenario is as follows. First, since economic interactions involve people they must also be viewed as a social interaction. The two aspects of human nature—bourgeois and citoyen—are each represented within a social interaction. In the above example, the consumer’s choice is not only affected by the quality of the product—a motivation stemming from individual self-interest—but also by compassion: the motivation to promote the common good of the whole. I am purposely using the word compassion over altruism. At this point, what is being stressed is the harmony engendered by the universalistic nature of the transcendental self. Altruism comes into play later, when the two selves interact: one’s empirical self willingly sacrifices itself in order to yield to the transcendental self.
In any social interaction a relationship is established, and hence, some level of intimacy. This intimacy promotes the transcendental self's universalistic nature—or one's connectedness to others. This then provides the context for compassion—the harmony of feeling/being which spurs action—to flourish. Falling back to Kant, the transcendental self is a state of being which, by definition, transcends the empirical self. Pure reason, as described by Kant, is the intelligence of this transcendental self. Being outside the laws of cause and effect of the empirical world of nature, intuitions of pure reason are necessarily a priori in form. These intuitions of pure reason can be the spring of actions (which necessarily take place in the empirical world of nature). When this occurs, pure reason becomes practical reason (Kant, 1988 [1785]). Thus, practical reason acts as the voice of the transcendental self. Compassion, therefore, is practical reason operating inside the bonds of human intimacy propelled by practical love.

Hence the choice of spending money in the buying of a product (Price) reflects not only how that product will meet the individual's needs (Quality) but also to what extent the spending of that money contributes to the greater good of the whole (Compassion). This idea is represented by the following formula:

\[ P = Q + C \]

Thus, utilizing the above car wash scenario, the price of the service is represented as follows:

\[ (P) \$10 = \$5(Q) + \$5(C) \]

Consequently, only half the price—and hence half the motivation of the consumer—was determined by the how well the service met the individual's needs (quality): the egoistic quality of one's bourgeois nature. The other half of the price—and other half of the consumer's motivation—was determined by how the purchase promoted the common good (compassion): the universalistic quality of one's citoyen nature.

Obviously, these two properties can by represented by various proportions. At one extreme, say for example the knowing purchase of stolen merchandise, self-interest is represented 100%. An individual engaging in this action is solely interested in how the
action benefits himself/herself directly. An example at the other extreme would be giving money to a homeless person on the street. The aspect of contributing to the greater good of the whole takes on such importance (100%) that the product or service itself disappears altogether. In-between these two extremes, weight will be given to both sides.

Now let's apply this formula to the scenario of buying a common product at a store, say for example, strawberries. If a pint of strawberries costs $1.49, would a consumer pay twice as much as with the car-wash example above in order to contribute to the greater good? That would be certainly asking much, and add up to some hefty grocery bills. However, what about simply $.05 cents more?

\[
1.54(P) = 1.49(Q) + .05(C)
\]

The United Farm Workers (UFW) recently headed a campaign proposing such an option in order to improve the working conditions of strawberry pickers in the United States. Due to the nature of competition in the global marketplace, strawberry pickers have seen their share of the consumer dollar spent on strawberries drop dramatically. In 1985 the workers received 17.5 cents for every dollar spent on strawberries; by 1995 their share dropped to 9.2 cents—almost 50%. Currently, for an eight-month growing season, they earn $8,500 and work 10-12 hour days. The nature of their work puts heavy strains on their backs and exposes them to fields treated with pesticides, yet few have health insurance. An increase of $.05 to the price of strawberries—given to the workers—would increase their pay by over 50%.

Why can't we add five cents to the price of strawberries? In the process of modernization, the economy has grown in specialization and complexity from a simple community-based economy before the industrial revolution to the global economy that exists today. One by-product resulting from this growth in complexity is that the level of intimacy in the social interaction of a consumer purchasing a product has been drastically reduced. When a consumer buys a pint of strawberries, or any other product, they are able to examine the product's quality (i.e. "Q"): how the product will meet one's individual needs)—that has remained unchanged
within the social interaction. However, the contribution that consumers are making to the common good, represented by "C", becomes an unknown.

Would we buy strawberries from a farmer in our own (local) community who exacted such harsh working conditions on his/her laborers? In the more intimate exchange that takes place in a local economy, individuals are able to see with their own eyes what labor practices they are supporting—i.e. how they are contributing to the common good. In an advanced economy, consumers are forced to make the assumption that individuals who created the product are being adequately compensated for their labor, and hence, as consumers they are contributing to the common good by supporting the jobs of those individuals. This is an assumption however that is often wrong, especially concerning products created by unskilled labor.

PRACTICAL ANALYSIS

In the formula proposed

\[ P = Q + C \]

"Q" and "C" represent two separate values in this social interaction.

With "Q"—the aspect based upon the individualistic nature of individuals—value is determined by how well the product satisfies one's needs. Incorporated within "Q" is the labor that went into the product. Hence workers are valued for the type of labor they can provide—i.e. "What you can do for me." As it should be, the higher skilled the labor, the more value it has. Unskilled labor, however, still is an important component within the marketplace and has a value. Exploitation occurs when market forces and capitalists reduce this value to below nominally humane conditions.

With "C"—the aspect based upon the universalistic nature of individuals—it is not labor which is valued but people. Workers are valued simply because they are human beings. In Kantian terms, they are valued as ends in themselves. While the starting point of this value stems from ideals of right evoked by the transcendental self (via pure reason), the value of compassion—
the harmony of feeling/being which spurs action—stems from the level of intimacy involved in the social interaction.

In today's modern economy, the complexity is so great that the consumer is unaware of the labor that goes into a product. Without direct contact, intimacy is lost and the consumer is no longer able to express his/her value of individuals as human beings. In addition, there is no "C" in modern economic theory; hence there exist no structures for the consumers which serve to facilitate the restoration of this level of intimacy. With "C" being dropped from the equation, a crucial element is lost in the interaction: individuals are no longer valued as human beings.

This captures the concept put forth by Rousseau that individuals are basically good but it is society's institutions that make them bad. The complexity of the institution—in this case capitalism within a global economy—reduces the level of intimacy involved in social interactions to the point where the *citoyen* aspect of human behavior is lost. A veil of ignorance hangs over this dimension of the social interaction. Consumers are placed in a position where they are forced to assume that individuals are being fairly compensated for their labor. Through the purchasing of the product, we are supporting the jobs of those who made it and thus inherently believe we are promoting the common good. These assumptions are not necessarily a conscious deliberation with each purchase. For one's *citoyen* nature, they serve to bridge the rift in the social interaction created between producer and consumer. Certainly, as consumers, we do not believe that the purchasing of a product at a store is causing harm to other individuals. However, the nature of the competitive free-market system rewards the driving down of labor costs—no matter how that is accomplished. With intimacy having been lost from the interaction, these "cost-saving" measures are hidden from the consumer. Exploitation occurs. Consumers are left in the dark as to their contribution.

And with this veil of ignorance that consumers are forced to adopt—that individuals are being fairly compensated for their labor—we as consumers share responsibility for exploitative practices. We are oppressors. Every time we buy strawberries, gym shoes, clothing, etc., we are unknowingly supporting those who get rich off the exploitation of others.
The problem is that when we are at the grocery store, we are not given the choice between strawberries that cost $1.49 and those that cost $1.54 but were collected under more humane working conditions. Since "C" does not exist in economic theory, no structures are in place to facilitate its expression. Hence, unfortunately, the UFW face an uphill battle in their attempts to improve the working conditions of the strawberry pickers. And exploitation continues apace in the developing world.

In his *Philosophy of Right*, Hegel sought to describe the process of synthesis between the particular (individual self) and the universal (transcendental self). This process occurs within the context of social relationships. This synthesis creates structures facilitating the expression of the transcendental self: Hegel terms these structures concrete universals. When it comes to the State, concrete universals take the form of laws, and the political institutions which create them (Hegel, 1967 [1821]).

When we read or hear about the performance of the U.S. economy, the word "political" is routinely omitted from the description. In truth, what is being described are the workings of a political economy. An economy cannot function without some type of "rules of the game." It is the political component of a political economy which provides these rules.

In the workings of a political economy (especially in a democratic society), the political aspect is the main avenue in which the transcendental self finds expression. This is through the creation of laws which regulate economic behavior in favor of valuing individuals: the 40-hour work week, minimum wage, fair trade, etc. The economic aspect is the main avenue in which the individual self finds expression—i.e., how the product meets my needs.

This encapsulates the current dilemma concerning the workings of our modern political economy. The economic aspect has advanced beyond the scope of the political aspect, creating an imbalance; the economy is operating on a global level while political power is firmly cemented within national institutions. It is difficult to extend "the rules of the game" beyond one's national borders—especially those rules which value individuals—and only loose rules exist at the global level. This creates a wild west scenario in which corporations are forced to shoot it out on the playing field of the global marketplace (and are able to
skirt national laws by simply moving to a new locale, or use their power to make or break laws where they exert a strong presence).

Looking back at the Industrial Revolution, we can examine the historical record of the last time that there was an imbalance in the political economy. Using the United States as an example, when the economy began operating at the national level in the late 1800's, political power remained firmly rooted in local institutions (Wiebe, 1967). Writing about this time period, Wiebe titled his book *The Search for Order 1877–1920*, aptly capturing the chaos of the Wild West political economy operating in those times (e.g no right to form a union, no national minimum wage, no national child labor laws, no national laws regarding safety in the workplace). It took a few decades for political power to shift to the national level and the balance to be restored. This shift was aided by the fact that national political structures were already in place, providing a framework for social movements to gain substance.

Ominously, this isn’t the case in today’s society. Global political structures are either weak, or like the International Monetary Fund (IMF), outside the democratic process. The IMF’s policies have an especially harsh, and even sinister edge, in that they are guided by two overriding principles: one, they are based solely upon scientific principles, and two, they are organic—they place the health of the system (the macro economy) over individual rights. These are the two guiding principles of Machiavelianism (Murray, 1953). Hence, the road to ending exploitation through global political structures will be a long time coming.

Encouragingly however, the major corporate powers prefer some order. They have the resources and power to adapt to slight change represented by reform. Chaos increases the risk of radical change. Hence, their self-interest motivates them to accept modest change rather than risk radical change. Again, looking at the historical record, in the early 1900’s it was the small and mid-sized companies, represented by the National Manufacturers Association, who saw even slight change as a threat to their survival and thus most adamantly opposed recognizing unions as legal as well as many other reform proposals. While certainly not enthusiastic about reform, the major national corporations did prove more flexible in their stance towards reform efforts
(Weinstein, 1968). This same stance seems to hold true in our global marketplace of today. In 1997 a number of multinational corporations cooperated with the Council on Economic Priorities to establish “Social Accountability 8000”: a package of certifiable labor and human rights standards. Toys ‘R’ Us and Avon were the first two companies to voluntarily adopt these standards and agree to inspections (Spar, 1998).

Now, it is certainly true that the political process is not the sole domain of the transcendental self—those with power will routinely use it to advance their own self interest over that of the common good. Conversely however, it can be stated that the economic process is not the sole domain of self-interest: the transcendental self can express itself through an individual’s (hence consumer’s) sense of morality. This is an important avenue to open up in today’s global political economy.

APPLICATION

As stated earlier, intimacy in a social interaction facilitates the expression of one’s transcendental self. The goal then is to create the structures that would restore this sense of intimacy between consumers and labor in the social interaction. This I envision being something similar to the system that the United States Department of Agriculture (USDA) uses to grade various qualities of meats. Certain standards can be established representing various qualities of the working environment; these standards would be represented by a grade of A through F. Companies would then provide this information on their product as part of their advertising.

The following is a key feature that makes this proposition very workable: it would not require any governmental regulation. Accountability would rest in potential law suits for abridging truth in advertising. Companies would be able to choose which rating they would adopt, letting market forces guide their decision. The only regulation necessary would be that companies must provide this information to consumers. This is something that can be handled using national laws. Currently, a company must list the ingredients of a product on its package. The same would apply for this standard—a grade of A to F on how the
product was produced. Thus no government intervention would be necessary: no bureaucratic forms, registrations, or inspections. If a company’s rating was called into question, they would be open to a lawsuit; the judicial structures for maintaining this accountability (truth in advertising) are already in place. The labor of the company producing the product would act as the guarantor, as key witnesses, regarding the truth of the rating. Activist groups could assist in situations when their help was necessary.

Being that these standards would operate in a global economy, it would be best to have international standards. Obviously, who is to create these standards, and how they are created, are major questions to be resolved (something deserving of a separate article in and of itself). Perhaps the process could be coordinated by an agency of the U.N. Some standards could be universal, e.g. “not made by child labor.” Others, such as pay, would be relative in nature and need to be phrased in such a way to reflect this. For example, it could be tied to the “basket-of-goods index” (a rating which determines the price of basic commodities for a family of four). The ratings could then reflect that worker pay is at 80% of this level, 100% of this level, 150% of this level, etc. Other relative measures may be viable as well. Once these standards are established, then it would be up to national governments to adopt these standards and require companies to advertise the rating that their products fall under. In addition, a campaign educating the consumer regarding these ratings would obviously be a key component as well.

The idea of a “C”, the idea of providing the consumer with information regarding how the product is created in addition to its quality, is not an untested one. Some companies in the marketplace have already taken this path in regards to the impact the creation of their product has on the environment. Various make-up products are advertised as “cruelty free” reflecting that they were not tested on animals. Other products are advertised as being made from recyclable materials. And of course, as mentioned above, there is now the Social Accountability 8000 seal of approval. These examples serve to attest to the workability of some kind of rating system. In addition, a 1995 survey on garment purchasing provides a bit of empirical evidence supporting the notion that consumers would support such a rating system: “84
percent said that they would pay an extra $1 on a $20 item to ensure that the garment had been made in a worker-friendly environment (Spar, 1998, p.9).

Finally, a distinguishing feature of this proposal is that it promotes structures which communicate/enforce more than just a bare minimum of working conditions. A grade of “A”, “B”, and “C” create higher standards for the working environment, and thus, the consequent economic niches from which businesses may compete.

When provided with the information, consumers do base part of their decision on moral grounds—and seek within the social interaction to contribute in some fashion to promoting the common good. Compassion may not exist in economic theory, but it certainly exists in the world. Through restoring intimacy within the economic interaction, perhaps we can take a few more steps toward putting a “human face” on capitalism.

REFERENCES

Exploitation—Invisible Hand Guided by a Blind Eye


NOTE

1. A set of universal standards put forth by the International Labor Rights Fund (ILRF) consists of the following:
   A. The right of association
   B. The right to organize and bargain collectively
   C. A prohibition on the use of any form of compulsory labor
   D. A minimum age for the employment of children
   E. Acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health