

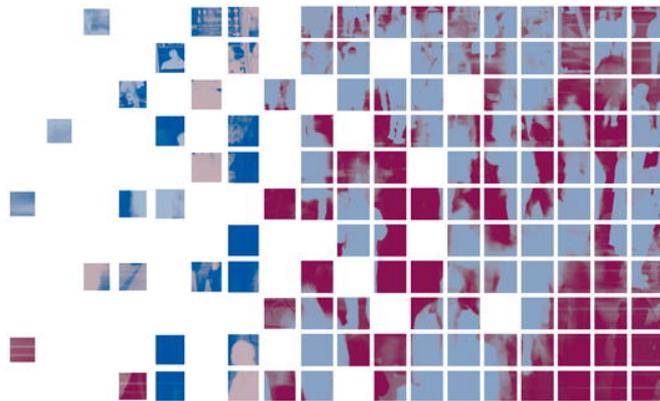
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A critique of Wright's analysis of exploitation

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Abstract

We critically assess Erik O. Wright's recent contributions to the conceptualization of exploitation. We discuss three different exploitation processes that are discernable in his discussion. In applying them to the analysis of capitalist society, Wright maintains the traditional Marxist assumption of the overriding importance of the conflict between capitalists and workers. We argue, however, that Wright's approach is problematic. It is overly constrained by Marxist presuppositions, unclear about the relationship between interest payments and exploitation, and inadequate in defining the value of labor. Due to the latter shortcoming, Wright's definition of exploitation cannot be measured and his claims about what processes generate exploitation cannot be empirically investigated. Wright's analysis of exploitation therefore remains primarily normative and empirically unsubstantiated.

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[Exploitation is] a word that I would myself gladly see disappear from the sociological lexicon. . . . Its function in Marxist thought was to allow a fusion of normative and positive claims in a way that I would find unacceptable. . . .

Goldthorpe (2000, p. 1574)

Although the field of social stratification has developed an important body of empirical findings and statistical models, "there has been much less concern recently about theoretical issues" (Sorensen, 1996, p. 1334). The neglect of theoretical problems has led Lenski (2001, p. 82) to conclude that "too much of stratification theory still resembles the work of the proverbial blind men

struggling to describe an elephant." We agree that further theoretical development is essential if this field is to become more explanatory rather than remain largely descriptive.

In this paper, we seek to advance the understanding of exploitation as sociological concept. We review Wright's (1997, 2000, 2002) contributions to the conceptualization of exploitation and argue that it is problematic. It is overly constrained by Marxist presuppositions, unclear about the relationship between interest payments and exploitation, and silent on the critical issue of defining the value of labor. Due to the latter shortcoming, Wright's definition of exploitation cannot be operationalized. His claims about what processes generate exploitation cannot be empirically investigated and are consequently not falsifiable. Wright's analysis of exploitation therefore remains primarily normative and empirically unsubstantiated.

The *concept* of exploitation should be clearly distinguished from the *processes* that are hypothesized to

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generate it. We argue that three different exploitation processes that are discernable in Wright's recent work. Underlying each of these processes, however, is the common liability of an inadequately developed concept of exploitation. Although Wright provides a rhetorical critique of capitalism, his discussion does not substantially improve our analytical understanding of exploitation or of the empirical processes that may actually generate it.

1. Wright's neo-marxist approach to the study of exploitation

As discussed by Wright (1997, p. 31), the Marxist tradition is the key example of a theoretical approach in which exploitation is salient. In Marxist social theory, exploitation plays a central role in defining class structure. The latter is said to be the main source of inequality, conflict, and social change.

Wright extends the Marxist tradition, and exploitation is accordingly a key element in his discussion of class structure (Wright, 1997, p. 17):

In capitalist society, the central form of exploitation is based on property rights in the means of production. These property rights generate three basic classes: *capitalists* (exploiters), who own the means of production and hire workers; *workers* (exploited), who do not own the means of production and sell their labor power to capitalists; and *petty bourgeois* (neither exploiter nor exploited), who own and use the means of production without hiring others.

Patterns of exploitation thus play a central organizing role in Wright's (1997) neo-Marxist analysis of class structure in contemporary capitalist society.

Wright (1997, pp. 19–26) next discusses “the problem of the ‘middle class’ among employees” which refers to “class locations” or certain groups of workers who differ in terms of their level of exploitation. Wright (1997, pp. 23–24) identifies four “class locations:” expert managers, non-skilled managers, experts, and workers.² Expert managers and experts have scarce work skills while non-skilled managers and workers do not. Expert managers and non-skilled managers have authority while experts and workers do not. Wright's conclusion seems to be that employees who possess scarce work skills

and/or authority are less exploited than are workers who possess neither. All of these four “class locations” are assumed to be exploited because they are all employees, but some are thought to be more exploited than others.³ The three groups that are less exploited – expert managers, non-skilled managers, and experts – are referred to as “privileged appropriation locations within exploitation relations” (Wright, 1997, p. 23).

The reason why exploitation is lower among these “privileged appropriation locations” is because employees with scarce skills earn a “skill rent” while employees with managerial authority earn a “loyalty rent” (Wright, 1997, pp. 21–22). As explained by Wright (2000, pp. 1568–1569), “the ‘employment rent’ is thus a wage premium workers are able to get because of their ability to resist capitalist attempts at extracting labor effort. Rather than seeing employment rents as a form of exploitation by workers it is thus more appropriate to see them as the outcome of resistance to exploitation by workers.” Presumably, expert managers are the least exploited because they possess both scarce skills as well as authority that enable this group to obtain both a “skill rent” and a “loyalty rent” (while conversely workers are the most exploited as they receive neither).

Due to its significance in defining class structure, Wright (1997, pp. 10–17; 2000, pp. 1562–1565) provides a general definition of exploitation. He identifies three basic criteria that include the inverse interdependent welfare principle, the exclusion principle, and the appropriation principle. According to the inverse interdependent welfare principle, the “material welfare of exploiters causally depends upon the reductions of material welfare of the exploited” (Wright, 2000, p. 1563). According to the exclusion principle, “this inverse interdependence of the welfare of exploiters and the exploited depends upon the exclusion of the exploited from access to certain productive resources” (Wright, 2000, p. 1563).

According to the appropriation principle, “exclusion generates material advantage to exploiters because it enables them to appropriate the labor effort of the exploited” (Wright, 2000, p. 1563). As stated by Wright (2000, p. 1563), “exploitation is thus a diagnosis of the process through which certain inequalities in incomes are generated by inequalities in rights and powers over productive resources: the inequalities occur, in part at least, through the ways in which exploiters, by virtue of

² A terminological inconsistency in Wright's discussion is that “workers” is sometimes used to refer to the broad class of employees as a whole (who are exploited) while elsewhere the same term is used elsewhere to refer to only the particular “class location” of employees who possess neither scarce skills nor authority.

³ As noted by Wright (1997, pp. 19–20) in footnote 25, this approach to understanding the “middle class” differs from his earlier work (i.e., Wright, 1985) in which authority and skill “were the basis for distinctive forms of exploitation.”

their exclusionary rights and powers over resources, are able to appropriate labor effort of the exploited.”⁴

In other words, Wright defines exploitation as the transfer of the value of the product of the labor effort of the exploited to the exploiters who take control of and benefit from gaining possession of that value as the consequence of an underlying system of property rights. In capitalist society, the capitalists own and profit from the sale of the product that is produced by the workers who only receive wages (rather than the full value of the products that they have produced). Exploitation refers to the appropriation of the difference between the value of the product that is produced by the workers minus the value of their wages (net of the other production costs). This exploitation is the source of the high incomes of the capitalists. Wright’s view is thus a continuation of the traditional Marxist approach in that economic value is said to derive from workers while the wealth of the capitalists derives from the appropriation of the value produced by workers.

One notable difference between Wright’s approach and the classical Marxist definition of exploitation, however, is that Wright does not assume the labor theory of value. As Wright (1997, p. 10) states in footnote 11:

The expression ‘appropriation of the fruits of labor’ refers to the appropriation of that which labor produces. It does *not* imply that the value of those products is exclusively determined by labor effort, as claimed in the labor theory of value. All that is being claimed here is that a surplus is appropriated – a surplus beyond what is needed to reproduce all of the inputs of production – and that this surplus is produced through labor effort, but not that the appropriate metric for the surplus is labor time [italics in original].

In short, Wright seeks to preserve the fundamental Marxist understanding of how exploitation operates in capitalist society, but without any reliance upon the labor theory of value (which was, according to Sorensen, 2000, p. 1524) “abandoned long ago, even by Marxist economists”).⁵

⁴ Kevin Leicht notes that Wright’s definitions for the exclusion principle and the appropriation principle are both based on the assumption of exclusion, and that these two principles might thus be collapsed into one. We would add that to define the exclusion principle in terms of the “exclusion of the exploited” and the appropriation principle in terms of exploiters being able “to appropriate the labor effort of the exploited” seems more like a tautology than an analytical definition.

⁵ Although Wright does not endorse the labor theory of value per se, he does try to uphold the *esprit* of that theory by emphasizing that the

2. Pigouvian exploitation in Wright’s analysis

Although it might be a little bold to state it so bluntly, I must say that I don’t think that sociology has made a whole lot of theoretical progress for many years and certainly not compared to economics.

Aage B. Sorensen (1990, p. 307)

As was mentioned earlier, three different types of exploitation processes are discernable in Wright’s writings. The first type resembles what economists refer to as Pigouvian exploitation. Pigouvian exploitation occurs when some factor of production is paid less than the value of its marginal product (Bronfenbrenner, 1971, p. 196). The value of the marginal product of labor refers to the revenue that accrues from the sale of the additional product that is obtained as the result of additional hours worked. In order for the Pigouvian exploitation to occur in the long run, some sort of imperfect competition (e.g., monopsonistic power in labor markets) is required (Bronfenbrenner, 1971, p. 196; Perky & Tsang, 1974, p. 56). To the extent that no sources of imperfect competition can be maintained, then Pigouvian exploitation is predicted to wither away.

According to Wright, capitalists are increasing their profits due to the systematic underpayment of workers. Workers (as a broad class category) are underpaid in that their wages are less than the value of their labor. If the latter is understood to refer to the value of the marginal product of labor, then this part of Wright’s approach seems to be identical with Pigouvian exploitation in microeconomics. The essential idea is that capitalists increase their profits by reducing their labor costs below the value that is produced by labor. This exploitation process refers to the continuous underpayment of workers.

Although Pigouvian exploitation as the systematic and continuous underpayment of workers is suggested by Wright’s discussion, an analytical limitation of his analysis is that he does not define the value of labor. Wright does not present any theoretical statement about how to conceptualize the value created by workers (as a “class location”) or the value produced by the other employee groups. His approach therefore cannot analytically identify when employees’ wages are less than the value that they produce. Wright’s concept of exploitation thus cannot be operationalized. His claims about exploitation processes consequently cannot be objec-

“appropriation of labor effort” is an essential aspect of his definition of exploitation: “the welfare of the exploiter depends upon the *effort* of the exploited, not merely the deprivations of the exploited” (Wright, 1997, p. 11, italics in original).

tively assessed with empirical data. For this reason, exploitation is absent from the empirical analyses of Wright (1997) despite being lauded as a crucially important concept in the introductory chapter.

One might suggest that, according to Wright's neo-Marxist approach, all value is (by definition) produced by labor so that there is no need to develop any specific theory of the value of labor. Wright's discussion of "class locations" seems to suggest, however, that some employees who possess expert skills and/or managerial authority should receive higher wages even in the absence of exploitation. A clearer statement regarding the value of labor is therefore needed in order to ascertain the extent to which non-exploitative wage inequalities are required for expert managers, non-skilled managers, and experts relative to workers.

In addition, as noted above, Wright has explicitly dropped the labor theory of value leaving open the possibility that value is also produced by factors of production other than labor. This possibility is evident in the quotation cited above from Wright (1997, p. 10) that refers to the reproduction costs of all of the "inputs of production" (i.e., there is more than one input). What is needed in Wright's discussion is an explicit statement of the role of capital in the production of value and how much remuneration for the renting of capital may be considered non-exploitative (because labor is not the only input of production).

More generally speaking, a closely related shortcoming of Wright's analysis is that he does not seriously consider the production process. He does not define productivity or how it is created in a firm that includes a variety of occupations as well as capital investments. The modern economy typically includes firms that use complex production processes involving jobs with tremendously varying skill requirements as well as a variety of capital investments including arable land and natural resources, machinery, new technology, scientific knowledge, business services and information about market demand, managerial ability, risk-taking, and entrepreneurship. Without a clearer discussion about the relative economic values of these various inputs in the production process, the "appropriation of the fruits of labor" is mainly a vacuous motto. Ascertaining who has obtained exactly how much "material welfare" at the expense of whom therefore remains an arbitrary matter of opinion in Wright's approach.

Lacking empirical evidence or specific theoretical justification, Wright's discussion simply *assumes* that the capitalist firm is exploitative and that exploitation can only occur between capitalists and workers (rather than between different groups of workers or between dif-

ferent groups of capitalists). These assumptions are obviously consistent with the Marxist tradition but they lack the conceptual foundation of the labor theory of value because Wright has explicitly disavowed it. Wright's analysis is problematically incomplete because no theory of value is developed to fill the analytical void created by the discarding of the labor theory of value. Contrary to the Marx's labor theory of value, nothing in Wright's three definitional criteria for exploitation implies that exploitation is restricted to the conflict between capitalists and workers.

For example, Wright refers to shirking as one of the "capacities for resistance" that workers use to counter capitalist exploitation (Wright, 2002, p. 850).⁶ The production process usually involves, however, substantial interdependencies due to the extensive division of labor that characterizes modern capitalism. In this case, shirking on the part of some workers forces other workers to work harder and lowers the firm's output and hence revenues. Given that the wages of shirking workers are usually not fully penalized for their lower work effort – or else they would have no incentive to shirk – they are, in effect, exploiting workers who do not shirk (i.e., must expend more labor effort) or who lose their jobs (i.e., suffer a reduction in their material well-being) as the consequence of the reduced efforts of the shirking workers.⁷ Without a definition of economic value or a model of the production process, Wright's reference to shirking as a source of resistance to capitalist exploitation is primarily ideological rather than analytical.

Wright (2002, p. 832) refers to Weber's discussions of technical efficiency and economic rationality as leading to "a relatively impoverished understanding of the nature of antagonistic interests generated by class relations." According to Wright (2002, pp. 851–852), Weber's analysis of economic rationality suggests that he was more concerned with "the interests of owners and managers" than with the interests of workers. We suggest, to the contrary, that some baseline model of the value produced by the production process is needed before the underpayment of labor can be analytically identified. Rather than being an apologist for capitalist exploitation, Weber's concerns for defining technical efficiency and economic rationality may be seen as improving our understanding of how to conceptualize the underpayment of labor. The latter issue is virtually ignored by Wright despite his

⁶ See Hodson (2001) for a more detailed discussion of worker strategies to counter capitalist exploitation, mismanagement, and abuse.

⁷ For this reason, highly motivated workers may rationally prefer to work for companies with stricter management (Alchian and Demsetz, 1972).

assertion that exploitation is essential to his Marxist class analysis. Ironically, Wright (1997, pp. 33–35; 2002, pp. 844–847) further claims that his greater emphasis on the study of the production process is an important advantage of his Marxist approach over Weberian analyses. In reality, however, Wright's (1997, p. 31) reference to exploitation as a "buzz-word" for Marxists is unfortunately an accurate assessment of the superficial role of this term in his analysis.⁸

3. Rent exploitation in Wright's analysis

If we succeed in refuting the sociological theories of Marx or the hypotheses derived from them, we have good reason to rejoice. For science grows by the refutation of accepted propositions and theories, and not by their stubborn retention.

Dahrendorf (1959, p. 35)

The theory of exploitation as rent extraction is most closely associated with Sorensen (1996, 2000). Although Wright (2000) extensively critiques Sorensen's approach, we argue that it is actually compatible with Wright's analysis. Wright seems to offhandedly acknowledge this when he states "in some cases rents might still be directly a form of exploitation. The rent that a landowner charges a tenant farmer constitutes a direct appropriation of the labor effort of farmers, for example" (Wright, 2000, p. 1570). In this section, we argue that Sorensen's (2000) theory of exploitation as rent extraction is compatible with Wright's three criteria for exploitation. We conclude that Wright's opposition to Sorensen's approach is primarily ideological because it implies that exploitation is not restricted to the conflict between capitalists and workers as envisioned by Marxist theory.

3.1. Competition in the long run does not eliminate economic rents

Sorensen (2000, p. 1537) states that an economic rent is reduced to zero (as is economic profit) with competition in the long run. To the contrary, we argue that rents differ from economic profit in that rents do not disap-

pear with perfect competition. As noted by Pindyck and Rubinfeld (1992, pp. 268–269), "When a firm is earning a positive accounting profit, but there is no incentive for other firms to enter or exit the industry, this profit must reflect economic rent in the long run (in a competitive market), the producer surplus that a firm earns consists of the economic rent that it enjoys from all its scarce inputs." Although economic profit is zero in competitive markets in the long run, and although Sorensen (2000) is correct in generally defining an economic rent as the difference between what firms are willing to pay for an input and the minimum amount necessary to produce that input, economic rents are nonetheless paid to the owners of rent-producing assets in a competitive market. Thus, rents derive from the ownership or possession of productive assets that, by definition, are not eliminated by market competition.

One way to represent the impact of economic rents is to conceive of them as a set of costs that are not eliminated by an increase in the number of firms in the industry (e.g., a mandatory licensing fee or a price-premium paid for an input of higher quality). These costs are either unavoidable or they pay for themselves in the form of higher productivity. If rents were eliminated by competition, then they would be substantively identical to monopoly effects (in which case there would be no need for having a separate term for them).

3.2. Wright's criticisms of Sorensen's view of rent exploitation

Wright's (2000) discusses three main reservations with Sorensen's (2000) analysis. First, Wright (2000) argues that exploitation can still occur in capitalist society even under the (admittedly idealistic) conditions of perfect competition in the long run. However, as noted above, long-run competition does not actually reduce economic rents. If rents are exploitative according to Wright's criteria, and if rents are not eliminated by competition in the long run, then there would seem to be no disagreement between Wright and Sorensen regarding the existence of exploitation even with perfect competition.

Second, Wright argues that Sorensen's view of exploitation is not adequate if it does not satisfy Wright's appropriation principle that "exploitation depends upon the appropriation of labor effort" (Wright, 2000, p. 1565). We argue, however, that Sorensen's view is not fundamentally at odds with Wright's appropriation principle. Because workers receive wages for their labor, and because economic rents translate into higher prices for workers to pay from their wages, the existence of rents

⁸ One might suggest that exploitation in Wright's analysis is a useful heuristic device which – like a utility function in economics – is never explicitly measured but which nonetheless plays an important role in deriving predictions and interpretations of empirical phenomena that are directly measured. The heuristic role of exploitation in Wright's approach is essentially nonexistent, however, because no mention of exploitation is made in his empirical analyses.

reduces workers' real incomes (relative to the prices that they would face without the added costs imposed by the rents). Thus, the existence of rents indirectly though nonetheless assuredly constitute "the appropriation of labor effort" in the form of higher prices. As the result of the higher prices created by the economic rents, workers have to work longer hours – that is, expend more labor effort – in order to achieve a particular level of material well-being. In this way, economic rents as added costs are substantively the same as Wright's example (mentioned above) in which the "rent that a landowner charges a tenant farmer constitutes a direct appropriation of the labor effort of the farmer. . . ." The main difference is psychological: the landowner's rent is highly visible and obvious to the tenant whereas other forms of economic rent are often hidden from the direct view of the payee.

Although we argue that Sorensen's view of economic rents as exploitation is generally consistent with Wright's definition of exploitation, the implication of Sorensen's view is contrary to the main theoretical assumption of the Marxist tradition. As was mentioned above, Wright seeks to maintain that tradition by emphasizing that exploitation only occurs between capitalists and workers. The implication of the interpretation of economic rents as constituting "the appropriation of labor effort," however, is that Marxist class conflict is no longer primary because the appropriation takes the form of higher prices which are only incurred by those who purchase the product.⁹ This form of exploitation as the extraction of economic rents is therefore more diffuse in that it depends more upon one's consumption behavior and market situation than upon one's Marxist class category. Thus, although we believe that Sorensen's discussion of rents as exploitation is substantively consistent with Wright's three criteria, the implications of Sorensen's view are inconsistent with Wright's ideological emphasis on the primacy of class exploitation as being limited to capitalists versus workers.

A third reservation that Wright (2000) discusses in regard to Sorensen (2000) is that the employment rents obtained by managers, experts, and expert managers (i.e., the "loyalty rent" and "skill rent" mentioned earlier) should not be interpreted as exploitation. Earlier, we quoted Wright's (2000, p. 1569) statement that the higher

wages that these workers obtain (on average) should not be viewed as being exploitative but instead should be thought of "as the outcome of resistance to exploitation by workers." In other words, Wright's opinion is that the employment rents obtained by some managers, experts, and expert managers simply mitigate (i.e., do not eliminate) the Pigouvian exploitation that these workers endure from their employers. Although not discussed by Wright, his third reservation of Sorensen's (2000) approach actually entails the implicit assumption that capitalists pay for these wage premiums in the form of reduced profits. Wright is thus obliquely arguing that other workers do not pay for the wage premiums of those workers who actually obtain them. Without this assumption, then exploitation would occur between workers because some would be paying for the wage premiums enjoyed by others (which would be consistent, in many cases at least, with the definition of exploitation as understood by Wright's three criteria).

Although this third reservation certainly seeks to maintain Marxist tradition, its restrictive assumption that exploitation can only occur between capitalists versus employees ignores the extraordinary increases in wage inequality that have occurred in recent decades (e.g., Card & DiNardo, 2002; Morris & Western, 1999). Because the increases in the wages of expert managers, non-skilled managers, and experts have often been quite substantial in recent years, at least part of these raises may derive from the exploitation of workers (as a "class location") whose wages appear to have declined in real terms over this time period (Bernhardt, Morris, Handcock, & Scott, 2001). Furthermore, the work of Gordon (1996) and Leicht, Brady, & Rohret (in press) suggest that the increasing pay and size of the managerial class may be associated with higher profits. In short, one cannot rule out the possibility that recent increases in "loyalty rent" and "skill rent" may reflect a sort of coalition between some capitalists and their employees in "privileged appropriation locations" that may be jointly engaged in the increased exploitation of non-expert, non-managerial workers. This scenario provides an alternative explanation for increasing wage inequality given recent critiques of the hypothesis of skill-biased technological change (Card & DiNardo, 2002; Galbraith, 1998; Kim & Sakamoto, 2005).

Other research finds that higher profits tend to be associated with higher (not lower) average wages across industries even after controlling for other related factors (Allen, 1995; Blanchflower, Oswald, & Sanfey, 1996; Dickens & Katz, 1987; Hodson & England, 1986; Kalacheck & Raines, 1976; Katz & Summers, 1989; Kumar, 1972; Pugel, 1980; Rapping, 1967; Slichter,

⁹ For example, people who attend professional football games pay some economic rents in the form of the franchise fees that are included in the price of the ticket. However, anyone can avoid this particular "appropriation of labor effort" by simply not attending professional football games. This entire issue also raises the idea of the exploitation of consumers which Sorensen apparently does not consider.

1950). A recent study similarly finds that, after controlling for measures of human capital, the wages of white-collar workers tend to be significantly higher in firms with higher equity returns (Bronars & Famulari, 2001). In short, at least some portion of the wage premiums for many managers, experts, and expert managers are probably paid for, not by lower profits (as implied by Wright's analysis), but by the higher prices faced by consumers and/or the lower wages of employees with less bargaining power. Note that the exploitation of the latter group (i.e., non-expert, non-managerial workers) may occur not only within a given industry or firm, but perhaps across them as well as was traditionally argued in the dual economy literature (e.g., Hodson, 1983; Sakamoto & Chen, 1991).¹⁰

In sum, we argue that Sorensen's (2000) view of rents as exploitation is generally consistent with Wright's (1997, 2000, 2002) definition of exploitation as given by his three criteria. For this reason, rents as exploitation may be considered to be another exploitation process that is discernable in Wright's discussion. Ironically, Wright (2000) argues against Sorensen's (2000) approach, but it is actually compatible with Wright's definition of exploitation. Wright's disapproval of Sorensen's analysis does not stem so much from substantive differences about the definition of exploitation as from the implications of Sorensen's approach that are inconsistent with traditional Marxist views about the overriding importance of a zero-sum conflict between capitalists and workers.

4. Initial-conditions exploitation in Wright's analysis

Precisely when the asset distribution is unjust becomes the central question to which Marxian political philosophy should direct its attention.

John E. Roemer (1985, p. 65)

Economists frequently refer to the concept of Pareto efficiency which maximizes economic welfare without making anyone worse off: "An allocation is Pareto efficient if goods cannot be reallocated to make someone better off without making someone else worse off" (Pindyck & Rubinfeld, 1992, pp. 581–582). In general, competitive markets are said to yield Pareto efficiency. As is usually noted, however, each competitive equilibrium that yields a Pareto efficient allocation of

goods depends upon some initial distribution of income (Pindyck & Rubinfeld, 1992, pp. 587–588; Thurow, 1975, pp. 226–28). There are thus as many different Pareto efficient allocations as there are initially different distributions of income. If an initial distribution of income is unfair, then a perfectly competitive market economy might yield Pareto efficiency but the original unfairness of the distribution will not have been rectified.

This idea brings us to the third type of exploitation process that is implied by Wright's discussion. Wright (2000, pp. 1566–1568) argues that exploitation would persist in capitalist society even if it were to have perfectly competitive markets (i.e., if there were no Pigouvian exploitation) and even if one could assume away the problem of exploitative rents. Wright's discussion seems to argue that perfectly competitive markets generate exploitation to the extent that there is any inequality in the initial distribution of wealth that is invested and receives a return. Although Wright does not specifically identify this exploitation process with any particular term, we refer to it as initial-conditions exploitation. It can occur independently of the first and second types of exploitation discussed above.

Wright (2000, pp. 1566–1568) argues that inequality in the distribution of wealth generates exploitation because capitalists earn interest while workers must work harder than they otherwise would if wealth were distributed more equally. According to Wright, this process constitutes exploitation as defined by his three criteria. Wright (2000, p. 1566) refers specifically to "rentier" capitalists (i.e., those without any earnings and whose incomes are entirely derived from interest payments) who are better off because they receive interest payments that are ultimately the result of the labor of workers. That is, "rentier" capitalists are appropriating the labor effort of workers in the form of interest payments. Furthermore, because workers are poorer due to the inequality in the distribution of wealth, they must work harder than they would if wealth were more equally distributed.

Wright's discussion of this type of exploitation seems incomplete. One notable shortcoming is the lack of an analysis of the complex problem of whether and to what extent a return on savings or capital investment can be considered non-exploitative. If Wright believes that all interest and rental payments constitute immoral "usury," then this raises the issue of how capital and investment in modern economies should be produced, maintained, and directed. Furthermore, in terms of Wright's own definition of exploitation, his discussion ignores the fact that the owners of capital have sometimes expended a great deal of "labor effort" to produce and maintain that capital as well as to decide where to invest it.

¹⁰ Wright's work has ignored power differentials between industries and firms. Like Marx, Wright seems to be implicitly assuming highly competitive product markets.

This general issue does arise in one brief footnote in which Wright (2000, p. 1566) seems to state that some competitive return to capital is non-exploitative when it derives from people reducing their consumption: “the concept of ‘costs of production’ in this context includes such things as the ‘costs of deferring present consumption for greater future consumption.’ ” This footnote seems to acknowledge that if a person earns interest for investing her capital that is derived by saving her income (i.e., by reducing her consumption and/or working longer hours), then this return is not exploitative. Wright needs to address this issue more broadly, however, by systematically considering the relationship between exploitation and non-earned incomes (e.g., interests, rents, dividends, capital gains) and to what extent the latter should be subject to market forces before being considered exploitative.

This footnote illustrates the incompleteness of Wright’s discussion of initial-conditions exploitation. Elderly persons are often unable to work and are thus “rentier” capitalists in that their pensions are their primary source of income. On the one hand, Wright argues that “rentier” capitalists collect interest and thereby exploit workers. On the other hand, Wright seems to acknowledge that collecting interest on one’s pension (i.e., savings) is not exploitative. These two views are inconsistent in the case of a pensioner because they imply contradictory conclusions about the same receipt of interest payments.

It is unreasonable to assume that persons who have saved their earnings throughout their work careers are engaged in exploitation simply because they receive interest payments on their pensions. When workers do not save their income (i.e., because they consume all of it), then their material well-being is immediately improved by their increased consumption. If workers who saved their incomes for their own pensions must then have their level of well-being further reduced by increased taxes to pay for transfer payments to retired workers who did not save their incomes, this process would be exploitative of the more frugal workers. In this case, their material well-being is being systematically appropriated by the squandering workers who did not save and consequently have a higher level of lifetime consumption.

From a conventional economic point of view, the value of the labor of workers is increased by the provision of capital. The persons who are responsible for the procurement, arrangement and utilization of capital in the production process have therefore indirectly created a portion of the value of the product that is produced. Without their provision and organization of

the capital usage, the productivity of the workers would have been less. Thus, capitalists and managers are typically involved in the creation of economic value by augmenting the productivity of labor. Wright’s (2000, p. 1566–1567) assumption that interest payments simply reflect the appropriation of the “fruits of labor effort” among workers ignores the complex realities of the production of economic value in the modern economy.

Wright may be implicitly assuming that “rentier” capitalists only inherited their wealth and did not defer consumption or otherwise work for it (unlike workers who save for their pensions). Perhaps Wright believes that obtaining interest is exploitative only when the capital derives from inherited wealth (i.e., is not obtained through one’s own effort). One could argue that earning interest from wealth that was not obtained “fairly” is exploitative while doing so from one’s wealth that is “fairly” acquired (e.g., through reduced consumption) is not exploitative (Nozick, 1974). Wright may need to distinguish between inherited versus non-inherited wealth.

Another ambiguity in Wright’s view of initial-conditions exploitation is his assumption that workers work harder and are more exploited due to the initial inequality in the distribution of wealth even in a perfectly competitive economy. Wright (2000, pp. 1567–68) states “if workers owned their own means of production, capitalists would find it more difficult to get workers to work as hard for a given level of wages.” His argument seems to be that, in the presence of wealth inequality, workers need to work more than they otherwise would if they had had more wealth. The inequality of wealth results in a lower budget constraint for workers who are then less able to afford to purchase leisure time. This results in an increased supply of labor for capitalists which reduces the wage that capitalists need to pay.

The problem with this analysis is that a lower wage per se does not necessarily result in higher profits for capitalists in a perfectly competitive economy. If workers work for a lower wage in a perfectly competitive economy, then consumer prices will be lower, but capitalists will not be earning a positive economic profit. Nor does it seem to be *prima facie* true that workers with more wealth will necessarily work fewer hours (e.g., American workers are among the higher paid workers in the world and yet American workers tend to work more than do the workers of many other industrialized countries).¹¹

¹¹ Another problem with Wright’s (2000, pp. 1567–1568) analysis is the assumption that all workers are equally entitled to all of society’s wealth. At least some wealth derives from some people working harder, saving more or investing their money more judiciously. Therefore, not all workers are equally entitled to it.

Finally, we note that the view that the initial distribution of wealth may be “unfair” does not contradict any tenets of microeconomics or represent any new insight. As noted above, microeconomic theory has traditionally defined Pareto efficiency as being dependent upon some prior distribution of income. A conventional economist may certainly argue, from a normative point of view, that inheritance taxes and “unearned-income” taxes should be high so as to help ameliorate the injustice associated with the unequal distribution of wealth (Krugman, 2002). Furthermore, philosophers have studied the topic of social justice including its relationship to the inheritance of wealth (e.g., Blackstone, 1969; Brandt, 1962; Nozick, 1974) often making extensive use of initial-conditions or “original position” argumentation (Rawls, 1971).¹² What remains unclear is what is added by Wright’s analysis which does not advance our understanding of the “central question to which Marxian political philosophy should direct its attention” which is to ascertain “precisely when the asset distribution is unjust” (Roemer, 1985, p.65).

5. The shadow of market closure in Wright’s analysis of exploitation

Sociologists have been strangely and remarkably silent on the issue [of increasing earnings inequality].

Martina Morris and Bruce Western (1999, p. 623)

In “The Shadow of Exploitation in Weber’s Class Analysis,” Wright (2002) overemphasizes the commonalities in Marx’s and Weber’s views on class by downplaying the well-known Weberian concern for market closure (e.g., Giddens, 1973; Grusky, 2001; Murphy, 1988; Parkin, 1979). As stated by Weber ([1922] 1978, p. 342), “monopolization is directed against competitors who share some positive or negative characteristics; its purpose is always the closure of social and economic opportunities to outsiders” and “curbing competition.” When Weber refers to the “determination of class situation by market situation,” it is probably better understood as including aspects of market closure (Weber, [1922] 1978, pp. 927–928). His approach differentiates between groups of workers who have varying degrees of economic power to extract higher wages from the market

due to some type of monopolistic resource or advantage (Weber, [1922] 1978, pp. 341–343). Differentiating between specific types depending upon “market situation” also applies to capitalists (Weber, [1922] 1978, pp. 927–928).

In the context of a market economy, market closure refers to some type of monopolistic feature that prevents market forces from attaining the equilibrium of supply and demand that characterizes competitive markets. As described by Sorensen (1996, pp. 1342–43) and Pindyck and Rubinfeld (1992, pp. 348–50), market closure differs from competitive equilibrium in that the former typically entails higher prices, a reduction in output, a reduction in employment, and a “deadweight” welfare loss to society. Market closure is most commonly thought of as being associated with monopolistic sellers, but other sources of market closure include taxes, price controls and supports, cartels, labor unions, various imperfections of knowledge surrounding consumption and production, product differentiation, economies of scale, patents, and licensing requirements. As described by Collins (1979), Grusky and Sorensen (1998), and Weber ([1922] 1978, pp. 999–1000), social classes, professions, and occupations promote various types of market closure and monopolistic regulations. Processes relating to market closure are often important factors in explaining employment patterns and income disparities associated with racial/ethnic categories and gender (e.g., Bielby, 1991; Bonacich, 1972; Reskin, 1991; Sakamoto, Liu, & Tzeng, 1998; Wilson, 1980).

Wright (2002, p. 839) refers to Weber’s statement that “‘Property’ and ‘lack of property’ are, therefore, the basic categories of all class situations” (Weber, [1922] 1978, p. 927). However, the context of this statement refers to the importance of wealth in acquiring “highly valued goods” that are exchanged in the marketplace “in accord with the law of marginal utility” (Weber, [1922] 1978, p. 927). Weber’s comment on the importance of property may be interpreted as referring to the significance of wealth in determining economic well-being in capitalist society, and is probably not a simple endorsement of Marx’s basic two-class model. Almost immediately after making this comment, Weber states that “within these categories, however, class situations are further differentiated” (Weber, [1922] 1978, pp. 927–928).

In contrast to Weber’s description of highly differentiated class groupings that vary according to a variety of “market situation,” Marx ([1867] 1967) implicitly assumes perfect competition in both the capital and labor markets. Marx believed that the rate of profit tended towards equality across industries. He also contended

¹² These references consider the complexity of the arguments involved in the definition of social justice. While societies that systematically promote exploitation are probably socially unjust, social justice also involves broader issues (e.g., political rights) that extend beyond exploitation processes per se. This idea may be related to Sorensen’s (2000, p. 1553) comment that “nothing guarantees that efficient labor markets create good lives.”

that the wages of high-skilled workers reflected the greater value that they produced relative to low-skilled workers. Indeed, Marx's approach of reducing labor of various skill and wage levels into a quantity reflecting unskilled labor equivalents (i.e., "human labor in the abstract" [Marx, [1867] 1967, p. 38]) foreshadows the development of human capital theory in neo-classical economics a century later. Wright (2002, p. 833) states that "it is surprising that so much of the literature on class sees Weber as a central source," but the importance of Weber's approach derives from his recognition of the significance of market closure which Marx considered to be a peripheral issue.

The different class concepts of Weber and Marx have important implications for understanding the concept of exploitation. Wright upholds the traditional Marxist view that exploitation refers to capitalists extracting some sort of "surplus value" created by workers, and that exploitation is "the source of profits in capitalism" (Wright, 2002, p. 845).¹³ In contrast to this underlying two-class approach, however, the fundamental implication of Weber's concept of class is that one should not rule out the possibility that exploitation can be generated by processes relating to market closure affecting economic actors in the same class category. That is, exploitation may occur between different capitalists or between different groups of workers. It is not necessarily limited to the conflict between capitalists versus workers.

For example, restaurant and beauty salon owners typically employ workers and are thus classified as capitalists according to Wright's (1997, 2002) traditional Marxist approach. Due to the very high level of competition in those industries, however, these "capitalists" typically have hourly earnings that are quite small compared to physicians who specialize in fields where economic competition is highly limited due to monopolistic training practices and other legal restrictions. The narrowness of the Marxist conceptualization of exploitation implies that restaurant and beauty salon owners are supposed to benefit from exploitation whereas medical specialists do not. In fact, however, the higher wages of work-

ers in the primary sector (including medical specialists) in part derive from market closure that then leads to excess employment in the secondary sector (including many personal service industries) where wages are consequently driven down.

Ignoring the significance of market closure sometimes limits the relevance of class analysis for understanding the exploitation of women and racial/ethnic minorities. As noted by Weber ([1922] 1978, p. 342), "one group of competitors takes some externally identifiable characteristic of another group of (actual or potential) competitors – race, language, religion, local or social origin, descent, residence, etc. – as a pretext for attempting their exclusion." For example, recent econometric evidence suggests that women in U.S. manufacturing firms are significantly underpaid relative to men after taking into account their wages and their relative contributions to the economic output of firms (Hellerstein, Neumark, & Troske, 1999). This exploitation obviously cannot be understood as resulting from their male co-workers owning these manufacturing firms. In the case of the high unemployment rates of African American men (relative to white men), Wright's approach implies that no exploitation occurs at all because no "surplus value" is extracted from the unemployed. Our understanding of the exploitative nature of these phenomena is greatly enhanced, however, by referring to the processes of market closure for higher-paid jobs and the resulting structural unemployment that these processes generate as has been long argued in the dual economy and dual labor market literature (Dickens & Lang, 1985; Sakamoto & Chen, 1991).

We argue that market closure would often qualify as exploitation according to Wright's three criteria. For example, when a monopolist sets a price that is above the competitive-equilibrium price, then output is reduced and employment is accordingly curtailed. In this case, the higher price yields economic profits for the monopolist and they are obtained at the expense of the consumers of the good (who pay the higher price). The inverse interdependent welfare principle applies to this situation because the economic profits of the monopolist are derived from the subsequently reduced income of the consumers who purchase the monopolist's product. The exclusion principle is applicable in the sense that the monopolist has the right to keep the economic profits whereas others typically have little or no rights to the profit (except to the extent that the monopolist may be required to pay corporate or other income taxes). The appropriation principle is evident in that, as the result of the higher price, the monopolist keeps more of the con-

¹³ As discussed by Thurow (1975) and Sorensen (1996), large capitalist fortunes are often created in a relatively short time period by the marketing of new products or the development of new production technologies (e.g., Henry Ford, Sam Walton, Bill Gates). Excess profits are generated before new firms can enter the industry. After doing so later, the industry becomes more competitive. Of the six wealthiest persons in America, five of them made their fortunes by pioneering successful computer technologies (Marger, 1999, p. 114) that were unlikely to have been inherited.

sumers' incomes. In order to have as high an income as they would have had under competitive equilibrium, the consumers (or at least those who purchase the monopolist's product) need to work longer hours to pay for the monopolist's profits.

Although market closure would be considered, in many cases at least, as constituting exploitation according to Wright's three criteria, Wright avoids this issue probably because this sort of exploitation is inconsistent with the Marxist assumption that exploitation occurs only between capitalists versus employees.¹⁴ The exploitation that is generated by market closure depends more upon one's consumption behavior and market situation (rather than upon one's Marxist class category). In the case of a monopolist, one can avoid that exploitation by not consuming the monopolist's product. Market closure often represents a type of exploitation according to Wright's three principles, but Wright does not systematically consider this issue probably because it is inconsistent with Marxist assumptions about capitalist societies.

In sum, market closure continues to play an important role in affecting income inequalities among both capitalists and workers. The significance of market closure is not acknowledged in Wright's analysis, however, because market closure underscores the importance of the Weberian approach which undermines the Marxist focus on the primacy of the purportedly zero-sum conflict between workers and capitalists.¹⁵ Although market closure is probably exploitative according to Wright's three criteria, his commitment to Marxist precepts overrides the analytical development of the concept of exploitation. In Wright's analysis, market closure is thus reduced to the dim shadow of what is perhaps a mountain of exploitation that remains unexplored. Meanwhile, as noted by Morris and Western (1999, p. 623), sociologists continue to have no explanation for (or even much interest in) the dramatic increases in earnings inequality that have occurred in recent decades.

¹⁴ As discussed by Rueschemeyer and Mahoney (2000), however, not all types of market closure should be viewed as exploitative (or at the very least, they are not all equally exploitative). Some types – such as licensing practices – often help to bring about important social benefits such as improving the quality of various professional services that are rendered.

¹⁵ A related reference is Tilly (1998, p. 10) whose definition of exploitation seems close to that of Wright's while Tilly's (1998, p. 10) definition of "opportunity hoarding" seems related to Weber's idea of market closure.

6. Conclusions

Normative sociology, the study of what the causes of problems *ought to be*, greatly fascinates all of us. If X is bad, and Y which also is bad can be tied to X via a plausible story, it is very hard to resist the conclusion that one causes the other. We *want* one bad thing to be caused by another. . . we happily *leap* to the conclusion that the second evil is *caused* by the first.

Robert Nozick (1974, p. 247)

The tenure system at elite universities is an example of market closure that promotes the wages, working conditions, and fringe benefits of a privileged class stratum known as professors. Their demand for and consumption of conventional Marxist statements will likely remain high despite the limited relevance of the latter to understanding exploitation and social inequality in an economy where "the working rich have replaced the rentiers at the top of the income distribution" (Piketty & Saez, 2003, p. 1). Children from poor and working-class backgrounds are less likely to attend universities due to their spiraling costs (Kane, 2004). The latter serve to increase professors' salaries that continue to outpace the Consumer Price Index (Fogg, 2003). In order to legitimate these rising costs and the heightened educational credentialism in an increasingly unequal labor market amidst a declining American economy, academics often seek to justify their class privilege by asserting their moral superiority and by denying the significance of market competition and efficiency. In this context, traditional Marxist dictums about exploitation will continue to appeal to many professors but will rally few others.

In sum, we conclude that Wright (1997, 2000, 2002) does not adequately develop exploitation into an analytical concept that is useful for sociological theory or research. There is still no published research in modern sociology that has quantitatively measured or empirically studied exploitation in a systematic manner.¹⁶ Our understanding of what processes increase exploitation remains inherently speculative. Normative sociology "greatly fascinates all of us," but sociologists need to do better than that if we are to be effective in influencing public policy and other avenues of social change that can reduce exploitation in capitalist societies as they actually exist in the real world.

¹⁶ We concur with Merton's (1957, pp. 102–117) views on how the results from empirical research clarify concepts and improve the formulation and focus of sociological theories. See Liu, Sakamoto, & Su (2005) for a quantitative, sociological analysis of exploitation using firm-level data.

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