CHAPTER 5
Foundations of a Neo-Ricardian Class Analysis[1]

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Introduction

There is an enormous literature on the concept of class that consists mostly of debates about which properties should be included in the concept. The result is a variety of class schemes and arguments that center around which class scheme is most appropriate for capturing the class structure of modern society. Dahrendorf (1959) argues that classes should be identified with authority relations. Ossowski (1963), and later Wright (1979), produces class schemes by cross-classifying property and authority or dominance relations. The class scheme identified with John Goldthorpe is based on property, employment, and authority relations (Goldthorpe 1987; Erikson and Goldthorpe 1992). Parkin (1979) and Murphy (1988) emphasize relationships of closure, and Giddens (1973), the degree of "structuration."

The purpose of the original proposal for the concept of class, by Marx, is to explain inequality, social movements, social conflict, and political processes-to construct a theory of history. The mechanism that produces this extraordinary explanatory power is *exploitation* of the working class by the capitalist class, which produces *antagonistic interests.* Interests may be said to be antagonistic when the gain of one actor, or a set of actors, excludes others from gaining the same advantage. The incumbents of classes realize, through a process usually referred to as *class formation,* that they have these interests and form collective actors that engage in conflicts that eventually change the class structure and society.

Exploitation, for Marx and in this discussion, means that there is a causal connection between the advantage and the disadvantage of two classes. This causal connection creates latent antagonistic interests that, when acted upon as a result of the development of class consciousness, create class conflict. The causal connection also implies that the distribution of advantages or disadvantages can only be changed by changing the class structure.

The theory of exploitation as the cause of advantages and disadvantages among classes is a theory of inequality. It is a "structural" theory of inequality because the source of inequality resides in the relation between classes and not in the efforts and skills of the incumbents of these classes. In that sense classes are "empty places" as neo-Marxists like to say, using a formulation proposed by Simmel (1908), and the theory is a genuine sociological theory that can be contrasted to standard economic theory of how people obtain unequal returns on their skills, abilities, and physical assets in the market.

For most of this century, there has been agreement that the original conception of exploitation proposed by Marx is untenable. It is based on a labor theory of value abandoned long ago, even

by Marxist economists. Since the labor theory of value is a point of departure for the whole theory, one should have expected that the formulation of a more adequate structural theory of inequality would have been a major concern for the revisions of the class concept. Nevertheless, the problem with the original exploitation theory has received very little attention, the main exception being the analysis of the exploitation concept proposed by the economist Roemer (1982). However, Roemer's very general conception of exploitation will not necessarily generate antagonistic interests that produce class struggles and revolutions.

The neglect of specifying an adequate theory of exploitation means to some that everybody has become Weberian (Murphy 1988). But, Weber's class concept proposes no structural theory of inequality that helps identify when class becomes relevant for social and political action. An essential ingredient of the original class concept as developed by Marx has therefore disappeared. This elision, of course, does not prevent the usefulness of class concepts used in empirical research to account for a variety of behavior and attitudes or social mobility, such as the concept proposed by Goldthorpe, or used to account for class formation processes, such as those proposed by the neo-Weberians.

The main contrast is not between a neo-Marxist and a neo-Weberian concept of class. A more useful distinction is between class as conflict groups where conflict originates in *exploitation,* and class as a determinant of individual actions and mentalities where these consequences originate in the *life conditions* associated with different classes. Both class concepts have properties that reflect the extent and type of resources or assets possessed by incumbents of class positions. My proposal sees class as based in property rights, as did Marx's, but the concept of property used here is broader than the legal property rights definition usually employed. It is a concept of economic property rights defined as the ability to receive the return on an asset, directly or indirectly through exchange (Barzel 1997). Some of these rights may be supported by the state, and they are then legal rights, but people also obtain advantages from rights that are not legally enforceable. Property rights define a person's wealth, and I suggest that the *class as life conditions* concept reflects a person's total wealth. Part of this wealth may be in assets that generate returns or payments that are *rents.* Rents are returns on assets that are in fixed supply because single owners of the asset to the market control the supply of those assets so that the supply will not respond to an increase in price. I propose to define *exploitation class* as structural locations that provide rights to rent-producing assets. Exploitation classes defined by the presence and absence of rent-producing assets have antagonistic interests because rents create advantages to owners of rent-producing assets, and these advantages are obtained at the expense of nonowners. Class locations defined by class as life conditions do not necessarily have antagonistic interests, because rent-producing assets may not be part of the wealth a person controls.

In the next section of the article, I briefly review the most important class concepts with an emphasis on the theories of inequality associated with these concepts. Next, I develop the two class concepts based on wealth. The last part of the article discusses the proposed class concepts' ability to account for recent developments.

Theories of Inequality and Class Concepts

Discussions of class concepts are often confusing because of the varieties of meaning of the term *class.* To clarify the discussion, it is useful to order class concepts according to their level of theoretical ambition. At the bottom, so to speak, are purely *nominal classifications* of a population according to a dimension of stratification: for example, income, occupational prestige, or socioeconomic status. These concepts make no claim to the empirical existence of classes, identified with class boundaries, nor do they suggest why the dimensions of inequality, on which the classifications are based, come to exist. These concepts are nevertheless useful, despite what neo-Marxists sometimes argue, for describing differentials in all kinds of attitudes and behaviors.

At the next level of theoretical ambition, we find class concepts that make claims about the empirical existence of observable groupings with identifiable boundaries. I will refer to these concepts as *class as life conditions.* They may be detected by identifying different lifestyles associated with different living conditions in community studies (e.g., Warner, Meeker, and Bells 1949), or they can be approximated by a variety of class indicators such as occupation, education, income, sources of income, and residence, providing measures of the living conditions of different classes. These concepts are prominent in empirical research on classes and their consequences.

In recent research, the most prominent class scheme of this type probably is the class scheme proposed by Goldthorpe (1987) and elaborated in Erikson and Goldthorpe (1992). It has been widely used and found very useful in empirical research. Goldthorpe (1987) emphasizes that for a class to form, that is for collective class action, members of a class should at least have similar reactions to their class situation. This is partly a question of how similar the class situations are. Thus, a main task is to identify homogeneous class categories using occupational categories. The scheme is used to identify mobility patterns, and has also been used to analyze inequality of educational opportunity (e.g., Erikson and Jönsson 1996) and differentials in attitudes and behaviors (Marshall et al. 1988). It is often claimed to be a Weberian scheme, but Goldthorpe rejects this attribution. Grusky and Sørensen (1998) extend the approach of identifying homogeneous groupings to its ultimate conclusion arguing that unit occupations form the appropriate classificatory scheme. Indeed, if the concern is for identifying homogenous groupings to provide a useful site categorization for a variety of research purposes, this is a convincing argument.

Socialization and inoculation mechanisms are not specific to classes. The same mechanism would account for differences in attitudes and behaviors among persons raised in different local and national societies, or in different historical periods. Class as life conditions, therefore, is fundamentally a concept conveying the geography of social structure. These class schemes are descriptive of important differences between structural locations, but they are not meant to predict revolutions. As with nominal concepts, this does not prevent them from being useful in investigations of differences in lifestyles which they are meant to capture. Recent formulation of class concepts has emphasized such cultural differences by sites (e.g., Bell 1987) and argued for

new cleavages in postmodernist accounts (e.g., Eyerman 1994). A thorough review of these approaches is provided by Grusky and Sørensen (1998).

These class concepts do not propose or assume an explicit theory of inequality or how inequality produces interests, but presumably assume that the inequalities creating the different life conditions are created by the market or by some other mechanism. While Goldthorpe identifies market, employment relations, and authority as the bases for the scheme, the precise link between these defining relationships and the actual scheme is not specified.[2]

In theoretical discussions of the class concept, Weber is usually listed alongside Marx as the other main original contributor.[3] Weber goes beyond descriptive concepts of class by explicitly locating class in the economic organization of society. "Class situation is ultimately market situation" (Weber 1946, p. 182). The need to realize and to preserve the full value of one's assets give rise to *economic interests* around which classes in conflict sometimes may form. Weber assumes standard economic theory of how people obtain unequal returns on their assets and resources. However, this theory does not identify under what circumstances economic interests will be antagonistic, resulting in conflict. It is perfectly possible that Weberian classes do not have antagonistic interests because one class obtains an advantage at the expense of another class. In perfectly competitive markets, with no transaction costs, there are no permanent advantages, or above-market returns, to be obtained at the expense of somebody else.[4] Thus, class location is irrelevant. For economic interests to be in conflict, there must be advantages available that are not transitory.[5]

Weber does not emphasize this distinction between transitory and more enduring advantages that produce antagonistic interests. He provides two cues to what differentiates economic interests. One is the identifications of economic interests with the goods and services persons sell in the market of the economic opportunities they face. The second cue can be inferred from the statement: "It is the most elementary fact that the way in which the disposition over material property is distributed . . . .in itself creates specific life chances. According to the law of marginal utility this mode of distribution excludes the non-owners from competing for highly valued goods . . . It monopolizes opportunities for profitable deals for all those who, provided with the goods, do not necessarily have to exchange them" (Weber 1946, p. 181). I will argue below that the idea of the importance of monopoly is relevant for class analysis,[6] but for more specific reasons than the one suggested by Weber. The so-called neo-Weberians focus much attention on restrictions of access to classes, or closure, by conflating Weber's idea of status groups with class. The idea of class closure, emphasized by Giddens (1973), Parkin (1979), Murphy (1988), and others, suggests that classes have something to protect and want, but except for a general statement about property and credentials, there is no cue to when and if property and credentials give rise to antagonistic class interests forming a basis for class action.

At the highest level of theoretical ambition, we have the Marxist class concept, which provides a structural theory of inequality in the meaning I described above. The core process defining class relation, in Marx's class concept, is exploitation; that is, the process by which one class

obtains an economic advantage at the expense of another class. In feudalism, the exploitation is transparent—the lords of the manor appropriate some of the product of the peasant, or even more transparently, force the peasant to work for the estate for part of the work week without a wage. In capitalism, the exploitation is hidden, as the worker presumably voluntarily agrees to work for a wage. However, the wage does not reflect the value of the worker's product, which equals the labor power embodied in the product--an abstract quantity not necessarily equal to the amount of labor embodied. The wage equals the exchange value or the price of labor that will reflect the cost of production of labor, as do other prices. Th difference between the wage and the value produced is the source of the capitalist's surplus that generates profits, the end-all of all capitalist activity. The surplus belongs to the worker, and the capitalist therefore becomes rich at the expense of the worker. Clearly, the two classes should have antagonistic interests.

Marx's explanation of inequality and oppression is a very attractive one, as the history of Marxism shows. It is surely an alluring idea that the misery of the working class is caused by workers' spending part of their work on enriching the capitalist through the property arrangement of capitalism. It not only provides an explanation for inequality, it also points to an effective remedy: one must change the class relations that create exploitation. However, the worker's right to the surplus is a normative claim originated by Marx and developed in volume 1 of *Capital.* Surplus has no implications for observable economic quantities like prices Marx realized this in volume 3 and argued that the sum of surpluses in labor values and the sum of prices will be the same. However, “as a general rule, profit and surplus value are really two different magnitudes. . . The difference between profit value and surplus value . . . completely conceals the origin and the real nature of profit--not only for the capitalist, but also from the labourer” (Marx 1959, p. 58). This hidden nature of the source of exploitation makes it impossible to use empirically the theory and is the source of the difficulties of the labor theory of values encounters.

Exploitation is the appropriation of labor by the capitalist, just as labor was appropriated by the lord under feudalism. The distinction between the wage and the surplus value implies that the capitalist gains more the more surplus value he can get from the worker in a period of time. The *means of exploitation* available to the capitalist therefore are of paramount importance. Marx's class concept therefore acquires a dual dimension of legal ownership and domination, or power, that is seen as an essential element in the Marxist class concept in discussions and reformulation of the concept.[7] Neo-Marxists usually distinguish a proper Marxist class concept from Weberian formulations by emphasizing the lack of attention to the means of exploitation in Weberian formulations. The preferred formulation is that class is defined at the *point of production.*[8] Neo-Marxists are right about Weber, but have focused on the wrong dimension of the Marxist concept, *domination,* to avoid the difficulties of the labor theory of value.

Two much-cited proposals for a reformulation of the Marxist class concept relies on the means of exploitation as a main element of the concept of class (Dahrendorf 1959; Wright 1979). Dahrendorf (1959) presents the most radical formulation of the Marxist class concept by eliminating the basis of exploitation, that is, legal property rights, from the class concept and keeping only dominance or authority.

The theoretical problem with Dahrendorf's reformulation is that he never details why authority relations should create antagonistic interests, the very root of class formation. Employment contracts are voluntary and represent an exchange of pay for the subordination to authority. In competitive labor markets, the possible discomfort and alienation felt by the subordination should be compensated by higher wages, as pointed out by Simon (1957) in his analysis of the employment contract. Therefore, there should be no antagonistic interests formed. Unless the labor theory of value is invoked, no exploitation is necessarily created by authority or domination.

Wright (1979, 1985) obtains class categories by cross-classifying ownership with authority in the manner also proposed by Ossowski (1963), with unusually clear justifications. Since most of the population has little or no property, most of the class differentiation is by authority. Wright's concepts have been widely used in empirical research. Only Goldthorpe's class concept, discussed earlier, has been equally popular in empirical class analysis. Wright (1979) claims that his first class scheme is based on exploitation theory, but never presents or discusses this theory. Later Wright (1985) adopts the exploitation theory proposed by Roemer (1982) and reformulates the class scheme accordingly, maintaining authority (now called “control of organizational assets”; Wright 1985, p. 79) as a main dimension of class relations.

Research using Wright's class scheme finds an authority effect on earnings, but an effect of authority on earnings does not require a class interpretation. Authority is measured as number of subordinates, and this quantity will clearly correlate highly with job ladders established in promotion schemes used in internal labor markets. To establish that the effect is a genuine authority effect, a differentiation between staff and line positions is needed, and this has never been done. It is difficult to justify an economic rationale for an income effect of authority per se--see Sørensen (1991) for further development of this argument.

Marx introduced the means of exploitation, in particular authority, as an essential element of his class concept not to explain the incomes of managers and supervisors, but because the labor theory of value requires the dual dimensions of the class concept. If that theory is abandoned and replaced with neoclassical marginal productivity theory, the need for the means of exploitation disappears, for there is no distinction between exchange and surplus value in marginal productivity theory. In marginal productivity theory, the worker is paid what he contributes to the product: a lazy employee is paid less than a hard-working employee. Competition in the labor market guaranties that the capitalist pays no more and no less than the worker contributes to his production.

Marx did not employ marginal productivity theory, for he did not know about it. He certainly shared the belief in the competitive nature of labor markets under modern capitalism, and he may well have accepted the standard theory about these markets. As Roemer puts it, “The neoclassical model of the competitive economy is not a bad place for Marxists to start their study of idealized capitalism” (1982, p. 196).

Roemer attempts to formulate a theory of exploitation consistent with modern economic theory and Marx's original intent in developing his class concept, that is, that ownership of productive resources confers an advantage to the owner at the expense of the nonowner. Inequality in productive assets therefore creates exploitation: the value of what the poorer actor produces depends on the presence of the rich.[9] Roemer gives a game-theoretical illustration of the idea by defining exploitation as existing if the disadvantaged group is better off by withdrawing from the economy with their share of the productive assets.

This concept of exploitation as created by unequal assets in a market economy has peculiarities. Roemer (1986) shows that if we let actors have different time preferences, then it is possible that exploitation status and wealth will be inversely correlated. Roemer's solution to this property of his exploitation concept is to propose abandoning the concept altogether.[10] The possibility of formulating a satisfactory structural theory of inequality is therefore rejected.

The theoretically most ambitious concept, the concept of class as exploitation originating with Marx, does propose a mechanism of how antagonistic interests emerge and therefore how class conflict is generated. However, the theory rests on a labor theory of value that has been abandoned by economic theory. The various attempts to resurrect the concept by invoking authority are unsatisfactory because it is not clear that authority is a source of exploitation and antagonistic interests. The proposal to see exploitation as grounded in inequality in all assets also produces unsatisfactory results.

There is another solution. This is to maintain Marx's insistence on property rights. as the source of exploitation, but to not see all wealth as a source of exploitation. I propose instead to restrict exploitation to inequality generated by ownership or possession of *rent-producing assets.* Rent-producing assets or resources create inequalities where the advantage to the owner is obtained at the expense of nonowners. These nonowners would be better off if the rent-producing asset was redistributed or eliminated. A concept of *class as exploitation* based on the concept of rent is consistent with modern economic theory and therefore avoids the problems of the labor theory of value. It also avoids the anomalies discussed by Roemer.

Class and Wealth

Marx thought that classes were based on rights to the payments on wealth, and Weber thought property to be very important for the emergence of economic classes. Exploitation is a question of economic advantage obtained at the expense of someone else. The right to the returns on wealth is indeed essential for the distribution of these returns, I will show.

Rights to returns may reflect legal ownership. However, rights to the advantage provided by assets or resources need not be legal rights to be effective. Following Barzel (1997), economic property rights are properly seen as reflecting an individual's ability to consume a good or asset directly or consume through exchange, that is, to control the use of a good or an asset. Such economic rights may be enforceable by law and are then stronger, but they need not be supported

by the state to be effective. Property rights are not absolute and constant, and they can be changed through individual or collective action to protect and enhance the rights. Such action incurs transaction costs that are the costs of transfer, capture, and protection of rights. Illustrations will be given below. When transaction costs are positive, rights are not perfectly delineated, and the transfer or protection of rights will be impeded or made impossible. Positive transaction costs may appear for a variety of reasons. Barzel (1997) emphasizes that some of the attributes of assets may be costly to measure and not fully known to actual or potential owners. These attributes are subject to capture by others who then obtain rights to the benefits from these attributes. Transfer of rights allowing an actor to realize the full value of his assets may be costly because mobility is costly or prevented by force. Collective action needed to rearrange property rights that create a monopoly is costly.[11]

For example, in the modern corporation, stockholders do not own all of the assets of the organization but share it with other parties inside and outside the organization that have rights to gains from various attributes of the assets. Managers obtain some gains because stockholders cannot fully control their use of assets because of lack of information. Other employees may obtain advantages (to be discussed below), for example, by retaining control over their effort. That ownership is divided does not mean that the concept of property as the basis for exploitation should be abandoned, as Dahrendorf (1959)[12] proposes. For example, the absence of individual legal property rights to productive assets in socialist society does not mean that individuals do not gain from controlling the use of an asset in such society. Only their property rights are more restricted in these societies, and it may be difficult to identify those who obtain the gains (Barzel 1997).

The broader concept of property rights proposed by Barzel implies that individuals --even slaves--usually have some property rights to assets under some circumstances (Barzel 1997, p. 105). This means that all individuals will have some wealth, even if it consists only of their ability to execute a task that can be exchanged for a wage.

A simple formalization may be helpful. Denote with v_j the value of resource or asset j, where value is given by the returns to j over the lifetime of the asset. These returns are usually monetary, but could also be social or psychological. Further, let c_{ij} be the right of actor i to asset j or the control i exercises over j. Then the total wealth possessed by i will be:

$$w_i = \sum_j c_{ij} w_j$$

where w_i is the wealth of actor i.[13]

Individuals maximize their wealth by maximizing the return on their assets, employing them in the production of goods and services. This usually means that they will need the use of other assets controlled by other actors. Therefore, they need to transact with these other actors. A

farmer needs land to maximize the return on the efforts and skills he may devote to farming; a worker needs an employer, machines, and raw materials, to realize the value of her main asset, that is, her labor power. These assets will often be controlled or owned by other actors--the landlord owns the land, the capitalist the machines. These assets can be bought by the actor needing them, or they can be rented. Rental here means transfer of use rights to the asset.[14] The laborer can rent out her labor power to the capitalist in return for a wage, or the laborer can rent the capitalist in return for a profit to him. Such rentals are especially important with durable assets or resources, and even when assets are bought and owned, good accounting practice suggests calculating the payment of a rental to the owner.

The total wealth controlled by actors defines their class situation with respect to *class* as *life conditions.* The assets controlled will determine their incomes and the variability of their incomes. Workers will obtain wages as a result of their effort and skills, and their particular employment opportunities will be important for the variation in their earnings. Assets will be relevant for the respect and prestige received from the community when knowledge of these assets permits a collective evaluation of the standing of actors. The assets controlled will shape opportunities for transactions with other actors and therefore preferences or economic interests in the meaning of interests suggested by Weber. By shaping welfare and well-being, as well as economic opportunities and the investments that maximize these opportunities, the total wealth and its composition create the behavioral dispositions that are accountable for the inoculation and socialization mechanisms associated with class as life conditions, which I will amplify further below.

When individuals need to transact with other actors to get access to assets they need to realize a return on their wealth, the actors may be able to control the supply of the needed asset. Costs of mobility or other costs may prevent access to alternative suppliers, the supply may be inherently limited by nature or the supplier of the needed access may have created a monopoly. This may allow actors controlling the needed asset to charge for use of the asset that is greater than the payment needed to cover the costs of the asset. For example, the owner of a mine in an isolated location may gain an advantage from lower wages because workers are not able to find alternative employment.[15] Workers are thus prevented from realizing the returns on their labor that they could have obtained elsewhere, and the mine owner has lower costs of production and therefore greater gains from production. The advantage thus gained from effectively being able to control the supply of assets is an economic rent.

Rents may also reflect lack of full information. Executives of organizations may obtain benefits far in excess of what is needed to secure their employment because they are able to control cash flows that stockholders are not able to monitor. Or the supply of the asset will be limited because its availability depends on the presence of specific other assets. In general, rents are advantages that prevent other actors from realizing the full return on their assets. Rents are crucial for the emergence of *exploitation classes* because those who benefit from rents have an interest in protecting their rights to the rent-producing assets, while those who are prevented from realizing the full return on their assets have an interest in eliminating the rents. Rents thus may create antagonistic interests and conflict.

To see how rents emerge, it is useful to consider the transactions involved in maximizing returns on productive assets more closely. The prices for the rentals of assets needed to maximize the returns on actor *j*'s resources are costs to *j* for those assets he does not own and returns to *j* for those assets he does own. This means his wealth is crucially dependent on the prices of assets relevant for him. These prices depend in the usual manner on supply and demand in the market. If the supply of a certain asset, for which actor *j* pays a rental, increases, the price will fall and actor *j*'s wealth increases since he has lower costs. Demand in a similar manner will influence the value of assets. This is the normal story.

Suppose now that actor *k* controls the supply of something *j* needs to employ her or his assets. Actor *k* may own land actor *j* needs access to in order for *j* to obtain a return on his labor and farming skills. They will negotiate a price for using the land and this price is a cost to *j* reducing the benefit he receives from his labor and skills. When negotiating the price, *j* and *k* will compare to what other farmers pay for land. In the long run, competition will ensure that a price emerges that will ensure *j* a sufficient revenue to keep him alive and able to work the land and compensate the landlord for whatever costs he covers, for example, for fencing. Of course, *j* may try to buy the land instead of renting it, but for the eventual outcome this does not matter: the rental to the landowner is replaced by a rental of capital to finance the purchase, that is, of interest.

For the competitive equilibrium to occur it is important that the supply of land can vary in response to prices. It is also required that renters of land are mobile and thus able to take advantage of the rental offers provided by landowners. If these conditions are not met, if land is in fixed and limited supply or if renters of land--farmers or peasants--are prevented from being mobile by force or law, the, owners of land can charge a rental price that is larger than the hypothetical competitive price that just covers their costs related to the ownership of land. The difference between the actual rental price and the competitive price is what is called an *economic rent.*

Rents are payments to assets that exceed the competitive price or the price sufficient to cover costs and therefore exceeding what is sufficient to bring about the employment of the asset. Thus, a rent on asset *i* can be defined as:

$$\mathrm{r}_i = v_i^a = v_i^c$$

Where v_i^a is the actual value of *i* and v_i^c is the value that would have emerged under competition and equal to the costs of making the asset available.[16] These values are given by the stream of income generated by the asset overtime.

The existence of rents depends on the ability of the owner of the asset to control the supply. I have already alluded to the classic example: the tenancy contract associated with feudalism. Part of the benefit from the land goes to payment for the labor of the peasant,[17] and another part of the benefit goes to payment for capital expenditures on the land by the landlord. The rent benefit obtained from a tenancy arrangement is the remainder, that is, the payment not needed to employ the peasant and keep the land fertile. It is an advantage going to the landlord because of his rights

to the returns on the asset that he controls.[18] But the rent benefit forces a disadvantage on the peasant, since he does not realize the full value of his labor and skill.

The association of rents with land is not required. Rent will emerge on all productive assets that are in fixed supply and that actors need to maximize their wealth; or rent may be present as a result of transaction costs involved in getting access to needed assets. Alfred Marshall ([1920], 1949) devoted much attention to the concept of rent and generalized its applicability to benefits received from any productive resource or asset. He showed that rents also may appear as payments for the use of capital and labor in restricted supply; as payments for the use of unique combinations of capitals and labors, such as those created by certain technologies; and as payments for unusual and rare individual abilities that cannot be developed by training alone (musical talents, artistic creativity, athletic ability, etc.). Rents may be created in employment relationships when workers control their effort in an attempt to increase the advantage obtained by the wage because cost of monitoring prevents the employer from adjusting wages to effort. In general, the salient property is that a component of the payment obtained from the asset, or its return, is in excess of what is needed to bring out the supply of the asset.

The association of land with rent is not only an accident of history, it also reflects that tenancy arrangements usually are long term and rents therefore are long term. In a competitive economy, rents may emerge in industrial production as a result of an innovation or an import restriction. However, when others discover that there is an excess profit or rent available from owning a particular resource these others increase the supply of the resource if they can. This reduces the excess profit and eventually makes it disappear. Marshall (1949) calls such temporary rents *quasi rents*. These temporary rents are the typical rents in capitalist production and will become important in our discussion below.

For our analysis it is extremely important that rents are advantages to the owner of assets that are not needed to bring about the use of these assets. If the competitive payment is enough to make the landlord willing to let the farmer use his land, then any excess is in a basic sense unnecessary. It is an advantage costing nothing. The farmer has a clear interest in reducing, and if possible eliminating, the rent. The landowner has an equally clear and opposite interest in preserving the advantage provided by the rent. Rents therefore create antagonistic interests. Certain rents are especially important for social structure and social change. These are enduring rents that, resulting from enduring property rights to rent producing assets, cause significant advantages and disadvantages. They are at the basis for class formation, as owners of such assets will protect their property rights to these assets, and nonowners will seek to eliminate these rights.

In summary, the individual's total wealth, as defined by her control of assets, will determine her life conditions and thus her class location in terms of class as life conditions. It will be argued below that the consequences of these conditions are not only dependent on the total wealth, but also on the overtime variability in the returns on that wealth (which define the variation in the value of the wealth). Part of the total wealth may generate benefits obtained at the expense of someone else, who would be better off with a different distribution of control or property rights to the various attributes of the assets. This *rent*-generating part defines class as exploitation. Below, I further develop these ideas, treating briefly first the idea of class as life conditions as

total personal wealth and then treating in more detail the exploitation class concepts based on rights to returns from rent-producing wealth.

Wealth and Class as Life Conditions

As noted above, there is an abundance of research that shows that class as life conditions indeed is a powerful determinant of all kinds of outcomes.[19] There is much less understanding of how these outcomes come about. We have, of course, a rich literature on socialization that demonstrates that class is associated with important socialization differences, we know about important value differences among different classes, and we also know about a host of lifestyles differences associated with different classes. However, this only moves the question one level back. What is it about the living conditions of different classes that accounts for these differences?

I propose that the answer is lifetime wealth and the expected variation in returns on that wealth for incumbents of different classes. There is abundant evidence that social class accounts for more outcomes the more homogeneous class categories are with respect to a variety of resources, or their wealth. It is important to consider not the cross-sectional distribution of income, but the long-term wealth profile that determines what economists call *permanent income and consumption patterns.* A person who obtains a higher education will orient her lifestyle not to the level of income in her youth, but to the long-term expected living conditions corresponding to the wealth associated with her human capital.

Further, the variation in the returns on the wealth is important, particularly for the socialization patterns that emerge in different classes. An older literature found strong differences between social classes in what was called “the ability to defer gratification” (see, e.g., Schneider and Lysgaard 1953). This literature was largely dismissed in the seventies because it was seen as reflecting an attempt to “blame the victim” (see Ryan 1971). More recently, psychologists and economists have suggested a different formulation of the same phenomena (see Ainslie 1992). People discount future rewards, often at very high rates. In particular, there are strong differences among social classes or different socioeconomic levels in time orientation, with persons at low socioeconomic levels having a much shorter time horizon than others. Those with high discount rates invest less in their health and education, and in the health and education of their children.

These differences among classes in time orientation or deferred gratification patterns reflect the level of uncertainty in living conditions or the variability of returns. Such uncertainty is not the fault of the “victim,” but is a rational reaction to the expected high uncertainty of returns.[20] Banks also charge a higher interest rate with uncertain investments, and banks presumably are acting rationally. The impact of uncertainty on people's investments in themselves, and their children, should be greater, the lower the overall level of resources. Fewer resources give less of a buffer.

A person's total wealth has two main components. One part is personal, human, and physical wealth that is acquired mostly outside of the labor market in and from families and schools, but some is acquired from on-the-job training. The other component is wealth acquired from employment relations.

The personal part of wealth that exists, independent of the actor's employment relationships, has several components. The amount of human capital obtained through investments in training and health is particularly important. There may also be skills and abilities that command rents.

Finally, the amount of wealth obviously depends on the endowments of physical capital provided by the family of origin and augmented by the person through entrepreneurship and investment independently of his involvement with the labor market. This variation in endowments creates different incentives for investments in human capital and the like, and these differences explain the much emphasized nonvertical nature of the Goldthorpe class scheme, for example, the life conditions of farmers. This component of personal wealth is obviously of major importance for a full analysis of the class structure.

Individuals also obtain wealth from their employment relationships. They may have access to on-the-job training opportunities that increase their human capital. A component of the human capital acquired on the job may be specific to the job and the firm and give bargaining power to the worker. Because of specific human capital or collective action, the worker may gain above-market wages, increasing the value of his labor assets, and thus obtain a rent. The employment relationship will in these circumstances be closed in contrast to the open employment relationship characteristic of the competitive market. The resulting increase in the expected duration of employment relationships is crucially important for the variability of returns and therefore for the consequences of differences in wealth, because the shorter the employment relationships, the more variable will be the returns on wealth. The duration of the employment relation also is important for the amount of wealth obtained in the relationship. We should therefore expect persons in stable employment relationships to invest more in themselves and in their children. Professionals having large amounts of human capital and stable employment relationships should invest the most. Therefore, what Erikson and Goldthorpe (1992) calls the "service class" should be especially successful securing their children's future. Though no specific test of the idea proposed here exists, an abundance of research on social mobility and inequality of educational opportunity demonstrates the ability of professionals and others with high levels of human capital and enduring employment relations to secure the success of their offspring.

Wealth, Rents, and Exploitation

The issue for the formulation of a theory of exploitation is to define a process by which some holder of an economic property right obtains an advantage at the expense of persons without these rights. As shown above, wealth transfers made possible by the acquisition of rights to assets generating economic rents satisfy this requirement.

Rents satisfy the requirements of structural theory of inequality. Rents are created by social relationships of ownership of rent-producing assets (with the obvious exceptions of rents on natural abilities, to be treated later). Advantaged exploitation classes are positions in the social structure that allow individuals to gain control or economic property rights over assets or attributes of assets that generate rents, disadvantaged exploitation classes are defined by the absence of these rights.[21] Changing the property relations that generate rents will change the distribution of wealth and hence the class structure.

The holder of a rent-producing asset has an interest in securing the continued flow of benefits, and those denied the benefit, a clear interest in obtaining the benefit by acquiring it, or by destroying the social organizations that create the rents. When actors act on their interest, they create social organization and processes to protect or destroy rent benefits. These arrangements, well described by neo-Weberians, are processes of closure and usurpation (Parkin 1979) and the processes of moving from awareness of interests, through development of consciousness, to acting in pursuit of these interests (Giddens 1973). For the scenario to unfold, not only membership, but also interests must be enduring.

The distinction between temporary rents and enduring rents is very important for the analysis of class formation processes. Class formation not only depends on stability of membership in structural locations providing antagonistic interests, as pointed out by Goldthorpe and Giddens. Class formation also depends on the rate of change in advantages or disadvantages provided by rents. This immediately suggests that structural conflict or class conflict should be more prevalent under feudalism than under capitalism, for rents are more permanent under feudalism. No revolution has occurred in an advanced capitalist society.

The importance of the distribution over time, of the advantages provided by rents is often ignored. A cross-sectional inequality does not necessarily imply a longer term advantage provided by an enduring rent. For example, according to human capital theory, the higher incomes of the higher educated compensate for higher training costs and do not create a permanent advantage over the lifetime of the person. Thus, skills acquired according to the mechanism proposed by human capital theory do not create rents and therefore not classes. This is generally ignored in the so-called new class theory that sees classes emerge on the basis of skills and education (Gouldner 1979; Konrad and Szélenyi 1979). Education can, of course, create rents, but a measure of educational attainment as used, for example in Wright's class scheme cannot separate the rent from the human capital component. The role of education in class analysis will be discussed further below.

The types of social organization and processes that emerge around rent-producing assets differ according to which type of asset is being considered. Feudalism can be described as an elaborate organization for the distribution of rent benefits based in land and mercantilism as an extension of the arrangements to cover industrial production. In modern industrial society, there are three main types of rents to be considered, already identified by Marshall (1949): (1) monopoly rents, based on monopolization of the supply of an asset, for example when a cable company gains a monopoly from a local government on distributing TV signals; (2) composite rents, formed by unique combinations of productive rents or asset specificity, for example when a

worker has acquired skills only employable in a particular job; and (3) rents based on natural abilities and talents, for example the height and ball-catching ability to make a professional basketball team. I will consider some of the main properties of each of these types.

Monopoly Rents

"Artificial" or social constraints on production create monopoly rents. The monopoly may have emerged "naturally" because of increasing returns to scale creating prohibitive costs of entering production for others, as in the production of automobiles. Often monopolies are created by governments as licenses or patents. Finally, social associations, such as trade unions or industry associations, who agree to regulate the production of something, create monopolies. In all these cases the supply of a product will not be sensitive to price, and rents will appear and persist unless the monopoly is broken.

For the sake of clarity, assume that the monopolist is working with production conditions that generate constant returns to scale so that average costs equal marginal costs. Nothing essential in the present argument depends on this assumption. Under perfect competition, output and price would be q_c and p_c and the price will correspond to the cost of the product. The monopolist is able to charge a price p_m above the price p_c that would prevail with perfect competition. This will cause an increase in revenue per unit produced that is an increase in the income of the producer over and above the amount needed to bring forth the production, that is, a rent. In addition to the creation of the rent and the corresponding increase in inequality, there will be a reduction in the wealth of society, for less is produced at the price p_m. This is the "deadweight loss" caused by monopoly rents and represents a welfare cost to society, which is a social waste of resources.

The increase in revenue to the monopolist is, of course, an advantage others might want. If others therefore successfully enter the market, the resulting competition might eventually erase the monopoly rent, lowering the price to p_c and increasing the quantity to q_c. When this happens, the temporary advantage to the initial producer is a quasi rent.

This scenario, of course, assumes that others can enter production. If there are prohibitive entry costs created by production technologies, governments or trade associations, competition will be about obtaining the monopoly. Such competition is the typical case of *rent seeking*, that is, zero-sum competition over rent-producing assets. The efforts and other costs involved in trying to acquire the rent producing property or resource of course reduces the benefit of the monopoly. Indeed, those who wish to acquire the monopoly should be willing to pay the equivalent of benefits to obtain it, so that the rent benefit completely disappears. The costs of rent seeking do not increase the production of society and therefore represent wasted resources (Tullock 1980). This waste is in addition to the waste represented by the deadweight loss.

The nature of the rent seeking depends on whether the monopoly can be traded in the market or not. If it can be traded, the sale may create a large transfer of wealth to those who obtained the monopoly first, and subsequent owners will not realize a rent. For example, it is often argued that

rents received by farmers, as agricultural subsidies, produce higher land values and therefore higher interest payments, eliminating the initial advantage. Once established, the rent creating monopoly is difficult to eliminate, even when the monopoly is fully capitalized and the rent has disappeared. Clearly the new owners are strongly interested in receiving the rents they have paid for, even though the advantage to them has disappeared. An example, described by Tullock (1980), is a taxi medallion system, similar to the one in New York City. The medallions are sold, producing large gains to the initial owners, but only normal rates of returns to subsequent owners. Their existence creates a welfare loss to consumers. This loss can be reduced only by removing the restriction on taxi driving, something that is almost impossible to do without forcing losses on the present owners of medallions.

A variety of monopoly rents emerge in the labor market. *Employment rents* emerge when employment and jobs are closed to outsiders by the collective action of unions, by government approved certification of professions, and by other occupational licenses.[22] Unions create rents when they close shops or ration employment through apprenticeship systems. Unions may also significantly alter the distribution of rents when they obtain egalitarian wage systems that will increase the wages to the least productive with the lowest market wages (for evidence see Freeman and Medoff 1984). Professional associations create rents when they obtain certification limiting employment to the properly certified or when they gain control over the recruitment to the profession through control over educational institutions; medical schools are a good example of this. In general, educational credentials, used as rationing devices for employment or for access to employment-specific education for professions, create monopoly rents to those holding the credentials. Credentials will be further discussed below.

Employment rents create rent seeking as zero-sum competition for positional goods (Hirsch 1976) in what I have called "vacancy competition" (Sørensen 1983). Employment rents are not only monopoly rents. Positions may also be closed without the assistance of outside agencies like unions or professional association. In internal labor markets, closed positions can be created without collective agreements because of the existence of composite rents created by asset specificity, for example specific skills, to be discussed below.

The importance of monopoly rents is questioned by some. As noted, rents create a "deadweight" loss that is an externality reducing the welfare of society. There is an important objection to externalities in an idealized economic system, which is useful for the development of theory, presented by Coase (1960). Coase argues that given an allocation of property rights, there will be no externalities, including those created by monopoly rents, if there are no transaction costs. One of his examples of an externality is cattle trampling on land, destroying corn. The cattle's owner is usually said to be liable for the costs imposed on the farmer growing corn, but Coase argues that this treatment is asymmetrical. The issue is whether the costs of avoiding the trampling is greater than the costs of fencing or of moving the cattle elsewhere. Rational actors will compare these costs and bargain about the cost of fencing and eliminate the externality. Applied to rents, this means that the nonowners of the rent-producing asset should negotiate a deal with the owner, to compensate him for the elimination of the monopoly. Thus institutions that exist over longer periods in a competitive economy, including those that appear to create monopoly rents, should be efficient and not rent creating, according to Coase.

The gains to monopolies usually are smaller than the costs they impose on others. Therefore, Coase bargaining would eliminate the welfare loss and with the abolition of the monopoly, output would increase to create the competitive situation. However, if rent-seeking costs have been incurred by the monopolist his losses may be substantial so that he also will need to receive compensation for these costs. This may be difficult to achieve, as noted above. Therefore, when rent-seeking costs have been substantial, monopoly rents may persist as has been pointed out by the rent-seeking literature (e.g., Tullock 1989).

Regardless of the problem with rent-seeking costs, there is a basic problem with the Coase argument when applied to larger categories of actors. The problem is argued by Dixit and Olson (1996). The individual rationality assumed by Coase, in formulating the idea of symmetric bargaining between two parties, does not necessarily create the collective rationality required when one of the parties, usually the disadvantaged part, is a larger group of actors. There are not only transaction costs involved with organization of a larger group to reduce free riding (Olson1965). Dixit and Olson (1996) also show that even in the absence of transaction costs, the benefits of eliminating the externality per member of the larger group may be so small that no collective action will emerge. These organizational problems are what the class formation literature is about, or rather what it should be about. There is rich literature on social movements that address the problem of when interests will effectively be translated into action, emphasizing resource mobilization, political processes and the collective action problem. This literature is curiously separated from the class formation literature developed by the neo-Weberians.

Composite Rents or Rents on Asset Specificity

When two separate assets or resources are so specific to each other that payment to their joint use exceeds the payment to each resource in separate use, composite rents emerge. Marshall's prime example of composite rents is the joint advantage to owners and employees of an advantageous market position (Marshall 1920). A specific example is the joint rent received when a mill is built on a water stream, to the owner of the mill and the owner of the stream. If there is only one site for the location of the mill, then the rents to the mill owner and to the owner of the water source cannot be separated: “There is nothing but ‘higgling and bargaining’ to settle how the excess of the value of the two together over that which the site has for other purposes shall go to the owner of the latter” (Marshall 1949, p. 520).

Composite rents emerge from what in the literature on transaction costs is called asset specificity. They emerge, for example, when workers have obtained specific on-the-job training and therefore are more productive in one firm than in another (Becker 1964). Also, monitoring and agency problems may create composite rents. The composite rent creates a joint advantage that would disappear if the match between the firm and the worker is dissolved, so that employment relations become closed. There are two types of solutions to these problems.

First, the composite rent could be eliminated by organizing production so that the transaction cost problems disappear and employment relations become open. With respect to specific skills, this would imply eliminating the use of such skills. Such deskilling by eliminating the need for

specific skills differs from the original deskilling idea made prominent by Braverman (1974), which suggests that capitalism will try to eliminate the need for all skills in the labor market. A general trend toward deskilling has never been established, despite many attempts, nor does it make theoretical sense that employers inevitably stand to gain by reducing the general level of skills required. However, reducing composite rents due to specific on-the-job training would be a plausible strategy.

The second solution is to reduce the importance of composite rents, without destroying closed employment relations to outsiders, by using organizational devices that increase effort. A large organizational literature on internal labor markets may be seen as analyzing organizational solutions to the problem of increasing the firm's share of composite rents. A prominent solution is the creation of promotion schemes to elicit effort. Promotion schemes capitalize on the interdependence of effort created by zero-sum competition over the wage and earnings differential provided by promotion ladders that are positional goods.

Promotion ladders create cross-sectional inequality. It is this inequality that is attributed to class by the Wright class scheme as an effect of authority. However, promotion ladders may be designed to provide less than the market wage at the start of the career, legitimized by training, and higher than market wages at the end of the career, according to the deferred payment theory (Lazear 1995). This pattern ties the worker to the firm and preserves the composite rent: she receives positive and negative rents depending on her seniority in the system. This does not mean that workers will obtain an overall surplus over their lifetime. As with investments in education, the cross-sectional distribution does not inform about the long term advantage obtained. If the promotion ladders work as intended, they elicit effort and capture composite rents for the employer, quite contrary to the usual interpretation of the authority effect.

The interpretation of promotion systems as rentcapturing systems also implies that employers have an incentive to default on the positive rents the worker is to receive at the end of the career by dismissing the worker when these positive rents emerge. This will create "reputational" problems for individual firms, but if many firms collude in the practice, the reputational effects are diminished.

Another device to elicit effort and capture a larger share of the composite rent is to the incentive wage systems. By paying employees more than their market wage, firms increase effort since workers will be reluctant to shirk out of fear of losing their jobs.[23] Wright (1979) used such an efficiency wage explanation for the income advantage of "semi-autonomous" employers.[24] In his latest class scheme, Wright proposes a similar explanation for the wage advantage of managers, called a "loyalty rent." The efficiency wage explanation is used by Krueger and Summers (1987) to account for the persistent wage differentials across industries that cannot be attributed to unmeasured worker characteristics or compensating differentials.

Rents on Natural and Cultural Endowments

Marshall (1949) suggests that rents emerge on “free gifts of nature” in the form of genetic endowments that result in the ability to produce something in demand. The rents directly reflect genetic endowment, as when genes are responsible for certain physical attributes facilitating certain tasks; for example, height for basketball players. Or, the rents obtain indirectly when an individual endowment facilitates training for certain skills, as in academic achievement. In the latter case, the endowment need not be genetic. Cultural endowments are important for learning, but hard to learn for those not socialized into a given culture, or who lack the requisite cultural capital (Bourdieu 1977). Cultural capital thus may be seen as a source of rent similar to genetic endowment.

It may seem paradoxical to include rents on individual endowments as a source of structural inequality. However, these rents have important social consequences that connect to the class analysis literature.[25] In particular, rents on natural and cultural endowments have important consequences for the emergence of credentials.

General ability creates higher productivity and higher wages in many employments. Higher productivity may alternatively be obtained by training. The training costs needed by the less able create a surplus for the able, assuming that equally productive able and
untrained workers receives the same wage as the less able and trained workers. With an expansion of demand for credentials--that is, an increasing demand for education--the rents become larger for the more able. They therefore seek even more education and higher and more expensive credentials. This self-stimulating demand is the main thesis of the credentialism literature (e.g., Collins 1979). The larger rents provide an incentive for institutions of higher education to increase tuition costs. They therefore share in the rents produced by credentials. Those rents then permit the hiring of prestigious faculty to train the easily trained, enhancing the reputation of these institutions and further increasing the rent on the credentials they confer.[26]

Those possessing high credentials wish to secure an advantage to their offspring. This is facilitated by making cultural capital relevant for training. However, the very existence of credentials also is important. The superior ability of one’s offspring cannot be secured, but much can be done to secure a valuable credential for the offspring by facilitating access to institutions providing valuable credentials. In the absence of such credentials, less able offspring from high-status backgrounds might have to compete for valued employment with the more able from more humble origins. The monopoly on employment ensured by the credential protects the less able from high-status background from being outcompeted by the more able from lower status backgrounds. Credentials thus increase the ability of high-status groups to confer their advantage to their less able offspring and increase the advantage to their more able offspring. There are strong incentives for high-status groups to create credentials and closure as emphasized by the neo-Weberians (Parkin 1979; Murphy 1988).

In general, the differential rents generated by individual endowments imply that increasing equality of educational opportunity through educational expansion should increase the rents on natural and cultural endowments. Such policies therefore should be strongly supported by those who already obtain considerable rents on their endowments, such as professors.[27]

Exploitation Classes and Collective Action in Modern Capitalism

Rent-seeking activities create lobbies to influence the regulatory activities, subsidies and welfare policies of governments. Social movements lobby to improve the welfare of the disadvantaged by granting them rents. Major corporations lobby through campaign contributions designed to obtain the type of policies and regulations that increase the rents to these corporations. Rents divide owners of different productive assets--as when owners of land are in conflict with owners of industrial productive assets about corn tariffs--and they unite workers and capitalists to preserve import regulations and trade barriers that create rents to certain firms and industries.

That class action in modern capitalist society is about rent seeking and the protection of property rights to rent-producing assets clearly creates a different conception than what Marx had in mind when he analyzed capitalism in the late 19th century. Marx's conception, for example, does not require monopolies and asset specificities for the creation of advantage. The surplus created by labor will be a universal feature of capitalism, which will derive its nature from the relentless pursuits of ever-falling rates of profit. However, when the labor theory of value is abandoned, it is impossible to sustain the idea that there is a permanent "hidden" form for surplus in capitalist production in the manner conceived of by Karl Marx. The main class actions will be rent seeking, the protection of existing rents, and the destruction of rents.

It is an interesting question whether rent seeking, rent protection, and the destruction of rents might sustain Marx's grand scenario for the development of capitalism. Marx was certainly right about the dynamics of advanced capitalism. The engine of this dynamic is the pursuit of acquiring rent-producing assets through innovation and product development and by creating demand through advertising for profitable products. The relentless pursuit of advantages that exceed above-market returns--through the reorganization of firms and corporations, sometimes in the form of mergers and acquisitions, sometimes in the form of divestment--is also a pronounced feature of modern capitalism. These processes result in quasi rents that are usually quickly eliminated by competition. Individual capitalists gain and lose, and some obtain great fortunes. Even though their fortunes result from quasi rents, they are not destroyed by the elimination of these quasi rents. The process expands markets and produces globalism. The story is well known and well described.

Enduring rents to individual owners of capital require some type of collective action. The main form of collective action among capitalists is the establishment of cartels. Cartels may, of course, be hindered by government antitrust regulations. They may be effective despite such obstacles by various types of network organization among board of directors and the like, but the

incentive to break an agreement is always present. A more effective strategy for obtaining enduring rents is to obtain help from the state to preserve an advantage: the granting of a license or some other form of protection from the entry of competitors. An army of lobbyists tries to obtain such advantages by informing legislators about the consequences and advantages of their actions. The rationale for state creation of monopoly rents is usually that some public benefit will be obtained by the regulation that otherwise will be lost: competent doctors, safe cars, and the family farm.

Can Marx's scenario for the class structure of advanced capitalism be sustained with the conception of rent-based classes as exploitation? Marx's emiseration prediction is usually taken as a main reason for revising his theory. Clearly the idea of increased absolute poverty of the working class, caused by increased exploitation, has been rejected by the economic growth that has occurred since Marx wrote. For a long period, also a decrease in relative inequality was observed in most societies. This decrease was replaced by an increase in inequality in the United States and many other advanced societies in the early 1980s, an increase that has continued since then. Nevertheless, it is not possible to sustain the idea that we find an increased polarization and homogenization of the working class. There is, however, substantial recent evidence that shows that capital has become very effective at eliminating the advantages of the working class in terms of rents obtained in the labor market. Eliminating these advantages has contributed to the increase in inequality.

Capital will gain by the destruction of monopoly rents in the labor market and by increasing its share of composite rents or destroying the source of these composite rents. The elimination of rents in the labor market benefits the capitalist when he benefits from the increased efficiency of production. He further benefits when his wealth is dependent on valuation of how efficiently he produces. The stock market provides this valuation. The stock market has, in the period where inequality has increased, very much increased the wealth of stockholders and rewarded rent elimination in the labor market. There are several main ways in which this has been achieved, and all have resulted in increased inequality: (1) eliminating rents created by collective action, in unions, (2) eliminating internal labor markets and composite rents, and (3) lowering the real value of the minimum wage.

Unions create rents in two ways. They may provide significant wage premium for workers covered by union contracts. Nonunion workers may also obtain benefits when employers try to avoid unions. These benefits tend to accrue to workers who are highly skilled. As shown by Freeman and Medoff (1984), though unions do provide benefits, the rents are quite modest. The main effect of unions is to reduce wage inequality. Unions are especially effective at decreasing the wage spread between more and less productive workers. Unions may create substantial rents to low skilled or otherwise less productive workers.

A well-known major change in the labor market has been the reduction in union power. This is both a reduction in the number of workers that are union members and in the ability of unions to obtain wage increases and secure bargaining agreements. The reduction in membership has been from about one-third of the nonagricultural labor force to now 16%. The influence of the unions on the wage structure is far greater than its membership (Mitchell 1985). However, the

decline in membership has also been accompanied by declining union power. The evidence is the increase in the number of concessions, the decline in the number of strikes, and the moderation of union demands (Mitchell 1985). For evidence on how these trends have contributed to the increase in inequality, see Fortin and Lemieux (1997). They also point to the importance of deregulation of highly concentrated industries, eliminating the composite rents obtained by workers and firms in these industries.

Closed employment and composite rents are widespread also in industries and firms without union presence, in internal labor markets, and for groups of workers traditionally not unionized, such as many white-collar groups. The composite rents obtained in these settings are eliminated by layoffs. Layoffs without recall reduce job security, but not necessarily employment. However, the loss of job security means also the loss of whatever rents the worker has obtained. With job security a worker can never do worse than his present job. If a better job comes along, he can move to this job, and the timing of this move need not have anything to do with increases in productivity. Therefore a system of closed employment, as in internal labor markets, produces career patterns that represent increases in rents only and not increases in productivity. These career structures are destroyed by downsizing.

Layoffs have increased overall over the last 15 years from 1.2--1.4 million jobs lost in 1979 and 1980 to 3.4 million in 1993. Layoffs grew to 2.62 million in 1982 and never fell below 2 million in the 1980s. They again increased in the 1991 recession and seem to have remained stable since. The proportion of white-collar workers in the total number of layoffs has increased markedly to about 40% of the job eliminations (Bureau of Labor Statistics 1998) There appears to be a strong link between the occurrence of downsizing and the performance of company stocks, suggesting that the financial markets, in many cases, force downsizing on the firm (Love 1997).

Composite rents associated with internal labor markets can also be eliminated by job redesign and other changes in production technology. Or, they can be eliminated by removing asset specificity through outsourcing and subcontracting for labor. There is much talk about such changes, including how they could encourage the evolution of new types of employment relationships.

The elimination of employment rents through downsizing and job redesign often means that workers are forced to look for new jobs in the labor market without much choice of which job to accept. This should mean that the next job after the downsizing is likely to be a worse job. It also means that the match between the downsized worker‘s productivity and wage is likely to differ from previous employment. There should be a closer match between actual individual productivity and wage level as a result of the job displacement. There is some evidence that suggests a tighter relationship between wages and productivity in the 1980s than in the 1970s (Levy and Murnane 1992; Mitchell 1985). Holzer (1990) thus finds a better match than Medoff and Abraham (1981), but the two studies are not very comparable. Juhn, Murphy and Pierce (1993) find the increase in inequality driven by increased returns to unmeasured skills.

Consistent with the idea of a stronger link between wages and personal endowments, we also observe a marked increase in within-occupation inequality. This is true for all occupations, but it is especially true for managers and sales personnel. In fact, for men the overall Gini coefficient

rose from .315 to .332 between 1980 and 1989, but in the managerial and sales occupations combined, it increased from .322 to .353. For all other occupations, the Gini increases from .302 to .312 (Ryscavage and Henle 1990, p. 11). As inequality increased, structural locations seemed less relevant for explaining the variation in earnings.[28]

The increase in inequality is very much driven by an increase in wages and earnings of the highest paid workers and stagnation or decline for others. The stagnation and decline follow from the rent destruction. The increases for the highest paid result from rent sharing with capital and may be legitimized by arguments that top managers were underpaid in the 1970s and therefore did not have enough of an incentive for doing their very best; in particular, they may have been more tolerant of rents to other employees (see, e.g., Jensen and Murphy 1990) .

Stock market valuation clearly has been important for changing this situation. Another mechanism to increase manager incentive has come about through leveraged buyouts that force managers to squeeze all slack out of the firm to meet debt obligations. Leveraged buyouts also make top managers much wealthier. Finally, the increased competitiveness may have increased the rents on the abilities that boards of directors believe are needed in tough managers.

The declining real value of the minimum wage, until quite recently, also reduces employment rents for those less productive workers paid more than their competitive wage because of the minimum wage. This brings more poverty, for nothing guarantees that a competitive wage moves a worker above the poverty line. The rent destruction in the labor markets, except perhaps for the highest paid managers, leaves a labor market more flexible and more fluid, for fewer groups have anything to protect. The result is less structure, meaning less positional inequality, but more inequality overall. Thus, while greater homogenization overall may not have resulted from these recent trends, the destruction of rents in the labor market has created a labor market with fewer structural supports for the returns to labor. The idea of a homogenization of the working class can be sustained if it refers to the availability of structural advantages making earnings from work less dependent on individual endowments and more dependent on occupational choice and collective action.

Nothing guarantees that efficient labor markets create good lives. Rents are required in modern society to provide decent standards of living for the poorest part of the population. These rents are provided from the state in the form of income support and other welfare goods. The modern welfare state provides required support, but also create an arena for rent seeking by all, including the middle strata with effective interest groups. It is beyond the scope of this discussion to deal with rent protection and rent seeking in the welfare state. Elsewhere (Sørensen 1998), I have provided a treatment of the breakdown of traditional norms around the provision of welfare goods and resulting increased rent seeking.

Conclusion

A sound basis for class concepts should be based on property rights to assets and resources that generate economic benefits. Property rights should be conceived of broadly. They are economic property rights defined as the ability to receive the return on an asset, directly or indirectly through exchange (Barzel 1997). Some of these rights may be supported by the state, and they are then legal rights, but people also obtain advantages from rights that are not legally enforceable. Property rights define an actor's wealth and I suggest that the *class as life conditions* reflects a person's total wealth. Part of this wealth may be in assets that generate returns or payments that are rents. Rent distribution creates *exploitation classes* that may engage in collective action.

Class as life-condition is a very useful concept for analyses of how patterns of attitudes, behaviors, and socialization vary by location in social structure. A prominent example is the class concept proposed by Goldthorpe (1987; see also Erikson and Goldthorpe 1992). A major objective for constructing class schemes that account for different living conditions is to identify homogeneous groupings with respect to total wealth, type of wealth, and the variability of wealth over time. Such groupings will differ in the amount and type of investments they make in themselves and their children. We therefore obtain class schemes that include nonvertical dimensions reflecting the type of wealth possessed and its variability over time, as generated, for example, by the stability of employment relationships.

The present proposal overcomes the evident problem associated with Weberian and neo-Weberian class analysis where there is no proposal for why anyone should be upset about their position in society and engage in class formation. Enduring rents identify antagonistic interests. Those who do not own a rent producing asset suffer a disadvantage as the result of the rent. It is in their interest to eliminate the rent, and in the interest of the rent receiver to protect the advantage. The proposal I present here provides new insights. The concept of quasi rents suggests that monopoly rents often are transitory and the associated interests therefore not enduring. Thus, not only stability of membership in structural locations and closure will be important for class formation, but variations over time in rent advantages are important for predicting class formation. Rents provide a new interpretation of credentialism as a device to preserve and transmit advantages from one generation to the next with uncertainty about the ability of offspring.

The rent-based concept of class as exploitation provides an explanation for the recent increase in earnings inequality and for the practice of downsizing to destroy rents in the labor market.

The main class action will be by actors to seek rents, to protect rent privileges, and to destroy rents in structural locations, such as internal labor markets. The argument here implies that it is to the advantage of the capitalist class to produce a labor market conforming to the assumption of neoclassical economics, and I have tried to show that capitalism in the last decades has been successful in eliminating rents to labor. Eliminating rents in the labor market creates more efficient labor markets--that is, labor markets with less structure and more fluidity. A rents-free labor market will be one where simple class schemes are increasingly less applicable. The destruction of rents also creates more inequality within the labor market and produces more wealth

that accrues to some of those owning means of production—for example, capitalists--whether they are old families, new entrepreneurs, pension funds or graduate students with mutual funds. The resulting society conforms to Marx's predictions about the nature of advanced capitalism: "The bourgeoisie, whenever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. . . It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up a single, unconscionable freedom--Free Trade," (Marx 1959, p. 323).

Thus, the main prediction about the development of capitalism from rent-based class theory is that rents will disappear from structural locations in the labor market. This will result in a structureless society, without the nooks and crannies of social structure we have come to expect because feudalism is slow to disappear. The result is the transfer of wealth to those who have rights to rents producing assets, even though these assets usually are quasi rents, for the wealth created by quasi rents is not destroyed when the rent is destroyed. As a result, we see increasing wealth inequality (Wolf 1995).

If Marx's grand scenario for advanced capitalism is interpreted as having to do with the distribution of rents, it is sustained. Rent seeking creates the dynamics of capitalism, and the destruction of rents in the labor market creates a structurally more homogenous working class, that is, a working class without structural supports for its welfare.

Notes

[1] Earlier versions of this paper were presented at the ECSR conference, Rational Action Theory in Social Analysis: Applications and New Developments, Långholmen, Stockholm, October 16-20, 1997, and at lectures at the University of Oxford (November 1996) and Northwestern University (May 1997). I am indebted to the audiences at these lectures for helpful comments and to Hannah Brückner, John Goldthorpe, John Myles, Douglas Hibbs, Rolf Hoijer, Christopher Jencks, Michéle Ollivier, John Scott, Annemette Sørensen, Ruy Teixeira, Erik O. Wright, and the *AJS* reviewers for comments, criticisms, and helpful suggestions.

[2] Goldthorpe (1997) has recently begun this task, relying heavily on transaction cost economics.

[3] The importance of the Weberian class concept in the literature on class analysis is a bit curious. In *Economy and Society,* Weber (1978) deals with class in two places, but both are very short fragments. While Marx can be said to never have given a single explicit development of the class concept, he certainly has class as the central concern of analysis in all of his writings. For Weber, there is neither a discussion nor an extensive analysis. Class simply seems not to have been an important concept for Weber. This is not for lack of alternative definitions and discussions of the concept proposed by Marx in Germany at the time when Weber wrote the fragments compiled in *Economy and Society.* Geiger (1932) lists 16 definitions, all by German language scholars. Except for Marx's definition, most are from the first decades of the 20th century. Since only Marx and Weber have been translated into English, Weber has become the main justification for developing class concepts that are alternative to Marx's, despite the fragmentary nature of Weber's writings about this and the lack of importance of class concepts in his writings.

[4] This is the standard result of neoclassical economics' perfectly competitive Walrasian model, where all profits and rents will be eliminated in equilibrium. Weber, of course, cannot be blamed for ignoring this idealized conception of the economy, but the failure of Weberians to identify structural locations providing significant advantages results in a weaker theory than Marx's class concept.

[5] As pointed out by Hayek (1948), it is one of the ironies of a perfectly competitive market that there is no incentive for competition

[6] This point will be illustrated through the idea of monopoly rents discussed in the next section.

[7] In addition to domination in employment, ideological and political structures also can be included, and we obtain the elaborate class concept developed by Poulantzas (1975).

[8] The main exception is the class concept proposed by Roemer (1982) to be discussed below. For a critique that emphasizes exactly the need for a Marxist concept to have classes defined "at the point of production," see Wright (1982). Wright later revised his position (e.g., Wright 1997).

[9]'This is a generalization of what sometimes is called differential or Ricardian rents, see Sørensen (1996) for a discussion.

[10] According to Roemer, "exploitation theory is a domicile that we need no longer maintain: it has provided a home for raising a vigorous family, and now we must move on" (1986, p. 262).

[11] Barzel (1997) and others (see Eggertson [1990] for a review) emphasizing a property rights approach to the analysis of economic institutions see transaction costs as resulting from lack of full information and foresight. This reflects the focus on voluntary exchange. I suggest that actors may be prevented from realizing the full value of their assets also because of force or costs of combining action of several actors in collective action and maintaining such action.

[12] Dahrendorf (195 9) rejects that property could be the basis for class formation. He bases the argument on the existence of inequality in state socialist society without private legal property rights to the means of production and on the emergence of the modern corporation with separation of legal ownership and control. Dahrendorf bases his argument on an overly restrictive concept of property, I hope to show.

[13] This formulation is similar to Coleman's definition of power in a market exchange system (Coleman 1990). Coleman sees this formulation as the equilibrium outcome of the exchange process where actors exchange control over resources to maximize their Interest in a system with no externalities. No such equilibrium conception is invoked here. Further, Coleman focuses on the exchange of any resource. The main interest here is in productive resources. For wealth in assets or resources to be valuable, the assets must generate a return and hence be involved in the production of something.

[14] There is a possible confusion between rentals and rents. “Rental” refers to the transfer of use rights to an asset from one actor to another for a payment (a wage for labor, or interest for capital). These payments constitute returns to the holder of the benefit right to the asset. A component of this return may be an economic rent, to be discussed in detail below.

[15] The mine owner then has a monopsony.

[16] Rent is a component of what we ordinarily call profit, but profit as usually calculated includes a payment to capital, or interest, earned as payment for past savings and a component of wage to the owner of the asset for his management of the asset. The latter components are not part of the rent received when interest and wages equals market rates of return.

[17] Classical economics saw land as the main source of rent, or ground rent to emphasize the dependency of the benefit on landownership (Marx, e.g., uses this terminology). Rent is “that portion of the produce of the earth which is paid for the original and indestructible powers of the soil” (Ricardo [1821], 1951, p. 67).

[18] This is the typical arrangement. It can be argued that the benefit to the landlord is received in return for protection (North and Thomas 1973), but this can, at best, only account for the origin of the arrangement. Also Barzel (1997) argues that matters may be more complicated dependent on the type of contract that exists between the peasant and the landlord. For example, under certain arrangements, the peasant may obtain advantages at the expense of the landlord, by depleting nutrients from the ground.

[19] Also research using socioeconomic status as the independent variable provides abundant evidence. Socioeconomic status in the meaning of “goodness” (Goldthorpe and Hope 1974) seems to reflect people's belief about the living conditions associated with different occupations, and this is measured by the wealth of incumbents. There is no fundamental difference between what is measured by a class schema, such as Goldthorpe's schema (Goldthorpe 1987) and by socioeconomic status, except that the discrete class schema may capture nonvertical variation ignored by socioeconomic status measures. If socioeconomic status is grouped in discrete categories, we have a nominal concept of class as life conditions. There is some debate about whether discrete class schemes miss some socioeconomic effects (Hout and Hauser 1994).

[20] There is recent evidence from a population survey (Dominitz and Manski 1997) that people's feeling of insecurity vary among population groups exactly as one would predict from the distribution of wealth and variability of wealth returns.

[21] Wright (1997) proposes a related definition of exploitation though it is not formulated in terms of the concept of rent. In addition to the causal link between advantages and disadvantages of classes, Wright requires that the advantaged class depend on the fruits of the labor of the disadvantaged class for exploitation to exist. Thus when the European settlers displaced Native Americans they did not exploit by obtaining an advantage at the expense of the

Native Americans; they engaged in "nonexploitative economic oppression" (Wright 1997, p. 11). The European settlers clearly created antagonistic interests that brought about conflict, so it is not clear what is added by the requirement of transfer of the fruits of labor power.

[22] Bowles and Gintis (1990) use the term employment rents to identify efficiency wages, i.e., above market wages created to induce effort, to be discussed below.

[23] Bowles and Gintis (1990) see the creation of efficiency wage as the outcome of the "contested exchange" that defines the unequal power relations created in capitalism by unequal assets.

[24] Efficiency wage theory provides an explanation for involuntary unemployment (Solow 1979). The wage advantage makes unemployment a disciplining device, because the worker will often only be able to obtain the competitive wage after the layoff. We should therefore expect that layoffs are particularly frequent in industries with high concentration, such as automobiles and steel, consistent with evidence.

[25] For other social implications of rents on individual endowments, see Sørensen (1996).

[26] I am indebted to an anonymous reviewer for this observation.

[27] Working-class parties in the past were indeed skeptical about policies to equalize educational opportunity (for Scandinavia, see Erickson and Jönsson 1996).

[28] There is substantial evidence for Canada for the declining importance of "structural" or job characteristics as wage inequality increased (Myles, Picot, and Wannell 1998).