Social Theory of Karl Marx and Global Governance

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1 Introduction

Social theory of Karl Marx helps to explain several important issues of contemporary global governance. At the same time, however, it misses at least as many equally important other issues.

Global governance is understood here as both an empirical as well as a normative phenomenon. Following Dingwerth and Pattberg (2006: 189-193), the analytical understanding of global governance focuses on Rosenau’s (1995) notion of “systems of rule at all levels of human activity – from the family to the international organization – in which the pursuit of goals through the exercise of control has transnational repercussions”. This conceptual attempt helps to incorporate into the traditional international politics theory world-effective decision-making mechanisms other than that of the nation states, such as the non-governmental organizations, supranational actors, trans-national social movements and corporations, or scientific authorities. The normative conception of global governance rests on a different premise – that it is supposed to politically address the changes emanating from globalization and the suspected lack of national control over the issues pertaining to the international level. The example is the reform proposals of the Commission on Global Governance, including changes in the areas of global security, economic interdependence, and the rule of law (Dingwerth & Pattberg 2006: 194).

In my essay, I will scrutinize Karl Marx, and thus focus on the issues of (international) political economy. Because the legacy of Marx’s thought is still widely debated,\(^1\) I will stick in my paper to the few commonly uncontested propositions of Marx. Månson (2000) classifies Marx’s thought into three broader theories: that of alienation, historical materialism, and the theory of surplus value. I will use these concepts in a slightly different order. The paper starts with the more theoretical part of Marx’s social theory – that of the theory of history, where I will defend Marxian analytical role of the contradictory and material forces in societal developments. I will then proceed with practical political economic questions of capital and labor governance, including the critique of the concepts of alienation and surplus value. Here, I will try to refute

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\(^1\) Leading to such misinterpretations that led Marx himself to proclaim that he is not a “Marxist” (Elster 1986).
several of Marx’s economic propositions, this way questioning the utility of Marx in theorizing global governance. My last section will deal with the prospect for a communist revolution as envisaged by Marx. I will interestingly present two different views on this assessment of the current and future historical development.

2 In a Specific Defense of Marx’s Theory of History

Marx’s theory of history is greatly influenced by the ideas of G. W. F. Hegel, namely that the development and change in time come about through the dialectic contradictions. What differs Marx from Hegel is that the former saw the driving forces in material social conditions (the “base”), which to him causally determined the political arrangement of a society (the “superstructure”). From this point of view, human history can be divided into a set of distinct epochs, each characterized by its own set of property relations over the productive forces (Wrights et al. 1992: 13). As the productive forces evolve and empower different actors differently, independently of any previous design, the productive forces and the institutional relations of production come increasingly into conflict. The only solution to this antagonism is, with a necessity of a natural law, a violent revolution bringing about a new mode of social organization. This orthodox Marxist theory of history is linear and hence teleological – starting from the ancient mode of production, through feudalism, capitalism, to (supposedly) communism as the final stage in the history of mankind. The communist mode of social organization will come about, according to Marx, only when capitalism evolves to the extent that it implodes under the contradictions it creates (through “its own grave-diggers”; Manifesto of the Communist Party; closing of Chapter 1).²

Indeed, the theory is quite simplistic. Nevertheless, materialist explanations of history are widespread in contemporary theorizing. Many historians and economists try to explain, for example, the “Rise of the West” through geographical and technological factors. Some give the credit to the rainfall mode of agriculture, which favors independent farming families, and thus a basis for individual values fundamental to capitalism. Ancient river

² On the contradictions see Section 3.4.
economies of the Middle East necessitated concentrated masses of laborers, meaning that the marginal utility of the individual was there literally marginal, and despotism prevailed (Mayes 1977). Similar explanations of the major historical developments were already portrayed in numerous books as, for instance, in Jared Diamond’s Guns, Germs, and Steel (1997). Development in the technology of weaponry is another crucial factor of social organization. The rise of cannons in the middle ages made castles virtually incapable of defense, which led to the development of a standing army and the modern states. Today, we observe the communication revolution, where flows of capital, information, and cultural influences are unstoppable thanks to the spreading of cable-based and wireless information networks (Castells 1996). This means that the states are loosing their authority to regulate the aforementioned cross-boundary movements, and international as well as non-state actors increasingly have to play a role in solving these new regulatory problems (Dingwerth & Pattberg 2006).

The interpretation of historical development through the struggle of opposites, inherent in Marx’s theory of history, is also nothing specific to the Western thought. The symbolism of Chinese yin and yang is known worldwide, though it preaches harmony rather than contradiction. Seeming paradoxes can be seen equally as inconceivable and therefore leading to a revolution; or one pole can be subsumed under the other to achieve certain consistency. The examples are numerous. From the legitimacy of democratic constitution (if the people are to decide on what democracy is, what will be the rules by which they decide upon this question? Habermasian paradox), through the dichotomy between the two logics of action (logic of consequences vs. logic of appropriateness; Max Weber), to the opposing theories of international relations: realism (based on rational choice) vs. idealism (based on rule-following), or realism as opposed to institutionalism (institutions being path dependent and thus with time contradicting the demand “from the bottom”). None of these “eternal conflicts” can be truly resolved with one of the extremes. At the same time, however, resolving the puzzles necessarily involves the confrontation of the two opposing principles. If we conceive of these struggles as “systems” in terminology of Niklas Luhmann (1999), they cannot be qualitatively transformed
from within. Therefore, if we oppose universalistic institutions to the development of “natural forces”, the necessity of revolution – scrapping the no-more-fitting universalism of one kind altogether becomes apparent. The examples, apart from the socio-economic transformations identified by Marx, include the secularization during modernity (as overcoming the paradoxes of religion with respect to democracy), or relativism during post-modernism (as agnosticism to the “true” normative theory).

3 Global Capital & Labor Governance

Marx was right in the prediction that capitalism would spread all over the world, both geographically (scale) as well as in its intensity (scope). The international flows of capital are a means to exploit efficient investment opportunities and earning higher returns, as well as reducing risk through allowing for diversification, with all positive effects on living standards (Bernanke 2005).

At the same time, however, regulatory forces steering the spontaneous capital reign developed on both the national and international levels, mostly under the authority of nation states. The most significant international institutions governing capital and labor are the Bretton-Woods institutions (World Bank and the IMF), the WTO, or the International Labor Organization (ILO; under the UNO). The World Bank and the IMF are responsible for helping the developing countries and stabilizing the international financial climate respectively. The WTO achieved a significant cut in tariff and non-tariff barriers to trade, and recently tries to regulate also the health and social issues related to international trade (e.g. with respect to intellectual property rights; EC 2006). The ILO, lastly, is a recognized body having a say in the regulation of labor conditions around the world, including the prohibition of child labor. Additional non-state regulators of capital include, for example, the major stock exchanges that to a high degree set the standards for accounting principles of transnational corporations listed (Zimmermann et al. 2005).

3 Not denying that these institutions could also have a positive effect on the international flows of capital and “surplus value”. It can hardly be argued that the Bretton Woods institutions serve the Western capital only. Two-thirds of the current outstanding credit of the IMF, for example, constitutes a loan to Turkey, the wages there rising as a result (Economist.com 2007).
Let us now turn to the actual political economy theory of Karl Marx. Marx’s moral economic theorizing starts with the following proposition (from Critique of the Gotha Programme):

“[…the man who possesses no other property than his labor power must, in all conditions of society and culture, be the slave of other men who have made themselves the owners of the material conditions of labor. He can only work with their permission, hence live only with their permission.” (Marx 1875)

This quote can be proved either not true or true for everybody. The not-true interpretation can point to numerous employers competing for a laborer; and as such laborer is free to choose the best option where to sell his labor and for what price. On the other hand, the capitalist is as equally a slave of his consumers as the laborer is a slave of his employer. “He can only work with their permission, hence live only with their permission”, writes Marx. If all people for whatever reason refuse to buy products or services of a certain brand, the owner of that company is doomed to suffer losses and eventually close the business (as incalculable business failures demonstrate). The fact is that everybody owns capital. The ability to sell one’s labor is referred to as human capital (first discussed in Pigou 1928). As the living standards rose above subsistence levels thanks to efficiency gains from capitalist competition, anyone can decide how much of his/her “surplus value” to spend on consumption and how much on saving (investment). This also means that capital does not earn money just by its pure existence; only via application in competitive business operations (that is, through satisfying demand more efficiently) can saving “reproduce” itself in investment and its returns. For these reasons, the structural “enslavement” of one in the market can be thought only as a matter of scale in the Marxian interpretation; a function of several variables, for the exchange value of the capital each of us possesses depends also on the level of abundance of this resource, the competition for this resource, as well as our willingness to exchange it. The value of capital (and thus the degree of “freedom”) is therefore not “given” in the ownership itself as Marx would argue.
3.1 Theory of Value

In his Kapital [1867], Marx develops the erroneous labor theory of value based on classical economists Smith and Ricardo. It is mistaken because it supposes that the value of final products is proportional to the length and “quality” of labor input. This can be disproved by a simple example: one who constructs houses in the Sahara desert apparently produces a smaller value for other people than one who builds them in a much more attractive place (i.e., the “use value” in Marx’s terminology loses applicability). Similar problem is the so-called diamond-water paradox. Although water is supposedly a lot more useful commodity (“use-value”), diamonds are being sold for much higher price (“exchange value”). In order to solve these puzzles, a marginal utility theory of value has been introduced in the second half of the 19th century. If water is abundant and diamonds are scarce, it is the latter that will be priced higher because of the marginal subjective utility (of the last unit) of that commodity. The marginal utility is also embodied in the price that spontaneously emerges from voluntary exchanges on the market, where persons A and B usually trade goods and services for money, because they prefer the other (the buyer the good or a service, and the seller the money) more than what they currently have (necessity of inverse preferences; Hazlitt 1946). The exchange price then depends on the quantity of supply as well as the intensity of demand. For these reasons, as well as for the reason of subjective utility of non-basic needs, the only real measurement of value we in fact do possess is the market price of a certain good or service.

Furthermore, labor is not as magnificent activity as Marx portrays it. Labor normally does not automatically bring about an enjoyment from one’s contribution to the society. On the contrary, in economics theory, a man has to overcome the disutility of labour if he prefers the proceeds he can earn by working to the pleasures of leisure (Mises 1963: 588), no more today than during feudalism. This means that labour is a scarce factor of production, as is

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4 Closely connected to the theory of value is Marx’s theory of needs. Marx postulated that there are certain basic needs people do possess, like food, shelter, or clothing; that these are limited and hence can all be satisfied at a certain point in the development of productive forces. Apart from these, there are supposedly only ‘artificial needs’ created by the capitalists solely for the purpose of earning more profit. Critique of this theory does not, in my opinion, necessitate an elaboration in this paper.

5 On alienation see Section 3.3.
capital, or land, and eventually as that category serves only as a means for future consumption.

3.2 The Division of the Surplus Value

What Marx terms the “surplus value” in the market in fact distributes to everybody, not just to the capital owners. Over the long term, the returns on capital and the rise in wages are virtually equal (Becker 1964). Moreover, apart from nominal wage increases, market competition drives for dispersion of the profit-earning efficiency improvements throughout the economy in form of lower real prices and higher incomes (Mises 1961).

One can partly understand Marx’s conclusion about exploitation in the context of rapid urbanization connected to the industrial revolution. In times of labor influx into the cities, the earnings on capital are necessarily higher than the rise in real wages, for capital is scarcer (Mankiw 2001; Van den Berg 2004). This also motivates people to save and invest more than before, which drives the returns on capital to decrease back to their long-run equilibrium. Although the process of urbanization is now complete in the Western world, it is still well under way in the developing countries, where the swell in urban population accounts for about the double percentage size of the still high natural population growth, and thus bring about economic conditions similar to that in Europe in times of Marx’s writing (more on communist movement in developing countries in Chapter 4).

3.3 On Alienation

Marx argues that the system of wage labor typical for capitalism brings about a malaise of worker feeling alienated from all the products of their work, and consequently also from working as such, as well as from their human species (Månson 2000). One clearly cannot deny this subjective feeling in people if it arises, one can only disprove this determinism. In order to contradict, one can point out to similar feelings arising from building communism, or to opposite emotions existing under capitalism. Let me dwell on the first option first.
First, communism (or socialism) is inconceivable on a scale larger than a small community without a strong executive and enforcement (for example, because of the knowledge problem in the management of common ownership of means of production; see Hayek 1945). From this apparatus, as from the state in general, people can also naturally feel estranged, for their say in what is going on in politics is zero (Barzel & Silberberg 1973). This can be documented by supposedly Marx’s own words: “For the bureaucrat, the world is a mere object to be manipulated by him”\(^6\), and being an object means for Marx estrangement (Månson 2000).

From practical experience, one can easily witness that common property alienates (at least in many fields) much more than private property supposedly does. After the fall of the Iron Curtain, Western tourists coming to Eastern countries were usually appalled by the behavior of the local waitresses etc., which had previously no interest whatsoever in behaving nicely to their customers. In capitalism, on the contrary, the profit principle forces the owner of the business to teach its employees to take their work for their own, and hence adopt a certain relationship to its mission. This observation can be confirmed by the lessons of economic theory - it can be shown that is it public property that alienates rationally behaving people. The rationality incentive in the usage of public goods, for example, is to utilize them as much as possible because they are ‘free’ (the costs of their usage/consumption are not internalized). At the same time, there is no individual incentive to invest into common goods, because the potential benefits from this investment are split between all other consumers of that good equally (externalities problem; Mankiw 2001). This way public property alienates people from itself, and eventually also from each other as they all compete for the greatest share of the public good.\(^7\)

On the other hand, apart from alienation, there is observable its opposite - another natural psychological phenomenon: making ends of means. Indeed, the

\(^6\) This quote is commonly attributed to Marx, though, the author was not able to find the exact source of this quotation.

\(^7\) In word of French economist Frederic Bastiat: “State is the great fiction through which everybody endeavors to live at the expense of everybody else”. For more on public goods problems see, for example, the Tragedy of the Commons, originally by William Foster Lloyd, later popularized in the environmental context by Garrett Hardin (1968).
society and our lives become more and more complex. Nevertheless, as shown already above, the system of private property internalizes these indirect interactions to private benefits and costs (the waitress example). With the rising living standards capitalism brings about, one can hypothesize that less and less people feel estranged from their work, for they have more freedom to earn for their living by doing what really satisfies them.

3.4 On the “Inevitable” Failures of Capitalism

In this section, I will focus on the three alleged “seeds of capitalism’s own destruction” as presented in Balaam & Veseth (2005: 76). This way, I will try to disprove Marx’s predictions about the fate of the system of private property.

First, there is the alleged falling rate of profit. This one does not deserve too much elaboration: within the same product and same technology, a homogenous demand drives firms to compete, and thus prices and profits down. In the end, only the competitive technological procedures remain on the market, the remaining capital being directed to other industries. Overall, thus, the average productivity and purchasing power, as well as wages rise, giving opportunities for a subsequent efficiency gains. This kind of economic growth responsible for rates of profit does not seem to be vanishing from a macroeconomic historical perspective.

Second, the business cycles. The business cycle theory has been incorporated into the mainstream economic thought, however, the equilibrium theory does not provide for the reasons of repeated erroneous behavior of economic agents. Austrian school of economics attacked the business cycle theory arguing that expansionary monetary policy misguides the time preference of entrepreneurs, leading to inefficient investments (Mises 1981). Even the mainstream of today is of the opinion that the “greatness” of the Great Depression was a result of the American Federal Reserve’s mismanagement of the situation, not of inherent market forces. The “crisis of overproduction” is an oxymoron, for there can be only individual business errors in expectations, no inherent tendency for all companies to fail in the same manner. For these

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8 Not taking into account here the apparent contradiction with the claim that “in the history of capitalism, there is an unprecedented development of productive force of labor that helps to increase the amount of surplus value” (supposedly Marx’s idea in Månson 2000: 26).
reasons, as well as for the smoothing activities of central state authorities, one can hardly observe that economic crises are becoming more severe or that they would destabilize the system of private property of factors of production, as Marx predicts.

Third, concentration and increasing inequality. Marx envisaged a trend towards monopolization and rising inequality between the capitalists and the proletariat living on pure subsistence wages. For the first, the number of companies in a particular market is dependent on the particular marginal costs curve of the particular industry, not on “who eats whom” logic. In a free market context, a monopoly arises only as the first-best outcome to satisfy widespread demand at the lowest costs, including the fixed costs (Rothbard 2004). To the second part of the argument, there is simply no causal connection between free markets and increasing inequality (ceteris paribus°). In fact, the greatest economic successes of the last century (Henry Ford, Bill Gates) were products aiming at the mass market, creating equality rather than the opposite through making formerly “luxury products” affordable for virtually everybody.

4 Assessing the Prospects for a Communist Revolution

Marx postulated that the capitalist mode of production will end through an organized movement of an international working class, via a transition period of the dictatorship of the proletariat (Critique of the Gotha Programme; 1875). Indeed, we observed socialist dictatorships over almost half of the world’s surface at some point after the Second World War. Many former socialist countries, however, adopted Western-style democracy and market economy after the Fall of the Berlin Wall and the dissolution of the Soviet Union. Others, too, clearly abandoned the idea of building their political economies on the ideas of Karl Marx. So either something is wrong with Marx’s prediction, or the

° The “other things being equal” here aim at excluding apparent trade-offs in case of less welfare spending equal to more free market allocation of resources, and thus more inequality (just by definition of cutting redistribution). Controlling for the rate of redistribution, there is no clear trend of rising of falling inequality over the last 200 years or so (there were periods of both).
revolution came evolving within the Western systems themselves. One can equally plausibly develop both of these perspectives.¹⁰

Let me present the latter one first. Although Marx disdained considerably the social-democratic program of the German Worker’s party (Critique of the Gotha Programme), the agenda of the left did, in my opinion, brought much of Marx’s ideals into real politics and subsequently into practice. Democracy can be seen as the solution to the class struggle: it allows for redistribution and other majority-favoring policies thanks to universal suffrage. Liberal democracy is often viewed as a form of social contract, renegotiated in each elections, trade union, or public-private partnership negotiations (see, for example, Barbaro & Pear 2007). Principles of co-determination (of employees in the management of a company – for example, in Germany), or de-commodification of labor (introduction of different types of welfare regimes and social rights; Esping-Andersen 1991) helped significantly to decrease the tensions between workers and employers over the last century.¹¹ In other words, the synthesis of thesis and antithesis (Hegel) does not need to be necessarily incompatible with the old order of things. If we have two opposing interests, a compromise can also be a solution.

The other perspective is that Marx’s ideas are never going to be accomplished. A compromise is not communism. “Income tax presupposes […] capitalist society” (Critique of the Gotha Programme), and hence income redistribution, to Marx, by definition, cannot be the character of communism. In the final lines of the Communist Manifesto, Marx explicitly states that “[Communists’] ends can be attained only by forcible overthrow of all existing social conditions”. Otherwise, again in Marx words, “the old filthy business would necessarily be reproduced” (The German Ideology). “Communism is only possible as the act of the dominant peoples all at once”, writes Marx further. This, apparently did not occur as of now, and is highly inconceivable to occur anytime in the future (let it be just for a collective action problem). Rates of

¹⁰ I will not consider here the interpretation that Eastern-style socialism departed from Marx’s ideals, and thus could not have led to communism. This objection plays no hindering role in the further elaboration on the dominance of the Western-style of governance.

¹¹ This led in some cases to apparent paradoxes empowering labor at the expense of capital. For example, when producers join to exert a power over the market, an anti-monopoly body steps in and levies tough fines. When unions join to exert pressure on the market, they are usually politically supported by the government in office.
unionization are low (on average about 20 per cent in the OECD countries) and falling almost all over the world, contrary to Marx's prediction that the struggle of the proletariat against the individual capitalist would grow into a collective class organization (Månson 2000: 27). The global class of proletarians is simply non-existent. On the contrary, with the development of capitalism and rising living standards (absolute poverty is on decline; World Bank 2000), there is less and less people working as laborers in factories and more in the services sector, at least in the advanced countries. Proletarians in developing countries, where industrialization is on the move, do not seem to form any organized international movement at all. On the contrary, it is not class that is the most significant explanatory factor of a person's identity - nationality and ethnicity, gender or sexual orientation, religion or cultural affiliation play a much more significant role in conflict studies (e.g. Henderson 1997).

Those who do want to see, in fact can see an “Axis of Marxism” - in Latin America. Hugo Chaves in Venezuela is boldly nationalizing the country's key industries. Bolivia is eager to emulate the example. Ecuador is renouncing on its obligation to repay its government bonds (Economist 2007). All these examples are South American countries with enormous social inequalities. This trend will, with most likelihood, however, not undermine the world’s democratic and capitalist order. Perhaps global terrorism as a movement could do so, but its aim is clearly not a Marxist society but rather some form of islamo-fascism (Fukuyama 2002).12

5 Conclusion

Social theory of Karl Marx misses numerous points when applied to the world today. Marx’s holes in economic theory are impossible to be patched by any interpretation. The thinker has to be treated as a theoretician in his own historical context (e.g. urbanization and higher returns on capital than on labor). Thus, Marx’s capital lies not in his Kapital or political theory, but rather in his social theory. The seeming opposites of capital and labor do shape the society even today, even though this struggle does not take the radical form of a class

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12 Although lack of emancipation could explain some of the phenomenon - this way the European rise of fascism in the 20th century and Marx's idea of a communist revolution share many common features.
fight for revolution as Marx envisaged. The unions (and workers) have already acquired significant powers in the decision-making of Western nation states.

From the normative global governance point of view, my paper criticizing Marx adds to the ideational struggle fought by social scientists equally as politicians and ideologues. In my view, education in basic economics principles together with individualistic laissez-faire thinking can, as any single worldview, help to ease any conflicting demands in society. Showing that Marx’s economic thinking is flawed, and that capitalism brings about rising living standards not only to the Western capitalists but also to most developing countries\(^\text{13}\) and workers can contribute to the internalization of the system-friendly values of individual responsibility, effort and liberty, and thus to social peace.

\(^{13}\) The exception in the last globalization period being Africa, for various reasons outside the scope of this essay.
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