MARX OR PIKETTY?

WHAT SHOULD BE DONE AGAINST THE GROWING INEQUALITY?

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This is the final chapter of my book

“Becoming Marx – How the Young Karl Marx Became a Marxist,”
(Maastricht, Cicero Foundation Press, 2016).
See on pages 33-37 how you can buy this book.

MARX’S CRITIQUE OF THE MARKET

Marx can be criticized because of his too optimistic anthropological assumptions, his utopian vision of the future, his optimism about man’s supposed inborn altruism, and his ideas about the ‘withering away’ of the state under socialism. There is, however, yet another point which has to be mentioned here and that is his identification of capitalism with the market economy. Because of this identification the abolition of capitalism was for him synonymous with the abolition of the market. This policy has been put into practice with disastrous results in the former Soviet Union and the countries of the former communist bloc, where a centrally planned state economy was installed. It is interesting that the young Marx had already criticized the market economy and that this critique of the market preceded his criticism of capitalism. The market was for him identical to civil society, which he so
vehemently attacked in his critique of Hegel’s Philosophy of Right and in On the Jewish Question. This criticism is very moralistic in tone and has little to do with his later political-economic analyses of capitalism.

In On the Jewish Question, for instance, he described the morally detracting influence which the market economy would have on the people, calling them ‘depraved’, ‘uncultivated’, and ‘unsocial’. The market economy, he wrote, had the consequence that man “considers other people as a tool, degrades himself to a tool, at the mercy of external powers.”¹ Such a negative view of the market economy was in that period bon ton among socialist critics of society. The first part of the nineteenth century was the heyday of laissez-faire liberalism and the principle of free competition had attained the status of unshakeable dogma. Marx and kindred spirits attacked the unbridled competition, which characterized the market, because of the social excesses to which it led. We can observe the same critical stance in the works of Moses Hess and Friedrich Engels, published in the same period. In his article Über das Geldwesen (On the Money System) Moses Hess called his contemporaries “social predators, who in free competition sanction ... the war of all against all.”² And in his Umrisse Friedrich Engels spoke about the “honorless war of competition,”³ and, some pages later, about “competition or the shrewd right of the strongest.”⁴ Neither capitalism, nor even private property, but competition – the foundation of the free market – was therefore the main target of socialist writers before 1848.⁵ It is, therefore, no surprise that Friedrich Engels in The Condition of the Working Class in England proclaimed the end of competition: “Necessity forces them [the workers] to abolish not only one element of competition, but competition itself – and they will do this.”⁶

ROMANTIC CRITICISM OF THE ‘COLDNESS’ OF THE COMPETITION SOCIETY

This criticism of competition had clearly romantic roots. There existed in early nineteenth century Germany a tendency to regard the ‘competition society’ as a society in which ‘coldness’ (Gefühlskälte) dominated. Spontaneous, warm feelings – so dear to the Romantic soul - would be suppressed for unilateral cultivation of rationality, which was focused entirely on the making of profit. Engels, for instance, spoke about “rationality which is, in
particular, promoted by the selfish mentality of the English bourgeois, who has made selfishness into his dominant passion and has concentrated all his emotional power on the single point of greed ...” In this critique we can detect a nostalgia for the ideal world which would have existed before the emergence of competitive society, when economic relations were – supposedly - not yet based on individualism and egoism, but on a spontaneous, warm, and altruistic sense of community. Individualism, competition, and private property – the very foundations of the market economy – were considered as the ugly outcomes of a universal egoism. For instance, Adam Müller (1779-1829), a well-known German political economist, rejected Roman law, because it would defend “absolute exclusive private ownership.” And Novalis (1772-1801), a German Romantic poet, wrote: “The perfect citizen lives entirely in the state – he has no property outside the state ... Every citizen is a servant of the state, only as such does he have an income.” Vilification of the market, considered to be the sphere of selfish interests, and idealization and glorification of the state, considered to be the sphere of solidarity and altruism, went hand in hand.

Despite its romantic undertones, this early critique of the market economy, which unduly glorified the past, was not wholly without truth. In his magnum opus Philosophie des Geldes (The Philosophy of Money) the German sociologist Georg Simmel argued, for instance, that in a market economy feelings are progressively repressed in favor of an increasing rationality. He ascribed this phenomenon to the fact that the satisfaction of needs – to which feelings are connected – becomes an ever longer process through the use of money and the functioning of the market. In the market many goals take on the character of means for more distant goals and thereby diminish feelings, while rationality increases. Another sociologist, Norbert Elias, described this same process in terms of the greater interdependence which would emerge in a market economy, leading to the necessity for greater self-control and affect control. Although for Marx the romantic criticism of the market economy played a less important role than for Moses Hess and Friedrich Engels, it is present even at an early stage. His criticism is in particular a moral criticism of the competition mechanism of the market. It is, therefore, no surprise that Marx’s later criticism of capitalism seems to be a logical sequel to this early criticism of the market. Criticism of the market transforms itself smoothly into a criticism of capitalism.
THE MARKET AND THE EMERGENCE OF CIVIL FREEDOMS

However, the question is whether capitalism and the market economy are the Siamese twins Marx would have us believe them to be. This question is pertinent because the experience of the defunct Soviet Union has proved that a market economy is superior to a centrally planned economy. The inefficiency of a centrally planned economy after the phase of initial industrialization, when the aim is to satisfy consumer needs, is a well-known fact. The abolition of the market in a centrally planned economy leads to low productivity and a defective allocation of goods and services - a fact which was finally admitted also in the Soviet Union during Gorbachev’s perestroika. However, the market brings not only efficiency, it has other consequences also. Hegel already referred to the fact that civil society with its free competition led to the development of individual freedom. Modern authors have also emphasized the fact that a market economy leads not only to economic, but also to political freedom. A market economy seems to be a precondition for the development of a pluralistic political system in which individual freedom can flourish and human rights can also be guaranteed.

One of the authors who emphasized this political function of the market, is Milton Friedman of the famous Chicago School of Economics. He not only considered “the market as a direct component of freedom,” but also assumed an “indirect relation between the market arrangements and political freedom.” Ideas like these are aired not only by conservatives or liberals. On the left also one can find writers, who consider the market the basis of individual and political freedom. Lucien Goldmann, for instance, a French Marxist philosopher, emphasized that all central values of the Enlightenment have their origin in the market. “In the socialist society of the future,” wrote Goldmann, “Marx saw the heritage and continuation of bourgeois humanism. It has now become clear, however, that with the suppression of the market economy, which provides the basis of bourgeois society, the principal values of its humanism are endangered too.” Goldmann referred explicitly to the situation in the countries of ‘really existing socialism’. “It remains true,” he wrote, “that the experience of forty years of socialist society proves that the abolition of exchange and
market production in a society with an economy entirely planned by the central authority poses a most serious threat to freedom, equality, toleration – all the great values of the Enlightenment.”

UNLIMITED COMMODIFICATION?

However, the market is not only the cradle of liberty, tolerance, and formal equality. Inherent in the market system is also a tendency of commodification: on the market things are exchanged against money, they become commodities, sellable products. As long as these commodities are just ‘things’: products of one’s labor, there is no problem. However, Marx observed that in capitalist society this process of commodification had a tendency to increase - with devastating effects on the quality of human life. His major example was the worker, who, forced to sell his labor force as a commodity, did alienating work in noisy, polluted factories. The slave trade, buying and selling human beings as commodities, was, of course, a much more extreme example. The slave trade no longer not exists, and in Europe and America the old noisy and polluting factories have also disappeared. But if one would think that in modern, ‘civilized’ capitalism this process of creeping commodification has disappeared also, one is mistaken. The American philosopher Michael Sandel has shown that Marx’s critique is still extremely relevant. According to him, “The reach of markets, and market-oriented thinking, into aspects of life traditionally governed by nonmarket norms is one of the most significant developments of our time.” Sandel gives many examples of how markets crowd out morals. “Are there some things that money should not be able to buy?” he asks. Of course, is his answer. And he gives some examples, such as friendship, the Nobel Prize, or an Oscar. Friendship that is bought degrades genuine friendship. The same would be true if one could buy a Nobel Prize or an Oscar. The act of buying would degrade it, because scientific or artistic prestige is something one cannot buy. However, there are many other things left in which this degradation is less obvious and where market norms have begun to penetrate spheres that previously were protected from such an intrusion. He gives the example of blood donation. In the U.K., as in other European countries, blood for transfusion is given by unpaid volunteers, motivated by civic altruism. In the U.S. blood
donors are paid. Blood becomes a commodity. The effect is that altruist donors no longer volunteer and that it is the poor, in particular, who become the sellers on the ‘blood market’. The effect is not only a redistribution of blood from the poor to the rich, which offends one’s sense of fairness, but also a diminution of the civic spirit of altruism in society at large.

Another example is that U.S. companies began to take out life insurance policies on their employees, which had the perverse effect that firms were able to profit from the death of their workers. Sandel commented: “allowing companies a financial stake in the demise of their employees is hardly conducive to workplace safety. To the contrary, a cash-strapped company with millions of dollars due upon the death of its workers has a perverse incentive to skimp on health and safety measures.”

Sandel concludes his book with the words, “and so, in the end, the question of markets is really a question about how we want to live together. Do we want a society where everything is up for sale? Or are there certain moral and civic goods that markets do not honor and money cannot buy?” Who does not hear in this an echo of Marx’s criticism of the ‘depraved’ and ‘unsocial’ market’, which tends to crowd out humane feelings of altruism?

UNBRIDLED MARKET FORCES: A DANGER?

In the Preface to the first volume of Capital, published in 1867, Marx wrote that it had become a habit to treat Hegel as a ‘dead dog’ (ein toter Hund). At that time, indeed, Hegel’s fame had faded. Most philosophers, of course, run the risk of such a fate, because the course of time often makes their ideas obsolete. After the demise of the Soviet Union, considered to be the ‘heir’ of Marxist ideas, it had become bon ton to treat Marx himself as a ‘dead dog’. However, does he really deserve to be treated as such? The era of state socialism has, of course, passed. It is definitively over. But does this mean that a capitalist market economy, as it exists, is the only remaining alternative? This is not so definite. The Great Depression, ushered in by the stock market crash of 1929, had already given us a warning that unbridled market forces could be extremely destructive. After the Second World War a combination of Keynesian politics, the thirty years’ post-war economic boom, and the building of the welfare state, created the illusion that these risks were definitively under
control. The two energy crises of the 1970s were the first signal that this was not the case. But we had to wait for the year 2008, when a housing bubble in the United States first led to a banking crisis and then to a systemic crisis and a debt crisis, to receive a wake-up call. The crisis almost ended in catastrophe. If the demise of the Soviet Union was due to an over-reliance on the state, the 2008 systemic crisis was due to the contrary: an over-reliance on the markets as self-regulating systems. It all started in the 1980s, when Western economies became increasingly deregulated. The pioneers of this deregulation were Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom. It was copied elsewhere – even by left-leaning governments.

The Great Recession, which began in 2008, has led to a renewed interest in Marx. In 2011, for instance, Terry Eagleton published a book, titled Why Marx Was Right. In this book Eagleton asked the rhetorical question: “What if it were not Marxism that is outdated but capitalism itself?” In 2013, Wolfgang Streeck, a professor of sociology at the University of Cologne, published a book, titled Gekaufte Zeit – Die vertagte Krise des demokratischen Kapitalismus (Bought Time – The Postponed Crisis of Democratic Capitalism), which immediately became a bestseller and the subject of a vigorous debate in Germany. In his book Streeck also praised Marx. “In any case,” he wrote, “I am convinced that one cannot understand the actual development of today’s modern societies without using certain key concepts derived from Marx – and that this will be increasingly the case, as the driving role, played by the progressively developing capitalist market economy in the emerging global society, will become clearer.” Streeck went on to plead for a “democracy without capitalism, at least without the capitalism we know.” And he added, “Today, democratization would mean building institutions through which markets can be brought again under social control: labor markets which leave a place for social life, markets for goods which do not destroy nature, credit markets which do not seduce the massive production of unrealistic promises.” Twenty years after the end of communism in Europe Marx was making a victorious comeback. This renewed interest in Marx was also observed by Walter Laqueur, who wrote:

“We are told these days that Karl Marx – one of the most influential thinkers of the nineteenth century, if not the single most important one – is enjoying a kind of renaissance. This is attributed by some to the great economic crisis that began in
2008 and destroyed considerable wealth around the world. Given that this crisis is seen widely as a crisis of capitalism, it is natural that many people would think of Marx, who was of course the greatest critic of capitalism in history.” 

The Great Recession of 2008 has taught us, indeed, that modern, global capitalism is not the meek animal - tamed by governments, Keynesian economics, and international institutions - as it was presented by leading economists in the post-World War II period. In his book *The Great Degeneration – How Institutions Decay and Economies Die*, the British historian Niall Ferguson quoted John Mack, former CEO of the investment bank Morgan Stanley, who, in 2009 - one year after the beginning of the crisis – exclaimed, almost desperately: “We cannot control ourselves. You have to step in and control [Wall] Street.” It was a recognition by an insider that the bankers’ self-regulation of financial markets had failed and that capitalism needed control and regulation from outside. John Mack, of course, was not asking for a Soviet style government control, but, ironically, his demand in a way echoed the young Marx’s complaint that man, in a market economy, “considers other people as a tool, degrades himself to a tool, at the mercy of external powers.” Certainly, the solutions proposed by Marx and later Marxists are no longer viable. However, it is clear that the problem, signaled by Marx, is still on the political agenda: a market economy – if it is not politically controlled – may become a threatening, external power.

**IMMISERATION DID NOT TAKE PLACE - OR DID IT?**

Another point that deserves a closer view here is Marx’s immiseration or pauperization theory (*Verelendungstheorie*). We have seen that this theory is the corollary of Marx’s polarization thesis, which states that the immanent dynamic of market forces will lead progressively to the development of two classes: bourgeoisie and proletariat, while the intermediary middle classes will gradually disappear. This polarization would be accompanied by an increase in inequality: the rich becoming richer and the poor becoming poorer. During the last century it has become a received opinion that Marx’s immiseration theory was fundamentally biased. And indeed, the facts seemed to contradict Marx’s predictions. From the end of the nineteenth century the situation of the working classes
gradually started to improve: instead of suffering an ever worsening fate, they received decent wages, got better houses, were paid old-age pensions, and got access to health care and education. This improvement was partly due to a mobilization of the working classes, who began to organize themselves in trade unions and political parties. It was also partly the consequence of the *fear*, which this mobilization instilled in conservative circles. German chancellor Bismarck, for instance, who had previously banned the Social Democratic Party, was the first to introduce social laws in Europe. Whatever the reasons, no one could deny that the fate of the working class, instead of deteriorating, was improving over time. The apotheosis of this development was the modern welfare state, built after the Second World War.

This led to theories, such as those developed by Simon Kuznets in the 1950s, that an increase in economic inequality was only a temporary accompaniment of economic development. In the long run, according to him, inequality would decrease. It seemed, therefore, as though one was living in the best of all possible worlds. Technological change and market opportunities could temporarily increase the divide between the rich and the poor, but, in the long run, inequalities in income had a tendency to decrease.²⁸ This vision led to new political legitimation theories, such as those developed by John Rawls in *A Theory of Justice*, in which Rawls formulated the ‘maximin criterion’, which stated that advantages of the more fortunate were legitimate if these promoted the well-being of the least fortunate.²⁹ The question, of course, was whether it could be proved that actions of the more fortunate benefitted the least fortunate. The rich, of course, were eager to point to the supposed ‘trickle-down’ effect of their wealth. Although, in 1987, Allan Bloom wrote on the U.S. that “the country is largely middle class now,”³⁰ new developments, starting after the two energy crises in the 1970s, began to challenge this optimistic vision.

One of the first to give a wake-up call was Lester Thurow, who, in his book *The Zero-Sum Society* (1980), predicted with great clairvoyance the advent of greater inequality in the United States. He claimed two factors to be responsible for this: first, the decline of the welfare state’s transfer payments to the poor, and second, the fact that educated, middle class women began to enter the labor market.

“Labor force participation rates are now rising most rapidly for women who are married to men with higher incomes,” wrote Thurow. “Although income transfer
payments have stopped the economic gap between the rich and the poor from rising since World War II, they cannot continue to rise as fast as they have over the past two decades. With income transfer payments slowing down and working wives contributing to inequality, the distribution of family income will start moving toward inequality in the 1980s and 1990s.”

Thurow wrote his book before the advent of Reaganomics in America and Thatcherism in England. However, he was already warning: “If the current demands for tax cuts on capital income to accelerating economic growth were to be met, this situation would become much worse.” Thurow’s predictions came true: the welfare state became less generous for the poor, while educated women - increasingly inclined to ‘assortative mating’, marrying high achievers - entered the labor market: two trends which enhanced economic inequality. However, Thurow was not a prophet: he could not envisage other, even more revolutionary changes, which would radically transform Western, and even global society in the next three decades. These changes were threefold. In the first place, the unfettered liberalization of the financial markets, ushered in by Reagan and Thatcher, a liberalization which was accompanied by high frequency trading on the stock markets – opening up new possibilities for manipulation. In the second place, the high-tech revolution, leading to the computerization and automation of labor processes and the development of the Internet economy. In the third place, the process of globalization, which made it possible to move not only whole industries, but providers of sophisticated services also to low-wage countries. These three revolutions, taken together, had a huge impact. They led to a radical change in the power relationship between capital and labor in the U.S. and Europe with enduring negative effects on economic equality. The liberalization of the financial markets made it possible to move capital flows around the world without much constraint. The new freedom became a tool in the hands of the capital owners, pushing and sometimes blackmailing workers to accept lower wages if they wanted to avoid their production sites from being moved abroad. The technological revolution amplified this process: through computerization not only many low qualified jobs disappeared, but increasingly middle class white collar jobs also. On top of this came the Great Recession of 2008 which led governments to bail out banks that were ‘too big to fail’ – leading to an unprecedented debt crisis that hit in particular the lower and middle classes, who had to pay the bill through higher taxes and
reduced welfare benefits. Resulting high unemployment led to a further weakening of the positions of both blue collar and white collar workers. Factory workers in particular were trapped. In 2007 for instance - one year before the Great Recession - the base wage of an American autoworker was around $28 an hour. In 2014 new hires could expect only $15.\textsuperscript{35} This means that in a short, 7-year period the wage was roughly halved.

The winners in this zero-sum game were the top 1 percent. In the United States “the income share of the top 1 percent of households rose from 9 percent in 1970 to 24 percent in 2007.”\textsuperscript{36} The income share of the top 1 percent thus almost \textit{tripled}. This process was not even interrupted during the crisis years 2009-2010, when “for 99 percent of Americans, incomes increased by a mere 0.2 percent. Meanwhile, the incomes of the top 1 percent jumped by 11.6 percent.”\textsuperscript{37} The cumulative result of this development was, indeed, devastating. It was the \textit{finance industry} in particular which created new opportunities for itself. The role of the finance industry is to make contracts which are used to pool funds, transfer resources, share risks, and provide information. It is paid for these services. A new fact is that the cost of these services have literally exploded in recent years. In a study Thomas Philippon of New York University indicated that “the cost of intermediation grows from 2\% [of GDP] to 6\% from 1870 to 1930. It shrinks to less than 4\% in 1950, grows slowly to 5\% in 1980, and then increases rapidly to almost 9\% in 2010.”\textsuperscript{38} Philippon asked: “So why is the non-financial sector transferring so much income to the financial sector?” His answer is that this is caused by an explosion of high-frequency trading. In the U.S. the derivatives market has grown exponentially. In fact the customer is paying for this increased complexity, while the quality of the service – which is ‘to beat the market’ – has not increased. “Would you pay for the pleasure to have a complex and interconnected computer,” asked Philippon, “or would you only care about its speed, design and battery life?” In fact, the non-financial sector (private persons, firms, the government) is paying for services that are not “significantly more efficient than the finance industry of John Pierpont Morgan” in the early 1900s. This development is a consequence of the IT revolution which made possible high-frequency trading in which traders make money by buying or selling a millisecond faster than competitors. According to Paul Krugman “we’re giving huge sums to the financial industry while receiving little or nothing – maybe less than nothing – in return.”\textsuperscript{39} Krugman,
therefore, observed “a clear correlation between the rise of modern finance and America’s
return to Gilded Age levels of inequality.”

BACK TO NINETEENTH CENTURY LEVELS OF INEQUALITY?

However, not only incomes were characterized by a growing inequality – so was property
ownership. This newly emerging inequality evoked reminiscences of the nineteenth century,
an era thought to have been definitively left behind. “The richest 1 percent of American
households,” wrote Gar Alperovitz, “are now estimated to own half of all outstanding stock,
financial securities, trust equity, and business equity.” Brink Lindsey complained: “Despite
the heaping riches that our economic system continues to pile up, millions remain trapped in
a nightmare world of poverty, social exclusion, and despair.” And Thomas Piketty, a French
economist, asked the provocative question whether “the twenty-first century will be even
more inegalitarian than the nineteenth century.” In his book Le capital au XXle siècle
(Capital in the Twenty-First Century) Piketty made a detailed analysis of property relations in
the last two centuries. He came to the conclusion that economic inequality - after having
peaked before the First World War - was greatly reduced in the subsequent years. Three
factors played a role here: in the first place the First World War, which worked as an
‘equalizer’, because many property owners lost their property or saw it starkly reduced;
secondly, redistribution by the emerging welfare state; and, thirdly, a change in tax policies
which led to higher taxes for the rich. However, this period of ‘compressed inequality’, in
which “the modern welfare state in the middle of the twentieth century … finally enabled
capitalism and democracy to coexist in relative harmony,” ended in the 1980s.

One of the main reasons was new, ultra-liberal tax policies that benefitted the rich – in
particular the super-rich. Under Reagan’s presidency taxes at the top were sharply cut:
“Reagan slashed the highest marginal tax rate from 70 percent to 28 percent and reduced
the maximum capital gains tax to 20 percent – reined in trade unions, cut social welfare
spending, and deregulated the economy.” This new ‘Washington Consensus’ was exported
abroad and followed worldwide, not only in Western Europe, but, after 1989, also in the
former communist bloc and in China. The result was an immense concentration of wealth at
the top which, in the U.S., had only been seen during the ‘Gilded Age’ - the years between 1870 and 1900. The Gilded Age was known for its rich tycoons, such as the Morgans, Vanderbilts, Rockefellers, Carnegies, Harrimans, and Goulds. These so-called ‘robber barons’ “were held to be uneducated and uncultivated, irresponsible, rootless and corrupt, devoid of refinement or of any sense of noblesse.”46 They were envied and despised, because “…the new plutocracy had set standards of such extravagance and such notoriety that everyone else felt humbled by comparison.”47

The ‘robber barons’ of the twenty-first century are the ‘plutocrats’ and ‘oligarchs’: a new, international class which lives in its own universe - with yachts, private jets, castles, private golf links, and a lifestyle of which normal citizens – simple millionaires included – can only dream. This class of Ultra High Net Worth Individuals,48 each good for at least $50 million, but often a multiple of this, has 84,700 members in the world, of which 37,500 in North America, 23,700 in Europe, and 1,970 in Russia.49

Through this growing inequality our age takes on a frightening resemblance to the historical period in which Marx lived. Reading Joseph Stiglitz’s assessment of what is happening today, who will not be reminded of Marx’s polarization thesis, which predicted an increasing immiseration and pauperization of the working and middle classes? Stiglitz wrote:

“Among the winners from globalization in the United States and some European countries, as it’s been managed, are the people at the top. Among the losers are those at the bottom, and increasingly even those in the middle.”50 “The polarization of our labor market has been hollowing out the middle class ...”51

Marx’s polarization thesis, which had been thought to have become obsolete, is, apparently, making a glorious (or rather inglorious) come-back. One reason for this development is globalization, which created opportunities for property owners to escape the taxes and circumvent the regulations of their home countries. Another cause was the voluntary retreat of politics from the economy, leaving it to the economy and to the markets to regulate themselves. “A self-regulating market demands nothing less than the institutional separation of society into an economic and a political sphere,” wrote Karl Polanyi.52 Through this separation the economic sphere was able to emancipate itself from political restrictions and obligations. However, in a democratic society the political sphere is the sphere in which each
citizen – rich or poor – has equal voting rights. The principle of ‘one man, one vote’ means that the majority has the possibility to redress and correct inequalities which are experienced as unfair and unjust through the tax system and through the transfer payments of the welfare state. Wolfgang Streeck warned of the danger that one “seeks more or less forcibly to replace states and their politics by markets and their self-regulating automatisms.”\(^5^3\) Joseph Stiglitz went further, writing that “a so-called self-regulating market-economy may evolve into Mafia capitalism – and a Mafia political system – a concern that has unfortunately become all too real in some parts of the world.”\(^5^4\) This tendency of increasingly becoming a playing field for criminal practices, inherent in unregulated capitalism, has been highlighted by Jean-François Gayraud in his book _Le nouveau capitalisme criminel_ (The New Criminal Capitalism).\(^5^5\)

The problem is, indeed, that the super-rich tend to consider the political constraints of liberal democracy as a threat to their interests. Streeck spoke in this context of a “disaffection of ‘capital’ with democracy.”\(^5^6\) This tension between the class of the super-rich and political democracy can lead to two reactions. The first consists of attempts by the super-rich to roll back democracy and support more authoritarian forms of government which enable them to better protect their interests. The second reaction consists of an active involvement of the property owning class in politics through lobbying, media influence, and party funding, to achieve the desired results. Their huge wealth gives them an unequaled influence. In 2010 American politics became even less of a level playing field by a ruling of the Supreme Court which made unlimited corporate campaign spending possible on the basis of ‘free speech’.\(^5^7\) The results of this change were immediately visible. “Just 158 families, along with companies they own or control, contributed $176 million in the first phase of the [2016 presidential] campaign,” wrote the _New York Times_, adding, “not since before Watergate have so few people and businesses provided so much early money in a campaign, most of it through channels legalized by the Supreme Court’s Citizens United decision five years ago.”\(^5^8\) According to the _New York Times_, “the families investing the most in presidential politics overwhelmingly lean right, contributing tens of millions of dollars to support Republican candidates who have pledged to pare regulations; cut taxes on income, capital gains and inheritances; and shrink entitlement programs.”\(^5^9\) Through investments in the media the super-rich also have the opportunity to influence public opinion. Rupert
Murdoch’s influence on British politics is proverbial. In the United States we have the examples of William Randolph Hearst, Steve Forbes, and Michael Bloomberg, while Silvio Berlusconi, not satisfied with his media influence in Italy, became himself a politician in order to take care of his financial interests. On the influence of the super-rich on the media Jean-François Gayraud wrote: “the majority of the important print and audiovisual media [in France] are the property of the great industrial and financial groups. Does this really have no impact on editorial policy? Can you bite the hand that is feeding you?”

In 2004, before the Great Recession, even Alan Greenspan, the ultra-liberal Chairman of the Federal Reserve, told the Senate Banking Committee that he was concerned about the negative impact of the growing inequality on democracy. “I think that the effective increase in the concentration of incomes ... is not desirable in a democratic society?” he said. We saw earlier that a market economy, by promoting individual freedom and (formal) equality, is a basis for modern democracy. However, markets have a Janus face. While, at the outset, they have a democracy promoting quality, this changes when a mature political democracy is in place. The market economy then tends to impair democracy. This contradictory, double-edged dynamic of a market economy is summarized by Robert A. Dahl as follows:

“When authoritarian governments in less modernized countries undertake to develop a dynamic market economy, then, they are likely to sew the seeds of their own ultimate destruction. But once society and politics are transformed by market-capitalism and democratic institutions are in place, the outlook fundamentally changes. Now the inequalities in resources that market-capitalism churns out produce serious political inequalities among citizens.” He added that “the relation between a country’s democratic political system and its nondemocratic economic system has presented a formidable and persistent challenge to democratic goals and practices throughout the twentieth century. That challenge will surely continue in the twenty-first century.”
WAS MARX RIGHT?

Marx predicted that we were moving toward an increasingly polarized society. Was he right after all? And is, therefore, the only possible outcome a revolution leading to some kind of state socialism? I don’t think so. While the increasing polarization, which is taking place, cannot be denied, the experience of the communist countries has definitively proved that state socialism is not the solution. Not even for Marxists. David Harvey, who stands in the Marxist tradition, asked, for instance, if “another communism is possible?” He answered:

“Communism is, unfortunately, such a loaded term as to be hard to re-introduce, as some want to do, into political discourse.” However, he continued, “while traditional institutionalized communism is as good as dead and buried, there are ... millions of de facto communists active among us, willing to act upon their understandings, ready to pursue anti-capitalist imperatives.”

“Perhaps we should just define the movement, our movement, as anti-capitalist or call ourselves the Party of Indignation, ready to fight the Party of Wall Street and its acolytes and apologists everywhere, and leave it at that.”

“So where shall we start our revolutionary anti-capitalist movement? We can start anywhere and everywhere as long as we do not stay where we start from! The revolution has to be a movement in every sense of that word.”

Harvey is clearly inspired by the same Romanticism which inspired Marx. However, proclaiming the existence of ‘millions of de facto communists’, organized in a ‘Party of Indignation’, who ‘can start anywhere and everywhere as long as we do not stay where we start from’, because ‘the revolution has to be a movement’, smacks of an exalted glorification of ‘action for action’s sake’ and is lacking a real strategy to tackle the problems of contemporary society. The problem remains that any kind of communism, suffering from ‘too much state’, is an enemy of democracy. The same is true, however, of the ‘self-regulating markets’ which dominated during the last three decades. They suffer from the opposite: ‘not enough state’ and are equally an enemy of democracy. Marx was certainly not an expert on the subtleties of liberal democracy. He considered the state simply as an oppressive apparatus in the hands of the capitalist class. It is not clear, therefore, what
solutions he has to offer for the problems of the twenty-first century. Walter Laqueur — rightly — emphasized, that in the present situation,

“It is likely that the regulatory state will play a greater role than in the past. A great deal of ill will has welled up against the financial system in part because of the greed displayed by some of its leading movers and shakers but also because of their devastating incompetence. Still, no one so far — neither individuals nor political parties — has suggested the wholesale nationalization of key branches of the economy, the means of production or the banks. That’s what a Marxist approach would look like.”69 Laqueur concluded: “And so it appears we shall have to wait a bit longer for some kind of lodestar to emerge. In the meantime, it is clear that the perceived renaissance of Marxism, such as it is (which isn’t much), doesn’t offer anything of value in this search. No doubt it will continue to stir fascination in the breasts of activists in various fields of cultural studies, weary of the status quo and hungry for a revolutionary new ethos. But it has nothing to offer the economists of our day — or the rest of mankind, for that matter.”70

Marx’s disregard for liberal democracy with its separation of powers, its emphasis on deliberation and consensus seeking, resulted from his adoption of Hegel’s dialectical logic. In this logic everything develops via a process of negation, which means that one situation is negated by its opposite: black is negated by white, white is negated by black. This brought Marx to the idea that capitalist society could only be negated by a society which was completely its opposite: a socialist society in which the private ownership of the means of production was abolished. Moreover, he presented this negation not as a long, protracted process, but as a kind of ‘big bang’, brought about by a socialist revolution. Marx was the victim of the Romanticist vision which held that ‘hell’ could only be transformed into ‘heaven’.71 However, where such a revolutionary ‘big bang’ happened, it did not lead to an emancipation of the working classes, but rather to their oppression. Under the inspiration of Eduard Bernstein German Social Democrats gave up this Marxist view. They no longer considered the emancipation of the working classes to be the result of a revolutionary ‘big bang’, nor did they expect an immediate and complete liberation. On the contrary, they proposed a patient and sustained effort to reform the system from within. This method proved successful. Contemporary efforts to transform the capitalist system should,
therefore, take their inspiration from the policies of European social democracy, rather than from nineteenth century revolutionary Marxism.

Lane Kenworthy proposed a similar approach for the United States. In an article in *Foreign Affairs* he argued that maintaining a public safety net is no longer enough and he recommends measures, similar to those put in place by the Scandinavian countries: “[T]he Nordic countries have supplemented their generous social programs with services aimed at boosting employment and enhancing productivity: publicly funded child care and preschool, job-training and job-placement programs, significant infrastructure projects, and government support for private-sector research and development.” Kenworthy calculated that implementing such a system would cost the U.S. an additional 10 percent of GDP, which would mean that government expenditures would rise from 37 percent of GDP (in 2007) to around 47 percent. Something, he wrote, which “would place the United States only a few percentage points above the current norm among the world’s rich nations.” To finance this project he proposed a (moderate) increase of the effective federal tax rate for the 1 percent super-rich to about 37 percent. Together with other tax reforms this should yield 5 percent of GDP. However, realizing that 10 percent of GDP cannot be squeezed “solely from those at the top,” he proposed the introduction of a 12 percent VAT, which would raise another 5 percent of GDP. Kenworthy showed himself rather optimistic about the prospects for this project and displayed an almost ‘Marxist’ belief in the necessary evolution in the proposed direction, saying that “opponents are fighting a losing battle and can only slow down and distort the final outcome rather than stop it. Thanks to a combination of popular demand, technocratic supply, and gradually increasing national wealth, social democracy is the future of the United States.”

However, just repeating the mantra that “opponents are fighting a losing battle” will not be enough to bring these reforms about. As Marx already knew: you need a subject to realize these reforms. The problem is that the traditional subjects of social-democratic reform projects: the social-democratic parties and the trade unions, are almost everywhere on the defensive. While, for instance, in the early 1950s in the U.S. around one-third of the total labor force was unionized, this has gone down today to about 10 percent. However, Kenworthy puts his hope not only in the Democratic Party, the traditional standard bearer of welfare programs in the U.S., but on the Republican Party also. “In the long run,” he wrote,
“the center of gravity in the Republican Party will shift, and the GOP will come to resemble center-right parties in Western Europe, most of which accept a generous welfare state and relatively high taxes.” He attributed this expected change of position to the fact that the white working class, which left the Democratic Party, votes increasingly for the Republicans. “(What is) favoring Republican moderation is the growing importance to the party of working-class whites,” he wrote. Maybe. It is clear, however, that solutions should also include an increased regulation by governments of the financial markets, combined with more distributive tax policies.

Richard Wilkinson and Kate Pickett, in their book The Spirit Level – Why Equality is Better for Everyone, come up with a series of concrete measures. “One approach to tackling runaway pay rates at the top,” they write, “might be to plug loopholes in the tax system, limit ‘business expenses’, increase top tax rates, and even legislate to limit maximum pay in a company to some multiple of the average or lowest paid.” The authors are conscious of the fact that these solutions “are very vulnerable to changes in government.” The property owning class will, indeed, try to defend its privileges and right-wing, conservative governments, sympathetic to the interests of the rich, could easily undo these reforms. Therefore, more structural measures are necessary, which give the majority of the population a real stake in the economy. Wilkinson and Pickett therefore propose democratic employee share-ownership schemes:

“In the UK, share-ownership schemes now cover almost a quarter of all employees and some 15 or 20 per cent of all UK companies. In the US, the 2001 Tax Law increased the tax advantages of Employee Stock Ownership Plans (ESOPs), and they now cover 8 million employees in 10,000 firms with an average employee-ownership of 15-20 per cent.” However,” they added, “many share-ownership schemes amount to little more than incentive schemes, intended to make employees more compliant with management and sometimes to provide a nest-egg for retirement.” To avoid that these schemes remaining mere “tokenism” the authors recommend more participative forms of management. Which brings us back to Marx. Marx wanted to socialize the means of production in order to bring these under the control of the working class. The way this socialization was realized in the former Soviet Union has disqualified this idea, because it did not enhance the autonomy of the working class, but merely gave it new and
more repressive masters: the communist managers of nationalized industry. However, this
does not mean that Marx’s idea was fundamentally wrong. In Germany workers and
employees have the right to appoint representatives to the board of their companies. This is
certainly not enough to give them a direct influence over the conditions of their daily work.
But a higher educated workforce will ask for more autonomy and more influence, including
over the appointments of managers and on investment decisions. Such an enhanced
participation in the decision-making process of the company will enhance the satisfaction
and feelings of self-esteem of the workers. The introduction of a participatory democracy at
the level of companies will have also a positive influence on the functioning of political
democracy, an aspect, which is emphasized by Carole Pateman, who wrote:

“The existence of representative institutions at national level is not sufficient for
democracy; for maximum participation by all the people at that level socialisation, or
‘social training’, for democracy must take place in other spheres in order that the
necessary individual attitudes and psychological qualities can be developed. This
development takes place through the process of participation itself.”

In the same vein Harry Eckstein wrote that “a government will tend to be stable if its
authority pattern is congruent with the other authority patterns of the society of which it is a
part.” Maybe here Marx can still be a source of inspiration.

NOTES


Cf. Pedro Schwartz, *The New Political Economy of J.S. Mill*, (London: Weidenfeld and Nicolson, 1972), 156. According to Schwartz the socialists before 1848 were characterized by “their enmity to the system of competition. It would be wrong to believe that they fastened their criticism exclusively onto private property. Some of them did not even want to abolish it. Competition was for them the real cause of the waste and poverty prevalent in society. It was competition which fostered the ‘anarchy’ of existing society, and competition again which occasioned the conflicts between classes and countries.”


Quoted in Paul Kluckhohn, *Das Ideengut der deutschen Romantik*, (Tübingen: Max Niemeyer Verlag, 1966), 86.

Kluckhohn, *Das Ideengut der deutschen Romantik*, 86.

Cf. Georg Simmel, *Philosophie des Geldes*, (Leipzig: Duncker & Humblot, 1900), 457: “Intellectuality, therefore, … will develop itself in proportion to the number and length of the intermediary means which form the content of our activity … There is certainly a correlation between impulsiveness and emotional intensity, so often reported as existing among primitive peoples, and the shortness of their teleological series.”

Norbert Elias equally observed that modern society “increasingly [requires] a certain long-term perspective and [therefore] leads to a … control of all inclinations which promise an
instant or short-term satisfaction at the cost of more distant ones.” (Cf. Norbert Elias, Über den Prozess der Zivilisation, Vol. 2, Soziogenetische und psychogenetische Untersuchungen, (Frankfurt am Main, Suhrkamp Verlag, 1977), 339). However, Elias considered this development not only to be a result of the market, but also of modern court life.

12 In a brochure, published in the Soviet Union 1989, the author wrote, for instance: “Practice all over the world has irrefutably showed: the market is a flexible instrument for coordinating production and consumption, which stimulates efficiency [and] can be built into the most different social-economic systems and serve these successfully.” (V.A. Medvedev, Leninizm i perestroika: za realism i tvorchestvo, (Moscow: Politizdat, 1989), 13). The author still had the illusion that the market could be incorporated in a centrally planned, socialist economy.


14 Friedman, Capitalism and Freedom, 12.


16 Goldmann, The Philosophy of Enlightenment, 94.


18 Adam Seligman made the interesting observation that the intrinsic value attributed to friendship in the 18th century was not only meant to oppose it to the commercial self-
interest which characterized the market, “more specifically, it emerged in contrast and explicit rejection of those types of behavior identified with aristocratic court society, where the calculation of every word and gesture was necessary to achieve success.” (Adam B. Seligman, *The Problem of Trust*, Princeton, N.J.: Princeton University Press, 1997), 32).


Kuznets’s theory seemed, at that time, to be confirmed by the facts. Robert A. Dahl spoke about “a decline in the concentration of wealth since 1929, when the top one-half of one percent of all persons in the U.S. owned one-third of the wealth … [while] in 1956 … the top one-half of one percent owned one quarter of the wealth of the country.” (Robert A. Dahl, *After the Revolution – Authority in a Good Society*, (New Haven: Yale University Press, 1970), 113).


“If family income doubles at each step of the economic ladder,” wrote Jerry Z. Muller, “then the total incomes of those families higher up the ladder are bound to increase faster than the total incomes of those further down.” (Jerry Z. Muller, “Capitalism and Inequality – What the Right and the Left Get Wrong,” *Foreign Affairs*, Volume 92, No. 2, March/April 2013, 39). Muller notes that this is, indeed, the case: “Between 1973 and 2001, average annual growth in real income was only 0.3 percent for people in the bottom fifth of the U.S. income distribution, compared with 0.8 percent for people in the middle fifth and 1.8 percent for those in the top fifth. Somewhat similar patterns also prevail in many other advanced economies.” (Ibid., 40).


Niall Ferguson, The Great Degeneration, 4.


Krugman, “Three expensive milliseconds.”

brought the top rate back up to 35 percent, and President Bill Clinton further raised it to 39.6 percent, but each administration added a number of new tax breaks ... The [George W.] tax cuts reduced taxes on capital gains and dividends and on estates and cut the top tax rate yet again, to 35 percent. The largest tax reductions from these changes went to high-income households. In fact, the United States currently taxes top earners at some of the lowest effective rates in the country’s history.” (Andrea Louise Campbell, “America the Undertaxed – U.S. Fiscal Policy in Perspective,” Foreign Affairs, Volume 91, No. 5, September/October 2012, 103).


44 Muller, “Capitalism and Inequality – What the Right and the Left Get Wrong,” 31.


47 Hofstadter, The Age of Reform – From Bryan to F.D.R., 147.

48 A term coined by Credit Suisse (See Chrystia Freeland, op. cit., 35).

50 Cf. Stiglitz, The Price of Inequality, 80.

51 Stiglitz, The Price of Inequality, 167.


53 Streeck, Gekaufte Zeit, 238.


56 Streeck, Gekaufte Zeit, 47.

57 According to Stiglitz, “The 2010 decision in the case of Citizens United v. Federal Election Commission, in which the Supreme Court essentially approved unbridled corporate campaign spending, represented a milestone in the disempowerment of ordinary Americans. The decision allows corporations and unions to exercise “free speech” in supporting candidates and causes in elections to the same degree as individual human beings. Since corporations have many millions of times the resources of the vast majority of individual Americans, the decision has the potential to create a class of super-wealthy political campaigners with a one-dimensional political interest: enhancing their profits.” (Stiglitz, The Price of Inequality, 165). Already James Madison wrote in the “Federalist Papers” about the
necessity “to break and control the violence of faction.” (Alexander Hamilton, James Madison, and John Jay, *The Federalist Papers*, with an introduction by Clinton Rossiter, (New York: New American Library, 1961), Letter No. 10, 77). “The most common and durable source of factions,” he wrote, “has been the various and unequal distribution of property. Those who hold and those who are without property have ever formed distinct interests in society.” (Ibid., 79) Interestingly, for Madison, the danger of faction emanated not so much from the rich, but rather from the poor classes of society, who, as the majority of the electorate, could enact laws that restricted the property rights of the rich. Madison did not foresee the opposite case that a rich oligarchy, helped by its financial means and its grip on the mass media, could manipulate the electorate to vote for a program that favored the rich.


59 “The Families Funding the 2016 Presidential Election.”

60 Gayraud, *Le nouveau capitalisme criminel*, 285. This was a reason for Mikhail Gorbachev to doubt the reality of the West’s much-touted freedom of the press. “There are no free media,” he said, “either in Russia or the West. Everybody is dependent and works for the benefit of their own states. That is beyond doubt.” (Ivan Nechepurenko, “Gorbachev on Russia and Ukraine: ‘We Are One People’,” *The Moscow Times*, November 21, 2014).


65 Harvey, *The Enigma of Capital*, 259.


71 Cf. Paul Kluckhohn, *Das Ideengut der deutschen Romantik*, 16: “Such an idea of life ... as a movement which develops in polar oppositions ... is central to Romanticist thinking.”


73 Kenworthy, “America’s Social Democratic Future,” 97.

74 Kenworthy, “America’s Social Democratic Future,” 88.
Cf. Bruce Western and Jake Rosenfeld, “Workers of the World Divide – The Decline of Labor and the Future of the Middle Class,” Foreign Affairs, Volume 91, No. 3, May/June 2012, 88. “Partly as a result,” wrote the authors, “wages have stagnated and income inequality has increased.” (Ibid.).


80 Wilkinson and Pickett, The Spirit Level, 255.

81 Wilkinson and Pickett, The Spirit Level, 255.


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Paperback: 295 pages

Publisher: Cicero Foundation Press

Year of Publication: 2016

Language: English


Product Dimensions: 14.7 x 1.8 x 21.4 centimeters

Shipping Weight: 450 grams

Includes: Bibliography and Index

Price: Euro 32, 90

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