

Is the State a Tool of Capitalists?

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Marx asserts in the Communist Manifesto: "The executive of the modern state is nothing more than a committee for managing the common affairs of the whole bourgeoisie." His theory of the state maintains that the state arises when there exist in society irreconcilable class antagonisms. The proletarian and capitalist classes are necessarily and inevitably in conflict over their different interests, and the state arises in capitalist societies from this antagonism. The state does not and cannot reconcile the two classes. It functions as the organ of class rule, moderating, legalising and maintaining the oppression of the proletariat by the capitalist class. The state functions in this way because it is part of the 'superstructure' of society, a reflection of the economic base. The interventions by the state thus reflect the needs of capital.

To uphold this theory of the state one must show that a number of Marx's propositions are true: (i) that there are two classes in society whose interests are irreconcilable; (ii) that the capitalist class is the dominant class with power concentrated in its hands; (iii) that the state is an instrument through which the capitalists in totality exercise their power. The state acts in their interests alone, maintains the security of their capital whilst coercing and oppressing the proletariat.

Is Marx's theory of class adequate? Like his theory of the capitalist state, his theory of class is both brief and lacking in insight. Marx classified individuals according to their ownership or non-ownership of the means of production. He thus divided society into two great classes: the owners and controllers of the means of production and the non-owners, who were consequently forced to sell their labour power to the owning class.

It is logically legitimate to classify individuals in the manner in which Marx did. There are an infinite number of ways in

which individuals could be classified - race, social background, sex, hair colour, age, number of pimples on bum, etc. However, the significance and meaningfulness of the classification derives from its function within the theory to which it belongs. Marx's theory of class is not helpful in explaining the significance of an individual's economic position within society because it fails to stress the amount of economic diversity within the two classes and the economic alliances by sections of the two classes.

Marx argued that because of the increased use of machinery and the consequent simplification of skills, labour power was becoming substantially the same throughout the proletariat. The most advanced bourgeois society, the United States, was changing into " ... a form of society in which individuals can with ease transfer from one labour to another, and where the specific kind is a matter of chance for them, hence of indifference."¹ This supposed interchangeability of labour is offered as one reason for taking the proletariat as a single class.

The conception is, however, in dramatic contrast to reality. Labour does not exist as a fluid entity flowing into and fitting any mould, either for the labourer himself or for the capitalist. Marx noted the disappearance of traditional specialisms, but ignored the creation of new ones. Today it is quite obvious that the interchangeability of labour is as far away as ever. Moreover, as Ludwig von Mises has argued, the worker is not merely the purveyor of a factor of production but is also a human being and, as such, not indifferent to the particular job, the working conditions and the geographical and linguistic area involved.

"An unaffected observer may consider empty or even ridiculous prejudices the ideas and feelings that actuate a worker to prefer certain jobs, certain places of work, and certain conditions of labour to others. However, such academic judgements of unaffected censors are of no avail ... for an economic treatment ... "² Even granting, for the sake of argument, the simplification of work, we still cannot assume the indifference of the labourer. If only because he or she has preferences for some locations over others,

for the labourer (and any adequate socio-economic theory) the decision about the place of work is inseparable from the decision about the particular type of work. Thus migration, an obviously important factor in the emergence, development and dissolution of societies cannot be wholly accounted for on Marxian terms.

'Labour' is not uniform

As far as the capitalist is concerned, there is also no such thing as homogeneous, undifferentiated labour. What is sold and bought on the labour market is not 'labour in general' or 'labour power as such' but definite labour suitable to render definite services. As Mises puts it: "The entrepreneurs are not merely faced with a shortage of 'labour in general' but with a shortage of those specific types of labour they need for their plants."³ This is significant since as a consequence, "The competition among the entrepreneurs in bidding for the most suitable hands is no less keen than their competition in bidding for the required raw materials, tools and machines and in their bidding for capital on the capital and loan market."⁴

The fact of scarcity of labour and, in particular, the relative scarcity of different types of labour is of some relevance to explaining the success of some trade unions relative to others. From a Marxian perspective, which considers most workers as capable of extreme flexibility on the job market, such differing scarcities could have no significance for the nature of the proletarian class. Quite naturally from the Marxian viewpoint, association of labour through the increase in the concentration and centralisation of bourgeois production is the only factor in the strength of a union, the number of workers being the sole index of bargaining power. But the most successful unions have been those of relatively high skill scarcity. One reason for their success may well have been the relatively small number of workers in the relevant occupation. Great numbers can often present great and even insuperable logistical problems in organisation and execution of strategy. The American Medical Association and the Airline Pilots' Union are particularly good examples of strength through scarcity and the very heterogeneity that Marx played

down. Further evidence for this idea comes if we remember that the oldest traditional unions are carpenters, plumbers and plasterers all with members whose skills are relatively more scarce than those of workers in other fields. Moreover, scarcity must have made political collusion and the exclusion or restriction of newcomers easier and therefore licensing, monitoring and enforcement procedures would be feasible.

Not only does the Marxian class theory ignore these historical developments, it even leads anyone with the theory imprinted firmly on their mind to expect something quite different. Even if one accepts that every proletarian is related in the same way to the means of production by non-ownership, each proletarian is related in a different way to every part of the means of production since the different parts: are in different places and distances from each worker; require different qualities and intensifies of labour; appeal to different tastes in working conditions.

Competition benefits workers

Marx's belief that in so far as individuals occupy the same class they have a close community of economic interests must be questioned not only for proletarians. Consider ten capitalists; each owns a factory identical in terms of size, means of production, size and quality of workforce and quantity and quality of soap powder produced. Each capitalist has an interest that is common to all ten of them, namely that of gaining the largest share of the market possible to maximise his or her profit. However, in so far as this is true, each capitalist is in competition with the other.

It is true that Marx recognised that there was competition within classes, but he seemed to be unaware of just how much he was conceding. He made some interesting cursory 'qualifications' to his theory of class. There are conflicting groups of capitalists each seeking to "restore its own supremacy and the subordination of the other",⁵ and there is an "infinite fragmentation of interest and rank into which the division of social labour splits labourers as well as capitalists and landlords ..."⁶ But Marx underestimated the extent to which a capitalist has the

interests of his or her capital at heart and is therefore not in harmony but in conflict with other capitalists. Moreover, because they are competing for the same labour, capitalists are forced to have at least some of the proletarians' interests in mind.

By examination of the implications of Marx's recognition of competition within the classes we can see that one of the bases for an irreconcilable class conflict has to be surrendered. To the extent that the capitalists are competing for labour they are serving the interests of labour. Each individual capitalist bids against every other capitalist in respect of wages, conditions of work, hours etc in the hope of enticing the best workers into his company and thereby maximising profit. Competition for labour is not merely confined within a particular sphere of production. Every capitalist competes with every other capitalist for labour, size of market and size of profit. The outcome of the competition is increased productivity and thus higher real wages and profits interests common to members of both classes.

Marx, by underestimating the benefits of competition, reached the incorrect conclusion that, "The general tendency of the capitalist mode of production is not to raise but to sink the average standard of wages and "the more the worker produces, the less he has to consume ... " ⁸

Facts glaringly contradict these statements. If we consider just fifty years of capitalism, 1925 until 1975, we see that, despite two government induced depressions and one world war, living standards in capitalist countries rose by between two hundred and three hundred per cent.

Marx also postulated that the proletariat had a common interest in the establishment of communism, but that capitalists, representing the established relations of production, had a common interest in the maintenance of the existing system. It is unclear, however, if communism has a more substantial existence than that of fictional Lilliput. Mises' famous article on the impossibility of economic calculation in a society without prices for the factors of production has yet to face a satisfactory answer. Until it does there must be doubt concerning a conflict of 'objective'

interests, where one interest is probably unrealisable.

Market 'power' vs political power

The claim that all power is concentrated in the hands of the capitalist class has no more basis than Marx's theory of class. It is extremely important first to distinguish the nature of economic 'power' from that of political power. Political power is the power to force obedience under threat of imprisonment, death or property expropriation. Government holds a monopoly on the use of force and its actions are almost exclusively coercive actions. It is possible, however, to achieve 'power' by voluntary means. Here I refer to the nature of power in a free economy, not to the monopolies and other government legislated privileges representing a coalition of economic and political power. In a true free market the power to produce and trade can only be achieved by voluntary means. It is quite true to say that capitalists like to make use of political privileges, but one must always distinguish the two realms of political and economic power. Without government there would be no channel through which capitalists could obtain economic favours. Franz Oppenheimer thinks we should call "...the equivalent exchange of one's own labour for the labour of others, the 'economic means' for the satisfaction of needs, while the unrequited appropriation of the labour of others will be called the 'political means'." ⁹

Oppenheimer argues that the objective of political and economic methods is identical the acquisition of economic objects of consumption. He states, however, that it is the methods of the two that are in contradiction. The political method involves 'robbery' and 'forcible appropriation', while the economic involves voluntary exchange of equivalents.

The 'power' of the proletariat

Marx claims that the capitalists as a class wield economic 'power' by virtue of the concentration of the means of production in their hands. The proletariat by virtue of their exclusion from ownership are excluded from possession of economic 'power'. The result

is, Marx argues, an exploitative relationship between the two classes.

After it has been divested of its wispy ethereal charms, does bourgeois freedom for the proletariat boil down to nothing more than being 'free' of capital? Are workers' incomes and reserves of money made so low through the operation of the capitalist system that they cannot attain control of the means of production? An affirmative answer to this question is necessary for a strictly Marxian position. In the Marxian schema, exclusive political sway of a group is premised on its exclusive access to the economic means.

A few examples will easily illustrate the error in Marxian thought here. Workers can in fact easily attain the means to buy their own factories as an analysis by David Friedman has shown. " The total value of all stocks listed on the New York Stock Exchange. In 1965 was equal to 537 billion dollars. The total wages and salaries for private employees for that year was equal to 288.5 billion dollars. If all workers chose to live at the 'consumption standard of hippies', saving half their after-tax incomes for two and a half years, they would have a majority share in every firm, with five years of saving they could have bought the capitalists out 'lock, stock and barrel' If it is true that workers can run factories better than capitalists, then all they need buy are the physical assets, costed at 171.7 billion dollars in 1965. With only fourteen months savings they could buy the lot. This is surely far less costly, but perhaps not so exciting as revolution. A start has, in any case, already been made. In 1983 the employees of National Steel's Weirton division bought the plant for 366 million dollars. It is the largest employee-owned company in the United States, consisting of 6,000 proletarians/capitalists. In the United States alone there are five hundred companies largely or wholly owned by the employees.

To conclude from these examples that the capitalist class has exclusive or even predominant political sway is ludicrous. In union funds alone there is sufficient capital to buy a considerable share of the means of production, to execute a bloodless coup on the system. It is clear that the concepts of the proletariat and the bourgeoisie are not

mutually exclusive. Economically and socially an individual may be, and often is, capitalist, entrepreneur, labourer and landowner over the same period of time.

(Some) workers and (some) capitalists

If the propositions of fundamental importance for the Marxist theory of the state are based upon shaky foundations can it at least be shown that the policies of the state favour the capitalists as a class? Here again, workers and capitalists often combine to achieve their ends. The cry for protection against 'unfair' competition is a protest which unifies into one voice the workers and capitalists within particular lines of production. The real nature of the interests expressed by the protest are hidden beneath a cloak of rhetoric appealing to the 'national interest'. In fact, what is being asked for is government legislated privilege, the right to charge a 'fair price', a price higher than that offered by 'unfair' competitors. Such intervention serves the interests of both the workers (jobs are secured and wages increased) and the capitalists (profits are secured or increased) within the protected industry. The coalitions of workers and capitalists from a particular industry have often formed particularly effective special interest groups. The success is manifested by the number of restrictions on international trade and entry into the market not to mention government granted monopolies and tariffs.

It can be seen that an understanding of the motivations and mechanisms through which protectionism flourishes further undermines Marx's thesis of irreconcilable class interests and antagonisms. Protectionism is only in the interests of those who secure it, as it enables those people to sell their commodities above the market-price. It thus runs counter to the interests of capitalists and all consumers outside the realm of the protected industries who have to pay higher prices. As Mises argues: "The interests of every branch or firm can be favoured by all kinds of privileges granted to it by government. But if privileges are granted to the same extent also to the other branches and firms, every businessman loses not only in his capacity as consumer, but also in his capacity as buyer of raw materials, half finished products,

machines and other equipment on the one hand as much as he profits on the other. Selfish group interests may impel a man to ask for protection for his own branch or firm. They can never motivate him to ask for universal protection for all branches or firms if he is not sure to be protected to a greater extent than the other industries or enterprises." ¹¹

Some government policies benefit neither the capitalists nor the proletariat. Increasing the money supply means inflation and price distortion and leads in the long run to misallocation of resources. When the increase in the money supply is halted or reversed new firms which would otherwise not have arisen, and inefficient firms which would otherwise have left the market all collapse leading to bankruptcy of capitalists and unemployment of workers. This policy is detrimental to both capitalists and society in general. Only government itself derives benefit from increasing its revenue by a hidden form of taxation.

Priced out!

Minimum wage legislation is another example of government action which does not serve the capitalist class. The intended effect of minimum wage laws is the general increase of low wages. The objective is, however, unobtainable for two reasons: firstly, the state, though it can legislate wage increases, cannot legislate corresponding increases in productivity; secondly, although the state can legislate at what price a labour transaction should occur, it cannot legislate that it will occur. To the extent that employers pay the workers at a rate higher than their productivity demands, they will make economies in the use of labour. The result is that some workers gain whilst others lose.

Walter E. Williams¹² argues that the workers who tend to bear the economic burden of the law are those marginal in terms of their skills. Certainly minimum wage laws do not benefit the capitalist class as a whole. One unintended effect of such legislation is that it lowers the cost of racial discrimination. The white, racist unions in South Africa support the idea of a minimum wage and equal pay for equal work for the black workers.

Williams gives an example to show why this should be so. Take two workers x and y. Then, are equally productive but differ in other respects. x is black and y is white', x demands a wage of 2 dollars an hour, y a wage of 2.65 dollars an hour. The minimum wage is 2.65 dollars an hour. Thus the cost of discriminating against x will equal zero. With no minimum wage law the cost of discriminating would be 65 cents. The white trade unions in South Africa " ... seek to improve their competitive position by using the powers of the state to lower the cost of racial discrimination." ¹³

Minimum wage laws also promote the interests of higher-skilled workers at the expense of the lower-skilled. Trade unions are the strongest supporters of minimum wages but not, as we shall see, because of any altruistic feelings for their fellow workers. Williams gives another instructive example. For many activities low-skilled labour is a substitute for high-skilled labour. Consider the building of a fence. The employer can choose between using one high-skilled worker or three low-skilled workers. The result in both cases is the production of a fence in one day. The wage rate for skilled labour is 38 dollars a day, the rate for low-skilled labour is 13 dollars a day. If the three workers are employed the wage bill will equal 39 dollars, and the employer will use the high-skilled worker. One way the high-skilled labourer can both increase his wage and protect himself from competition is by advocating a minimum wage of say 20 dollars a day in the fencing industry. If it were enacted, he could now demand a wage of up to sixty dollars. Minimum wage legislation is thus a means of protecting high-skilled labour from the competition of low-skilled labour which can be effectively barred entry to the market.

Minimum wage legislation is in the interests of some groups of workers but not workers as a class. The capitalists are also hampered by their inability to employ marginally productive workers. The phenomenon of conflict within the proletarian class is not, as Marxians would argue, a matter of 'day to day politics' of little significance. Rather it is a long term trend and certainly does not lead in the direction of greater class solidarity.

Interest groups, yes; classes, no

Given the embarrassingly cumbersome and anomaly-ridden Marxian theory of the state, are we merely left with a hotchpotch of unrelated observations signifying nothing? Some of the previous examples suggest that both workers and capitalists combine together in order to achieve specific interests at the expense of other workers and capitalists. The major types of state policy do not cater for the needs of the capitalist class but rather for the sectional interests within both classes and across both classes. Special interest groups can be defined as, an association of individuals, which is not a political party ... concerned to influence the government in a manner favourable to the interests of the group."¹⁴ In any industrial society where the state is deeply involved in economic management, interest group activity will arise as a matter of course. Because the state is a parasite system imposed on the economy, it follows that it will respond favourably to the offer of money or support, and this is precisely what interest groups offer in return for the satisfaction of their demands. They usually present their claims in the form of interests which are held by the whole of society. These interests are in fact usually the selfish desires of segments of the population, be they trade unions or businesses or a coalition of the two.

A major reason for the success and legitimisation of the special interests lobby is illustrated by an example cited by Milton Friedman.¹⁵ He asks us to consider the favouring by the US government of the merchant marine through subsidies and the restriction of coastal traffic to American flagships. Shipowners, operators and their employees have a strong incentive to obtain and maintain these measures. They will therefore spend a great deal of money, time and effort on lobbying. The cost to the American citizen works out at three dollars a year. The benefits to the favoured group are conspicuous because concentrated; the costs faced by the whole population are inconspicuous because diffuse.

In the USA the largest group of lobby organisations comes from business. In Britain, a large interest group, the

Confederation of British Industry, represents 6/7 of all industrial capacity. It engages in ceaseless consultations and agreements with the government of the day. As Kolko says, "Facing market conditions which were increasingly more competitive and insecure, and with their eyes clearly set upon the privileges and profits that might be secured by the employment of state intervention, business interests both large and small had sought, encouraged and utilised 'socialist' ideas, movements and measures."¹⁶ Concentrated in this way, businesses can dispose of large sums of money, sums not available to other interest groups. Can something from the Marxist theory of the state be saved by maintaining that, because of the superior wealth of the capitalist special interest groups, the capitalist class as a whole wields disproportionate power? Unfortunately, such a conclusion cannot be drawn. Olsen has convincingly argued that the most powerful business groups do not have greater power than the most powerful labour organisations. Empirically, no justification can be found to support the view that the state must and does act in the interests of the capitalist class alone. On the contrary, the sight of interest groups squabbling for the state's favours demonstrates that we are not ruled by capital so much as "a myriad of quarrelling gangs"¹⁸

1 Kari Marx, *Grundrisse*, p 104.

2 L. von Mises, *Human Action*, p 626.

3 *Ibid.*, p 597.

4 *Ibid.*, p 597.

5 Kari Marx, *The Eighteenth Brumaire of Louis Napoleon*.

6 *Capital*, Vol III, p 862-3.

7 Karl Marx, "Wages, Price and Profit" in *Selected Works*.

8 Karl Marx, "Economic and Philosophical Manuscripts" in *Early Writings*, p 325.

9. Franz Oppenheimer, *The State*, p 12.

10. David Friedman, *The Machinery of Freedom*, pp 133-135.

11. L. von Mises, *Human Action*, p 81.

12. W.E. Williams, "The Minimum Wage and Minority Employment Opportunities", *National Federation of Independent Businesses*, Washington, 1978.

13. *Ibid.*, p 4.

14. R.E. Dowson and J.A. Hughes, *Political Sociology*, p 328.

15. M. Friedman and R. Friedman, *Free to Choose*, 1980.

16. G. Kolko, *Triumph of Conservatism: A Reinterpretation of American history*.

17. M. Olsen, *The Logic of Collective Action*.

18. D. Friedman, *The Machinery of Freedom*, p 18.