Reintegration of Capitals & Emerging Global Governance

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Abstract

Industrialism has produced enormous societal resources but its unequal distribution is largely responsible for widespread poverty. To make use of the societal wealth, the divorced financial, man-made, natural and human capitals have to be reintegrated, leading to more equitable global development. Such a transition is confronted with existing power structures and they must be questioned from a holistic perspective given the accelerating globalization toward a global entity. Historical experiences demonstrate that competition among nation-states and between capitals leads to the destruction of societal wealth and the emerging global entity enforces endogenous political and economic cooperation. Reducing hierarchies between financial, productive and human capital and their reintegration is bound to lead to a vigorous augmentation of human capital. Democratization within financial and productive capital will increase the productivity and creativity of human capital. As nation-states have lost influence, the development of human society rests on global democratic governance, which strongly modifies the inherited Bretton Woods Agreements and needs a Global Constitution based on human rights and democracy.

1. Methodological Introduction

During the last two centuries, industrialism has produced enormous economic wealth and its uneven distribution is largely responsible for the global division into areas of poverty and affluence. More equal distribution will preserve existing economic resources and increase the potential for further development of global societal wealth. Through accelerating globalization and declining autonomy of nation-states, the world economy became a highly interdependent whole of different functional subsystems that act largely self-referential, divorce from each other and produce crises. The main divorces are the separation between society and the economy (Polanyi 1944) and within the economy, the mutual separation of financial, man-made, natural and human capital. In the face of economic, social and ecological limits, the emerging global society is endogenously forced to turn from prevailing competition to global cooperation. Nation-states will play in certain areas an important role, but the main driver for global cooperation will be the reintegration of actually divorced capitals. They are internal interdependent networks and their external interrelations result in a global entity that is presently economy-driven and its reintegration into the emerging global society needs a redistribution of global societal power.

The social power of individuals and collectives derives from their material and immaterial properties, the kind of organization of these properties and the values according to which they
are handled. Execution of social power implies a distinction between the actor and its target, which does not apply to rather closed entities because any actor executing power is influenced by feedback and through the interdependence of subject and object, any actor drives and is driven according to its individual and collective power. Therefore, we must distinguish between social power ("Macht") and societal power structure ("Herrschaft") (Weber 1922, pp. 122). Investigations of social power concentrate on relations between means and targets and result in rationalistic reductionism. In contrast, the analysis of power structures refers to the interdependence of means and targets and leads to an evolutionary perspective and a transition into a human society depends on a systemic change of power structures.

Through their interconnectivity, power structures have two different implications: on the one hand, through the division of work and their mutual relations, they enormously increase the productivity and performance of a social system. On the other hand, they have oppressive consequences, which have been sketched for long-term industrialization (Popitz 1968). Starting from a rather equal distribution of properties, a group of individuals may have a strong preference for collecting property; they employ specialists for increasing efficiency, which allows higher wages and further accumulation of properties. This increases services for the population, which develops a positive attitude toward the production system and causes them to lose consciousness of the unequal system. It develops with minor control by the large population and results in a capital-centered societal civilization. It does not change until the system produces endogenous economic, social and ecological problems, which creates new consciousness and questions the inherited property distribution, efficiency-oriented organization and prevailing values.

Preserving and developing inherited economic and societal resources need a focus on potentials for further development of productivity and performance without neglecting oppressive tendencies of power structures. During industrialization, increasing inequalities generated state intervention, which promoted capital accumulation and parallel social policies because societal development is not self-regulating and needs some governance. Rather, isolated nation-states intervened primarily to enhance their internal strength, external competitiveness and economic growth. As the emerging global entity faces limits, global governance has to turn from growth to redistribution and allocate societal resources according to a Global Constitution based on human rights and democracy. The agenda of global governance is mainly a redistribution of societal resources within and among global networks of financial, man-made, natural and human capital. Supported by cooperative political and economic policy, democratization will considerably increase societal performance and develop toward a human-centered civilization.

The following considerations concentrate on presently oppressive dimensions of power structures, which impede the democratization of societal subsystems of financial and productive capital and nourish prevailing competition between capitals and nation-states. There are a variety of rather separate strategies for the redistribution of societal power (Hoedl 2018, pp. 142) and accelerating globalization needs a look at their interrelationships. Democratization of financial and productive capital will reduce restraints on the development of human capital and increase its social power. We will marginally refer to the self-empowerment of
human capital and the enormous social energies inherent in unfolding the individualities and aspirations of the large population. Therefore, we discuss primarily restrictions on developing a human society, including the role of economic and political governance. The complexity of these questions does not allow definite answers, but our fragmentary results may contribute to uncovering important obstacles to a transition into a human global society.

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2. Industrialism and the Emerging Global Society

The economic performance of industrialism derives primarily from competition among financial and productive capital and human capital has an auxiliary and subordinate function. In parallel with industrialization, rather well-organized nation-states emerged, which competed in earlier periods of globalization and later during colonialism as rather isolated and partly nationalistic countries for global political and economic influence and only in cases of negative feedback and detrimental spillovers did they move to some cooperation. Far-reaching globalization more than a century ago led neither to more political nor economic cooperation. The outstanding example of the destruction of economic wealth is the 30 years of war from 1914 to 1945. Globalization in 1910 reached about the same level as in 1970 and during World War I and World War II, about a third of all capital equipment was destroyed (Piketty 2014, pp. 146), not to mention the disastrous loss of human resources.

After World War II, industrial countries adopted the more cooperation-oriented Bretton Woods Agreements for re-establishing their productive capacities through the IMF, World Bank and WTO, which increased through mutual investment within the industrial world economic growth with a marginal redistribution of wealth to less performing countries. International cooperation within industrial countries (OECD) and the minor inclusion of developing countries stabilized the uneven global system dominated by the First World. Since the 1970s, overaccumulation of capital in industrial countries has induced more direct investments by multinational corporations with limited “trickle-down” effects. Increasing imports of natural resources and the mercantilist strategies of industrial countries resulted in a large expansion of world trade in developing the enormous natural and human resources in the Third World. The increases in direct investments and global trade augmented the volume of global wealth considerably, with a marginal reduction in global gaps.

Since financialization, the former intention to develop the Third World through increasing transfers of productive capital, development policy has concentrated on financial investments. They led to recurrent crises in Asia and Latin America (Roubini and Mihm 2010, pp. 160) and more recently, to mutually large financial investments among industrial
countries, increasingly in public budgets. In cases of instability, financial capital retracts, worsens crises and spreads to the world’s financial and productive system. The burden of unregulated financial markets has to be borne by the large population both in developing and industrial countries. The 2008 financial crisis is an example of self-referential financial development; divorce from productive capital resulting in unemployment of human capital and high public budget deficits.

The far-reaching separation of society and economy results primarily from the divorces between financial, productive and human capital, which are not material and immaterial quantities but societal relations and interconnected networks with social and ecological dimensions embedded in its cultural environment. Reintegration of divorced capital will reduce the cyclical destruction of economic wealth and societal welfare cannot be increased through higher economic growth but through redistribution. Major hindrances derive from the hierarchy between financial and productive capital and above all from the subordination of human capital. With increasing scarcity of natural resources, the process of global wealth creation became a combination of financial, man-made, natural and human capital. The emergence of a global entity needs a new combination of all capitals.

The present organization of financial capital results from the narrowly defined values of financial wealth holders to make “more money with money” and the optimization of money interest rates. The present organization of productive capital results from narrowly defined economic efficiency and the target to optimize the return on it. The divorce between financial and productive capital increases during economic growth and in the face of global limits, they have to cooperate. Reintegration of capital needs higher human capital for innovation, reduces divorce between society and economy and develops toward a more human society. This evolution must be underpinned by a global democratic governance and the experiences of the post-war period demonstrate the deficiencies of the Bretton Woods Agreement.

The development toward a global entity needs a holistic view and global wealth creation is in clear contrast to mainstream economic theory, which explains production as a combination of quantitatively defined capital and contributes to further divorces between society and the economy. Societal and economic welfare derive from the highly interdependent actions of humans and the resulting entity augments the productivity and creativity of each participating individual and collective. In a systemic view individual actions are more than their sum, include the whole environment and cannot be defined by one scientific discipline (Etzioni 1968, pp. 19). Actions have inter- and transdisciplinary implications and must be approached from a systemic perspective, which has a long tradition (Capra, pp. 293). As we consider the emerging global society as an interdependent whole of different societal subsystems, we look closer at their internal relations, their external divorces and some strategies for their reintegration.

3. Reintegration of Capitals and Increase in Societal Wealth

Reducing economic growth in industrial countries and augmenting it in less developed regions increases overall global economic and societal wealth. The decreasing utility of consumption in the First World and the production-enhancing effects of increasing direct
investments in developing countries narrow global gaps and tend to create an equal global entity. However, transferring primarily financial capital may not increase real production in developing countries because of a lack of human capital. Outflows of productive capital from industrial countries may produce crises here and spillovers to the global economy may hurt the emerging global entity. A transition into a human global society has to observe the interdependencies of different forms of capital, their regional placement and the political and cultural environment. For the unavoidable reduction in global economic growth, well-balanced transfers of capital to less developed regions will activate their huge potential of natural and human resources and considerably increase global wealth. Mainstream economics leave these structural adaptations to supposedly free markets and through this, defends the basic inequality of global capital distribution.

For more than a decade, the divorce of financial capital from real production has been strongly enhanced through financialization. The global financial network collects savings surpluses, up-stream savings and nearly unlimited money created by private and public banks, resulting in huge debts. Central banks furnish enormous quantities of artificial money into this network, reducing money interest rates with a marginal increase in real investment. The largely self-referential expansion of money flows between all kinds of financial institutions leads to extensive speculation, off-shore allocation in tax oases, and luxury investments, while real productive investment is degraded to just one alternative in financial portfolios. The original role of banks to collect money for real investment a century ago has been reversed and reluctant reforms after the recent financial crises do not question the self-governing global financial system. Instead of some democratization the subsystem develops with marginal legal restrictions nearly without control by financial wealth owners. The development derives from the values of financial wealth holders to make more money with money, the functionally adapted organization of financial flows and the self-referential growth of financial capital.

The introduction of a common global currency and a conversion of the existing IMF and World Bank into a world central bank (Cooper 1987) would reduce global transaction costs, but it would also increase the societal power of global financial capital and dominate productive and even human capital. Currency is a crucial competition instrument and a world currency needs far-reaching regulation and cooperative behavior. We have to expect a multi-currency system with tendencies toward a few large global regions, which may facilitate fundraising for more inner-regional equality. Some decentralization of globally interlinked currencies may be complemented through parallel currencies oriented toward the implementation of SDGs and will not require a common global currency. Raising globally and regionally abundant financial capital and its productive investment will equilibrate highly and less industrialized regions. The Marshall Plan tamed politically the Russian expansion and economically it had the combined effect of restoring production capacities in Europe and creating employment for homecoming soldiers in the USA (Eichengreen 2011, pp. 39).
Economic success derived mainly from the availability of human capital and democratic governance in participating countries.

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More equal global development is increasingly impeded by rather developed countries like China, which make large investments in natural capital in low performing countries. Industrial countries have an obligation to refund partly the costs of former colonialism, but the productive use of incoming financial capital finds in many cases no adequate property rights and political stability. In the era of globalization declining national sovereignty is coupled with increasing responsibility to evolve domestic economic and political governance structures. A holistic view cannot minimize the dramatic failures of national political and economic governance in developing countries and isolated criticism of industrial countries will only partly enhance global cooperation. Abundant global financial capital in industrial countries is in search of real investment opportunities and some developing countries make the process more difficult through domestic inequality and some nationalistic understanding of national sovereignty.

Productive capital, composed of man-made and natural capital, is strongly interconnected through similar global consumption patterns, comparable production technologies and the worldwide network of energy and material supply systems. Many final products are composites of globally distributed supply chains and an increasing number of large and small firms produce and sell them in many countries. Global interrelations are influenced by financial markets, but productive wealth creation develops toward a global whole and increases its productivity through its interconnectivities. Smaller firms participate in partly oligopolistic markets and together with the rapidly growing alternative sector, real production moves toward a globalized, real productive system. Through the recurrent substitution of labor by productive capital, societal influence on human capital increases. The self-referential development of productive capital increases supply and omnipresent advertising augments consumption demand. The main driver of the self-referential growth of productive capital is the optimization of return on capital and an increase in consumption is a consequence of it. More final demand can increase production, but ultimate decisions depend on the availability of productive capital and trade is not more than an additional strategy for economic development. An increase in standards of living in developing countries depends primarily on transfers of productive capital.

A main contribution of industrial countries to global reintegration of capital will be a transition into a socio-ecological market economy (Hoedl 2014, p. 84). Observing the global limits of natural capital and partly substituting through an increase in man-made capital
will reduce economic growth. Through widespread innovation within productive capital, employment in hours declines, but needed higher qualification augments the value of human capital and labor intensity of production will increase. Declining economic growth in industrial countries allows higher exports of productive capital to less developed countries instead of mercantilist expansion. There already exist a variety of nature-saving and employment-increasing technological approaches, like circular, sharing, green and blue economies that contribute to sustainable development. Socio-ecologically oriented productive capital transfer will lead to more equal global development.

Transferring productive capital to less developed regions will reduce constantly increasing migration. Mainstream economic theory supposes the inflexibility of productive capital and the movement of labor to high-performing regions (Mundell 1961, pp. 662) and obscures the view on interconnectivities through globalization. Global reintegration of capital will reduce migration considerably, but several countries erect physical and administrative borders at high costs instead of transferring productive capital to less developed areas. For example, the European Union was too occupied with its own integration while neglecting its relations with Africa and nationalistic tendencies in the USA reversed its former openness. Moving human capital weakens human potential in developing countries and activation of their natural resources is left to foreign financial investors.

The reintegration of global financial and productive networks needs internal consolidation and external cooperation. Internal consolidation of financial capital goes through a considerable reduction of artificial money, but the quantity of money should be higher than the prevailing level of global production because money can initiate real production. Transferring abundant productive capital through increasing socio-ecological-oriented direct investment activates natural and human capital in less developed areas. Enhancing cooperative development depends to a large extent on political cooperation between concerned nation-states. Several nation-states, mostly in the least developed regions, have fragmentary democratic structures and incoming capitals are endangered through corruption and possible civil wars. Uncertain property rights contribute to an irrational abundance of capital from highly developed countries. There is marginal cooperation between developing and industrial countries and chaotic migration may change toward cooperation. The lack of democratic structures in less developed countries is an important cause of the still strongly biased Bretton Woods Agreement, and its modification cannot be successful without widespread democratization of the Third World.

4. Increasing Human Capital and Social Innovation

Increasing human capital in developing countries is crucial for attracting foreign productive capital, capital-saving innovation in industrial countries sets free productive capital and global reintegration of capital depends largely on human-centered education systems. Unfolding creativity and productivity and its development toward cooperative behavior is actually restrained by existing power structures and capital-centered educational systems. Instead of reproducing prevailing educational values and a competition-oriented strive for higher economic growth, education has to enhance individual and collective
freedom, develop existing potentials of cooperative behavior and increase consciousness of the oppressive dimensions of prevailing global development patterns.

Any social system develops through its interrelations with a minimum of hierarchy and depending on its inequalities, it has oppressive consequences. Capitalistic industrialization reproduced its power structures and consciousness until severe irrationalities changed the mindset of the large population and led to new actions. From an individual perspective, peaceful actions strive primarily toward more freedom and collective actions are framed in the classical triangle of freedom, equality and solidarity. Such ethical norms are an important part of most national constitutions, but their real implementation lacks in many respects. Idealistic interpretations of freedom deny the relevance of individual economic endowment (Hayek 1944, p. 46). In contrast, more freedom needs a minimum of economic endowment and “Development as Freedom” (Sen 1999) has to transcend the narrow economic role of human capital, refer to its role in societal change and perceive human societal development as a consequence of individual and collective freedom.

Arguments against increasing individual freedom and fears of chaotic development originate from the early Enlightenment (Hobbes) and therefore classical political economy is strongly linked to the “Theory of Moral Sentiments” (Smith). The general openness of societal development is always framed through some morality, macro-coordination and tendencies toward over-boarding governance that impede morality, individual productivity, and creativity. Historical experiences with different kinds of totalitarian regimes demonstrate declining social innovation and reduced wellbeing. A reduction in macro-governance raises the question of whether more freedom tends to be stronger competition or if individuals are intrinsically motivated to have more empathy and cooperation. Biophysical theories detect that free people tend much more to cooperation than to competition and enhancing positive individual empathy spreads over to the collective and contributes to a peaceful society (Nagan 2018, p. 72). Brain research discovered that mirror neurons increase human potentials for common understanding in an intersubjective space, which enables cooperative behavior (Brunnhuber 2016, p. 44). These preliminary results indicate that cooperative behavior is primarily impeded by the unequal distribution of properties, its specific organization and the inherited value system.

Oppressive implications of societal power structures are visible through consumerism, in which work is considered a means for the further consumption and not for realization of human life (Jackson 2009, pp. 100). Even in cases of bad working conditions, the labor force accepts more working time and regards higher consumption as adequate compensation. Since wages are far above the costs of reproduction of individual working capacity, irrational consumption patterns impede personal development and inverse the relationship between work and consumption. High consumption may create some empathy through sharing, but increasing competition in production leads to diverse health problems. Prevailing production processes are significantly influenced by the cooperation between financial capital and the firm’s management instead of cooperation between management and workers and the needed increase in human capital serves primarily for higher economic efficiency. Curative innovation, like flexible working hours etc., will reduce stress but not inverse over-boarding
consumption in favor of increasing quality of life and human-centered wealth creation. The dominant characteristic remains competition, which overlaps strongly with the potential for unfolding human empathy and degrades social and economic innovation.

Developing more cooperative behavior and empathy depends to a large extent on the consciousness of partly unavoidable restraints of freedom through some oppressive power structures and bureaucracies. Unveiling these restrictions became more difficult through conservative mind-setting information, including marketing strategies and uncritical social media, which reproduce existing consciousness and confirm basic societal power structures. The most difficult part of intellectual perception has always been to understand what is going on at present and what the individual and collective aspirations are. In periods where societal problems multiply and uneasiness increases, fragmentary anticipation of the population tends to a new view on the world (“Weltbild”) and will change mindsets, individualities, oppressive structures and technologies toward a real democracy (Jacobs et. al. 2018, pp. 20). Innovative thoughts that reflect the conscious and unconscious motivations of the large population are a strong societal power. “… the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas” (Keynes 1967, p. 383). Consequently, human-centered education and adapted educational systems, including universities, will have a leading role within the triangle of properties, organization and values.

5. Toward a Democratic Global Governance

The development of global society toward an entity needs a holistic governance structure that influences economic, political and cultural developments and has to be an integral part of the global entity. Global governance has to drive global financial and productive capital networks towards their reintegration. Reintegration is also driven through self-referential and interrelated development. Political and economic governance has always had a limited influence on highly interrelated vested interests. The regulatory capacity increases through democratization of networks of capital and democratization of governance structures reduces the distance between them and converges toward a real democracy, as the whole society becomes increasingly governed by human capital. Democratization goes in parallel with an increase in human capital and they amplify each other. More democracy and increased human capital integrate financial and productive capital and increase human-centered global wealth. Envisioning a traditionally organized world state or a world economic corporation (Suter 2018, pp. 33) is in contradiction to democratization and the formation of human capital as a countervailing entity makes no sense. Human capital cannot be organized in a comparable way as financial and productive capital, which would seriously endanger individual freedom and reduce creativity and productivity. A loosely coupled and fragmentary national organization of human capital through trade unions, civil society and some political parties is necessary, but the development of global human capital has to concentrate on unleashing human potential through more freedom.

Prevailing global economic governance follows mainly the self-referential evolution of financial and productive capital and political governance is partly subject to the dynamics of economic evolution. For example, declining national economic performance induces
right-wing policies, which impede democratic political governance and a reversal depends mainly on more economic equality. The inherited global economic governance contributes marginally to increasing global equality. The IMF and World Bank are financed through national contributions and raise additional credits from financial markets so that both are integrated into the global financial system and they are just intermediary institutions for the temporary reduction of public and private financial difficulties. Global financial capital is nearly entirely controlled by large financial wealth holders with marginal democratic control and “the markets” influence the configuration of the WTO, which largely accepts global oligopolistic market structures and partly inhuman production processes.

Prevailing economic governance is limited to macroeconomic regulation, with minor conceptual evolution to special drawing rights, links to the Financial Stability Forum of G7/G20, etc. Considerable progress would be steps towards a “New Social Contract” (Stiglitz 2006, pp. 335) with more participation of developing countries in governing bodies. Regulation does marginally influence property rights or ameliorate the deficient democratization of national governance. Presently, the IMF and World Bank are linked to financial capital and the WTO to productive capital, but there is no comparable institution for developing global human capital. Industrial countries pay attention to human capital within the OECD and develop concepts and strategies primarily for capital-centered needs. A global strategy for human capital development must transcend these barriers and enhance human-centered education.

Global political governance is mainly institutionalized in the United Nations and its specialized sub-organizations. It represents an important global network and for a few decades, its political influence has increased through cooperation with bottom-up initiatives of civil society. The decisions on the SDGs represent considerable progress. However, the General Assembly and the Security Council are the representatives of nation-states and their decision-making power is not only concentrated in industrial countries, but also national legitimation has partly weak democratic foundations. Many national democracies are questioned for their difficulties in channeling legal and legitimate informal interests in existing national political governance structures and political parties tend to plutocracies and isolate themselves from direct communication with the large population. The further development of global political governance depends to a large degree on the establishment of real democracies in all nation-states. The future role of nation-states will not only diminish through economic globalization but also through deficiencies in existing representative democracies, which increases the influence of capitals and weaken fragmentary global political governance.

The emergent global entity needs the integration of largely separated economic and political governance structures. Prevailing financial governance restrains itself to a marginal correction of volatile financial flows and does not marginally restrict the property rights of financial wealth holders. The governance of real productive capital is left to global oligopolistic market structures with minor regulation through standards for production processes and products. Fragmentary global political governance is influenced partly by highly deficient democratic procedures in nation-states. Far-reaching organizational reforms of political and economic governance and their integration should not result in a large
common global institution, which would increase the distance between nation-states and the population. Evolution toward a global democracy needs decentralized and coordinated institutions promoting a simultaneous change of properties, organization and handling values. Political governance through voting has to be extended to economic democracy with a minimum of individual economic endowment. The organizational transmission of the will of the population has to integrate legal and informal legitimate interests based on the values of democracy. Financial governance has to question the maximization of money, interest rates and the largely self-referential organization of money flows. The governance of real productive capital has to install socio-ecological standards and humanize production processes. Increasing responsibilities of capital ownership need more restrictions on property rights, which actually have, in many respects, priority over human rights. Inverting this relation will enlarge the freedom of individuals and collectives and an active society needs all of its individuals to have more political and economic rights. Freedom is not an idealistic concept; it depends on the societal and cultural environment, which will in the future largely be influenced through the distribution of properties and property rights.

6. Conclusions and Perspectives

The emerging global society can be grasped through a holistic approach and the future global entity needs widespread democratization of present fragmentary political and economic governance. Whereas long-term industrial development was based on competition, the emerging global entity enforces cooperation, which concerns mainly the divorced societal subsystems of financial, productive and human capital. Their reintegration preserves societal wealth and their further development rests on a vigorous increase in human capital. Democratization will reduce the oppressive implications of prevailing power structures and augment the creativity and productivity of human capital. This needs a global redistribution of properties, human-centered organization and the enhancement of democratic values. Fragmentary global political governance has to be anchored in a Global Constitution based on human rights and democracy and enlarged from presently voting to economic democracy. Economic governance has to extend to human capital development, deepen its instruments from flows to stocks, give priority to human rights over property rights and correct the self-referential divorces of financial, productive and human capital.

A transition into a human society is a gradual process enhanced through the democratization of capital networks and governance structures. A more equal distribution of societal power increases human capital enormously. Redistribution of ownership will result in new forms of property, increase organizational decentralization and lead to more societal cooperation. More freedom results in open societal development and reduction in oppressive societal relations increase individual and collective responsibilities. Developing human capital and unfolding its cooperative behavior will accelerate development toward a global human society.

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