

## Why are we Constantly Competing?

*"A house may be large or small; as long as the neighbouring houses are likewise small, it satisfies all social requirements for a residence. But let there arise next to the little house a palace, and the little house shrinks to a hut." ~Wage-Labour & Capital (1849) by Karl Marx.*

Karl Marx, the father of Marxism, was a German philosopher, economist, and a strong critic of capitalism. Wage-Labour Capital is one of his renowned lectures that systematically elucidated his theory of power dynamics and class struggle in the capitalist society. To encapsulate his ideologies, Marx formulated Conflict Theory in the 19th century which explains the present-day world order of why things are the way they are.

## So, What Does the Conflict Theory Explain?

The conflict theory examines social phenomena through the lens that there is a natural human tendency toward conflict. Marx has not classified conflict as good or bad. He merely suggested that it is an inevitable part of human nature and forms the basis for various social reforms and new civilizations.

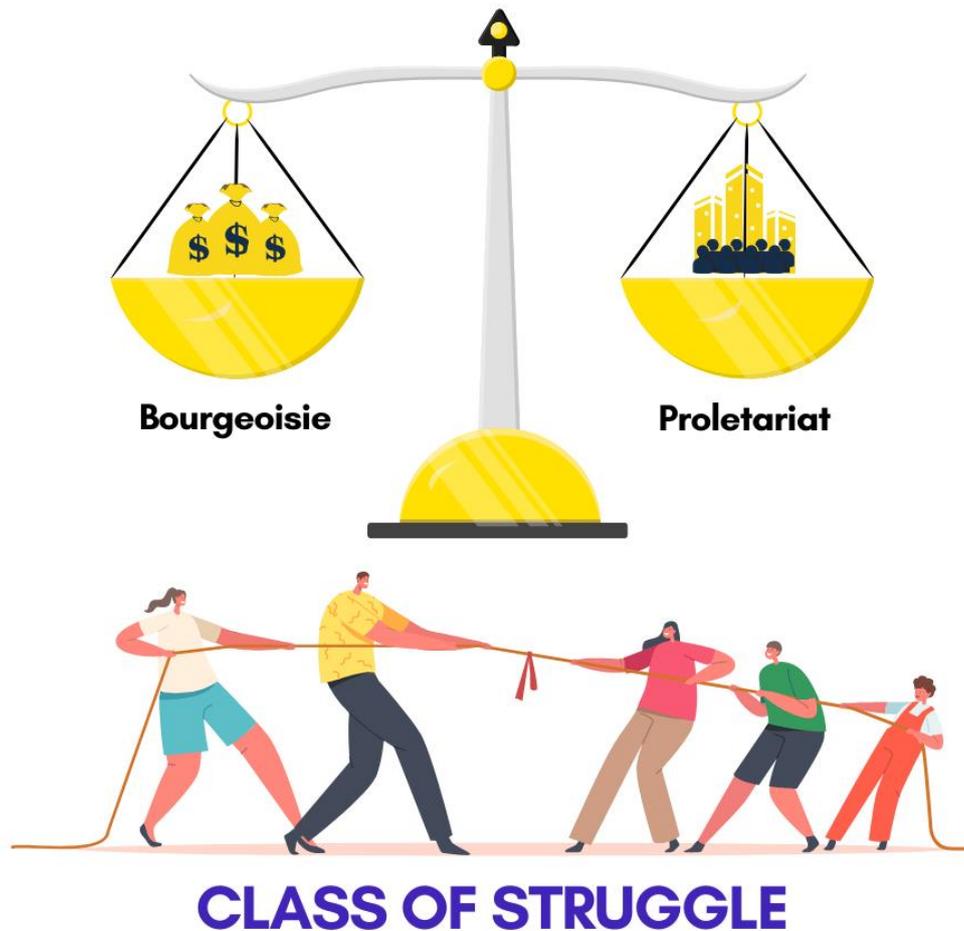
Conflict occurs when there is a difference in opinion, wants, needs, views, etc., or when two individuals want the same indivisible things. Resources are finite; however, the utility and desire for these resources are infinite. Thus, tensions arise when these resources, power, and status are unevenly distributed in society. As a result, the gap among people widens over time and manifests in the form of wars, unrest, violence, discrimination, injustice, and revolutions.

### Assumptions of the Conflict Theory

- Competition - Constant competition in society for scarce resources with infinite utilities
- Structural Inequality- Division in the society due to unequal distribution of power, wealth, and resources.
- Revolution - Sudden eruption of anger due to the structural differences between the two social groups.
- War- The final showdown after the prolonged state of conflict that either unifies or divides the society forever.

## Class Conflict

To further explain this power struggle, Marx divided the members of society into two primary classes -- **Bourgeoisie (the minority/the rich) & Proletariat (the working class/the poor)**. Each class is made homogenous by including individuals with similar economic backgrounds and interests. The groups interact with each other based on conflict rather than consensus.

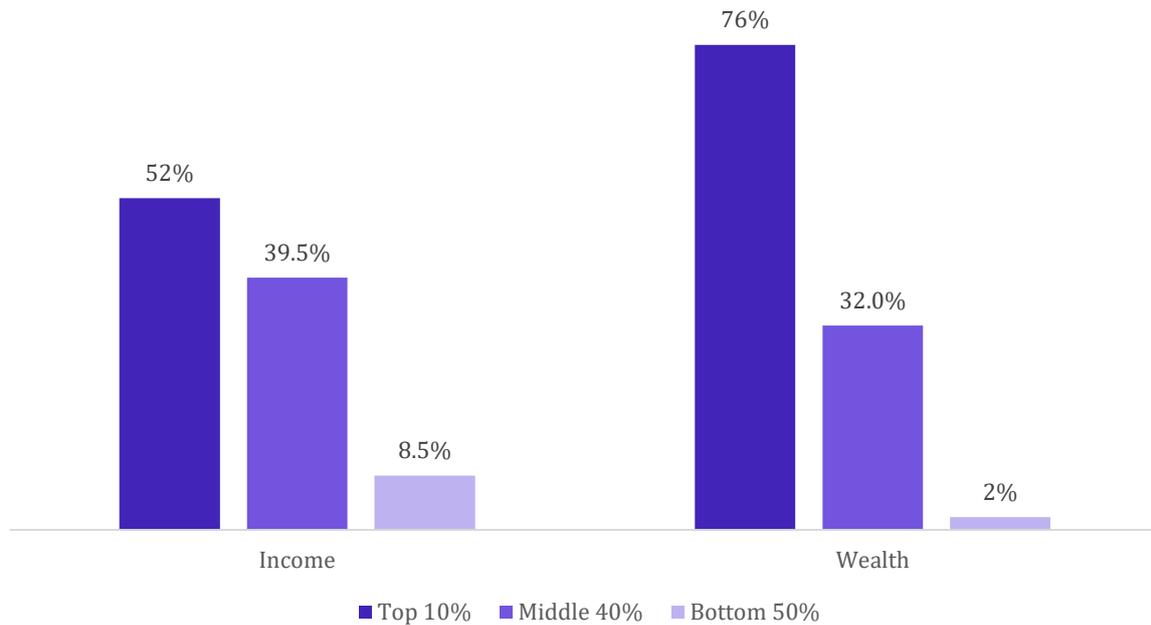


The Bourgeoisie class contributes the maximum to a country's national income, making per capita income (PCI) an inappropriate measure of economic development. There might be a spike in PCI because of increased earnings of the Bourgeoisie or the handful of wealthy, but it will not trickle down to the Proletariat or the masses. Here lies the difference between economic growth and economic development.

The classes can be structured in the form of a pyramid for better understanding.

The conflict theory's relevance is prominent when looking at the global income and wealth distribution data for 2021.

## Global Income & Wealth Distribution 2021

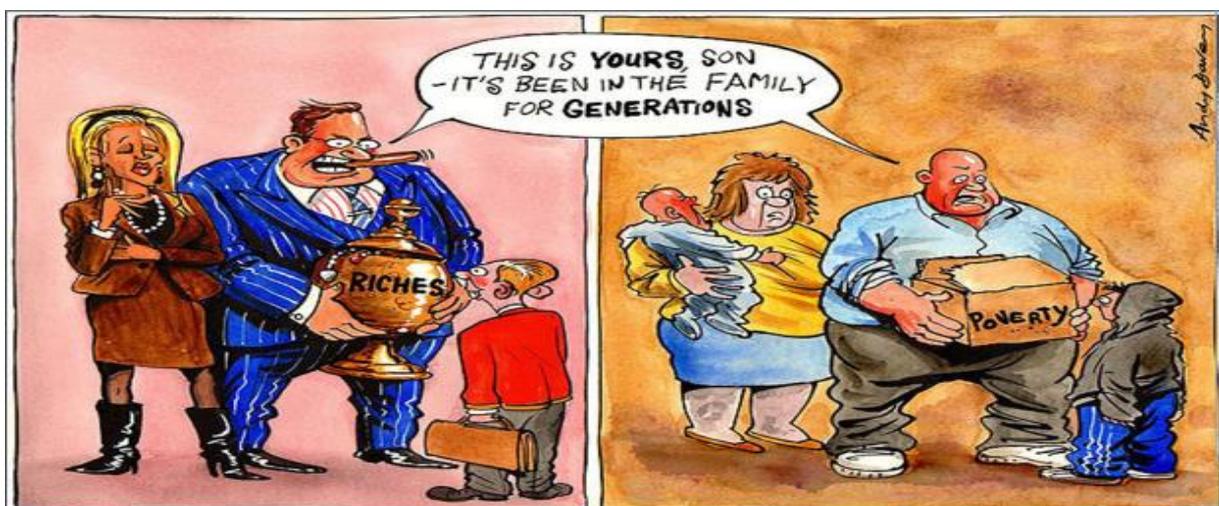


Source- World Economic Forum

The topmost affluent 10% take home 52% of the total income and hold 76% of the total wealth. In contrast, the bottom 50% (masses) account for only 8.5% of the total gain and maintain a mere 2% of the world's assets.

### Now coming to the question, why are we constantly competing?

Those with wealth and access to these finite resources tend to hoard or protect them. Those who don't have enough are on a never-ending quest for basic needs. This dynamic leads to a constant state of conflict and struggle between the poor and the rich.



## Application of the Conflict Theory in Finance

The Conflict Theory has evolved and is now studied by modern sociologists to understand a wide range of socio-political problems. It has served as a predecessor to building current structural theories of globalization and the world system. Many developments in the economy and human history can be explained through conflict theory. It provides a valuable perspective for the government to conceptualize welfare policies.

The birth of democracy can also find its roots in the conflict theory. The government uses several mechanisms to influence the distribution of resources, including progressive taxation, minimum wages, incentives, social programs, and assistance.

Why would the government work for the people? The answer can be found in the assumptions of the conflict theory. The theory suggests that social unrest ensues when the gap widens too much. Without external control, the conflict will go out of hand and lead to civil wars.

## Conflict Theory in Real Life



Racial Discrimination  
- Black Lives Matter



Employer Employee Conflict  
- Labour Laws



The humiliation of Germany  
after World War I & II



2007- 08 Financial Crisis  
- Wall Street movement