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THEORISING AND CONTEXTUALISING: THE RELATIONSHIP BETWEEN INEQUALITY AND CAPITALISM

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ABSTRACT

Capitalism is a system of ownership of capital rather than a system of production. Capitalism is generally explicated as a system where the private individual or entrepreneurs are permitted to own as well as control private property according to their specific and personal interest and where the pricing apparatus under invisible hands coordinates the demand and supply in the market in such a way that is in the superlative interest of the civilisation. The capitalist system creates a web of systems where the inequality gap ascends, further developing the class division based on economic capacity. This article's broader argument is that the capitalist system functions as a double-edged sword; on the one side, it promulgates private ownership, which further designed the inequality model based on the ownership of tangible resources. On the other side, it fosters swift development by opening numerous boulevards of prospects. However, this article emphasises on the former argument to rationalise the premises of the article.

Keywords: Capitalism, Inequality, Industrialisation, Income, Classes, Private ownership and Globalisation.

INTRODUCTION

Capitalism is a social system that follows individual rights over private property ownership. From a political point of view, it is the system about the laissez-faire element (freedom with less intervention). From a legal point of view, capitalism is a system of objective laws where the rule of law prevails over the rule of man. In the financial term, when individual freedom is applied in production, the outcome is free-market. William Thackeray first used the concept of capitalism in his work 'The Newcomes'[1] in 1854, where Thackeray explains capitalism as a system of ownership of capital rather than the system of production. Numerous theorists in the 19th century described capitalism as an economic system where the private ownership of capital characterises it, the investment that is determined by private or individual decisions rather than the decisions of state authority. The free market determines the production, distribution and prices of goods. Capitalism is generally explained as a system where the private individual or entrepreneurs are permitted to own as well as control private property according to their specific and personal interest and where the pricing mechanism under invisible hands coordinates the demand and supply in the market in such a way that is in the best interest of the civilisation.

In the system of capitalism, the role of government is to protect individual rights following the country's supreme law and maintain peace, justice and levy tolerable and reasonable taxes. The Capitalist system is based on the private ownership of goods and their production and distribution. It promotes the free competitive market, characterises them and earns incentives and profit, so we can say that it is a system based on the "Survival of the fittest", the phrase used by Darwin and developed from his evolutionary theory. Therefore, the capitalist system creates a web of systems where the inequality gap arises, further developing the class division based on economic capacity. The capitalist system creates a web of systems where the inequality gap arises, further developing the class division based on economic capacity. This article's broader argument is that the capitalist system propagates private ownership, which further designed the inequality model based on the ownership of tangible resources.

Development of Capitalism and Inequality:

Theoretically review, the Capitalist system has been described in three periods by the theorists, such as the early period, the middle period and the late periods; on the other hand, some academicians' view is different in the sense that capitalism is confined to social characteristics. It cannot be confined by the historical period but rather

[1] For more details see William Makepeace Thackeray work 'The Newcomes', published in 1853-55

by recognising the interminable elements of the human condition. Capitalism originated in the fourteenth century when a conflict developed between the land-owning aristocrats and the agricultural workers. The feudal system subdued the capitalist system in many ways; at that time, the serfs were required to produce food in sufficient quantity for the lords, which resulted in the landlords having no interest in innovation and the development of technology. Instead, they continuously tried to expand their wealth and power through military activities. During the feudal time, there was no competitive pressure on the landlords because they were not producing to sell it in the market. So meanwhile, the transition from the feudal to the capitalist system resulted from the war, not the politics of production methods and prosperity. According to Marx, the beginning of capitalist production provides the analysis of the process of breaking the relations during the feudal system, and it gave rise to a capitalist system where the bourgeoisie class enjoyed the rights and ownership of private property along with the means of production. On the other hand, the working or proletariat class possess nothing except that they own their labour power. The transition from a feudal system to a capitalist system is explained by Marx, which he defines as the intervening period, neither a feudal nor a capitalist, it characterised by the predominance of independent cultivators and peasants. (Katz, Jun. 1993).

Dobb's theory[2] says that the important cause of the breakdown of feudal relations was the excessive exploitation of the working, labour forces and serfs who abandoned the lords' estates together, and those individuals who remained excessively few and disproportionately overworked to enable the system in order to maintain itself based on the old. It was these advancements and developments, rather than the rise of trade, where the new developments forced the ruling class during a feudal system to adopt the expedients-commutation of working-class services, leasing the lands to tenant farmers extra., where it finally led to the transformation of productive relations in the countryside. (Sweezy, 1950)

Modern Capitalist system in the current period ascended in the Middle Ages between the 16th and 18th centuries when the system of mercantilism was established. Mercantilism is a system where goods are bought at a lower price and sold at a higher price to create profits. It provides the basic tenet of capitalism in that, at the larger scale, the realisation of a profit by attaining goods for a lower price than selling them. During the 18th century, the system of mercantilism weakened when the group of noted theorists led by the noted economist Adam Smith challenged the principles of mercantilist trade and economy. Adam Smith[3] proposed the argument that the state functions to accelerate its wealth and resources at the expense of the wealth of other states while the world's overall wealth remains constant. Industrial Capitalism emerged after the decline of the mercantilist system during the mid of 18th century due to the accretion of vast amounts of capital under the age of merchant capitalism and its investment in machinery. Industrial capitalism during the time marked the expansion of manufacturing factories and led to the global hegemony of capitalist production.

During the 19th century, there was a significant increase in efficiency in the process of development of capitalism, and it also generated social changes, which remained in place in the twentieth century, where it was established globally as the most predominant and significant financial model after the collapse of the USSR. In the twenty-first century, the capitalist mode of production has turned into an extensively universal economic system on the global stage. It is envisaged that capitalism generally corresponds to that developed by the economists like classical economists and by the most prominent philosopher such as Karl Marx.

Max Weber (2001) defines "capitalist action" as consistent with the investment with the aspirations to gain profits; thus, he understands capital as an investment. He further argued that capitalism started to exist in various places, especially in modern Western societies, capitalism has infiltrated every sphere of life, so it is not a matter of capitalist economy. However, it concerns capitalist society (Weber, 2001). Polanyi (1944) argues that once

[2] For further explanation, see Maurice Dobb's book, 'Studies in the Development of Capitalism,' published in 1965.

[3] For details descriptions, see the Adam Smith book 'The Wealth of Nations', published in 1776.

capitalists were community, rank, or caste, they consisted of subordinate status. Today, the footprints of capitalism are everywhere in society, which eventually integrates less or each member of the society (Polanyi, 1944)

Inequality can be comprehended as an unequal and unjust system of outcomes or distributions. Due to the acceptance of the capitalist system in various societies all around the world, the quality and accessibility of several aspects of social well-being (such as security, health, education, clean environment, social stability, economic stability, nutrition, leisure, and shelter extra) are exponentially influenced by the purchasing capacity or ability of an individual. Therefore, denying access to essential aspects to some groups can accelerate economic inequality, further contributing to social inequality. In the 1990s, with the advent of globalisation, the polarisation in income terms increased, and poverty developed in urban settings, further sharpening the class division. (Deverteuil, 2010)

Capitalism is an economic system where the control over the production of goods and the allocation of financial resources is thoroughly based on the private ownership of resources and means of production. The theory of capitalism expounded through the economic system that prevailed in Great Britain in the late eighteenth and early nineteenth century. Capitalism is based on the indirect system of governance in which the continuous evolution of political bargains takes place where the individual owners are endowed with political power to control private property under the definite rule of law and regulations. The workforces are free to choose the work and exit from the business whatever they choose. Capitalist markets depend upon such a mechanism to ensure the demand and supply in the market. It relies entirely on profit motivation, where it assigns the opportunities and the available resources among the suppliers, and relies on the political institutions to establish the rules and regulations to meet society's needs and ensure the maximum possible benefits. Representatives of the government and the people ensure the physical security of individual property and humans.

Functioning of Capitalism: Exploitation of working class and surplus value:

The capitalist class exploits the working class in a way that denies them to share the profits, and this kind of exploitation becomes morally and legally accepted through property rights. In his book "Das Capital"[4] or "Capital: A Critique of Political Economy", published in 1867, Marx explains how the oppression of labour becomes set up under the capitalist system. The capitalist setup starts when the capitalist borrows or invests personal money to create a business. Later on, their investment resulted in the production of goods. Over time, it would generate the potential income where it does not only get the initial capital expenses but also achieve the profits. So, the generated profit does not fairly share by the capitalist with the actual owner of the product, which is the working class, so in this way, exploitation of labour occurs. The capitalist does not share reasonable production profits with the working class due to self-interest. Under the system of capitalism, through the ownership of property rights, the bourgeoisie class has exclusive rights to get the maximum profit after investment, which generates surplus value for the working class. The surplus value generated in the capitalist system goes to the investor rather than an equitable share to the workers; in this way, the capitalist becomes richer; on the other hand, workers' social and economic conditions remain unchanged.

Inherent Inequality and Karl Marx's Theory on Capitalism:

The capitalist system is based on private property ownership and the means of production. It permits individuals to invest in the market to establish their own business or trade, while capitalism also promotes the free market and open competition. While it complements the concept of democracy and individual rights, critics argue that the capitalist system creates an environment prone to conflict. However, according to Karl Marx, the capitalist system has inherent inequality, creating conflict between the proletariats and the bourgeoisie class. Karl Marx argued that

[4] Karl Marx's one of the significant work is 'Das Capital', in which he propounded the theory of the capitalist system, its dynamic models and its possibility to move towards self-destruction; the first volume was published in 1867.

the intrinsic creation of classes led to the result in terms of inequality. The social classes under the capitalist system function under a particular economic arrangement, resulting in conflict between the antagonistic classes because of their contending interests and not sharing profit fairly and private property right supported by the surplus value.

Based on "The Communist Manifesto"[5] and "Capital: A Critique of Political Economy," it is worth pointing out the view of Marx against the capitalist system, which coincides with the idea of supporting socialism and communism. Marx's provided the alternative in the form of socialism and communism, where the socio-economic system is mainly centred on an equal distribution of surplus value and profit by removing the private property rights and means of production. Ownership of property and resources is equally distributed to all the members of society. Marx proposes an idea of communism and places the central thrust over the emancipation of human beings from the nexus of social processes, which brings forth an anonymous compulsion upon the individuals. He further voices his concerns about using capital relations as a means of exploitation through the insecure and inadequate working-living conditions that most of the population is subjected to. Therefore, he advocates an urgency to reckon with this exploitation.

However, Marx emphasises that such forces that challenge the hegemonic forces and support social equality can only exist when the fetishes attached to labour products are abolished. Social relations that harbour social equality can only emerge when all forms of fetishism are disavowed. To propose this, as Marx further clarifies, is not to deny the role of the government, here Marx finds governments are social formations of humans that regulate social life, organise production in individual workplaces, coordinate between workplaces, play a facilitator in harmonising the interactions between producers and consumers, examine ways to empower minorities, and rigorously works towards different forms of gender and racial discrimination. Marx propounds that such discrimination would last as long as capitalist exploitation disfigures the face of humanity.

Thomas Piketty sketches the relationship between the capitalist system and inequality:

Thomas Piketty's work 'Capital in the Twenty-First Century' explains that the capitalist system is primarily an unstable system of economy. Without external factors like battles, it constantly produces and increases income and wealth ownership inequalities. "Thomas Piketty focused on the income inequality that occurred post-war and ended in the early 1970. Piketty contends that rising inequality is an inherent feature of the general functioning of the capitalist system. In contrast, the post-war period, in which capital and labour shared the benefits of productivity growth, was an exception and is unlikely to be again frequently in the future." (Mongiovi, 2015)

Through detailed research for over a decade, Piketty sketches how inequality evolves with the coming industrial revolution. During the eighteenth and nineteenth centuries, Western Europe was highly unequal. Individual wealth dwarfed the national income, which goes to the few affluent families who reached the top in a relatively rigid class structure. The capitalist system continued as industrialisation moderately contributed slowly to the rising wages for the working class. The pattern was disrupted by both the world war and the economic depression. Inflation, Bankruptcies, and growth of the welfare state and the imposition of high taxes cause the dramatic shrinking of wealth. It ushered in a period when wealth and income were distributed in an egalitarian way, and after the early twentieth century, wealth started to reassert itself.

On several measurements, Piketty estimates that wealth's significance in contemporary economies is at the upcoming levels where it was last seen before World War I. Thomas Piketty's Book 'Capital in the twenty-first century' is appropriate to understand the increasing inequality and how inequality is increasing in capitalist society. "Piketty concludes that the capitalist system is biased in favour of the capitalist who owns the means of production, and in the long run, the economic inequality that matters is not the gap between people who earn a

[5] The Communist Manifesto written by Karl Marx and Friedrich Engels in 1848 in which they have provided the 'materialist conception of history' by giving the detailed materialist historical class struggle from the time of feudalism to the 19^{th} century capitalism.

high income and those who earn low income but rather than it is the gap between the people who have great wealth and those who do not have the wealth."

Disparity after the 1970s and the growth of political inequality Patterns:

Thomas Piketty provides details of wealth and income and its distribution for many industrialised countries. Kuznets Curve, where Piketty shows and postulates that inequality increases in the early phase of industrialisation and inequality decrease in the later stages of the industrialisation process, yielding an inverted U-shaped relationship between the rising or reducing inequality and the per capita GDP[6]. Over the past two to three decades, income inequality in industrialised countries indicates that Kuznet's curve[7] with an inverted U-shaped relationship has broken down clearly. In the past three to four decades where the, inequality has risen, and it requires explanations: Piketty tells the reason for the role of capital income and the increasing income inequality, the interactions of technology and education, which have now relatively negligible importance and the rising of share dramatically of the management like the sports and the entertainment.

Piketty dismisses the argument that the rise in income inequality, particularly the rise in the percentage of the top 1%, can be attributed to their output and productivity, even if such could be measured. Piketty's focus is on the rise of wealth and increasing wealth inequality, where the income inequality from the capital is a significant component of the higher income inequality. It is like a trend of growing disparity in industrialised countries from the 1980s onwards in contrast with the trends before 1970. An example of the United Kingdom's inequality on various measures is higher in 2014 compared to the late 1970s, and inequality had risen in the latter phase of 1970 and did so substantially in the 1980s. Since the early 1990s concerning inequality in income, it has been challenging to provide the overall value judgements due to ups and downs in the level of inequality. "Thomas Piketty focuses on the elements of technology and education to investigate the prevailing differences in labour income inequality through time and space. Piketty argues that 'the most accepted theory is a race between education and technology' in which education sets the supply of trained labour agenda and technology seeks the demanding agenda." (Piketty, 2014)

However, 'the theory does not describe everything. In general, it does not provide a reasonable explanation of the rise of wage inequality in the United States of America after the 1980s. One could add the sharp rise of sports, which entertain celebrities, and it does not limit to the United States. However, the theory of race between education and technology is seen as interesting clues to explain the historical evolutions. However, "Piketty argues that the role of technology and education over the long run are decisive for wage levels and the best way in the long run to reduce the level of inequality concerning labour as well as to increase the productivity on an average basis of the labour force and the growth of the economy to invest in the sector of education." (Ibid, 2014)

Economic Performance, Globalisation and growth rate:

The fundamental changes in the political rhetoric on the issue of inequality during the 1970- 80s were reinforced by the power of Thatcher[8] in the United Kingdom and Reagan[9] in the United States of America and the rise of

[6] GDP denotes the 'Gross Domestic Product'; it indicates the finished goods market value and the production of services within a nation-state in a particular timeframe.

[7] Kuznets curve explains the process of industrialisation in a nation. It describes that with the advancement of industrialisation in a nation, the economic centres will also shift to urban centres. In search of a job, people migrate from rural to urban areas, and the urban population will increase, and the rural population will decrease; this process further causes an inequality gap.

[8] 'Margaret Hilda Thatcher' was a conservative politician who served as Prime Minister of the United Kingdom from 1979 to 1990.

[9] Ronald Reagan was an actor and an American politician who served as President of the United States of America from 1981 to 1989.

neoliberalism. A significant change was the favourable link between economic performance and inequality. The vision of high financial rewards will lead to hard work, investments, and taking risks, and then there will be more financial success and prosperity. Trickle-down effects[10] came into play, where the rest of us will gain an advantage by creating jobs and investments for the wealthy and more affluent section of society. 1980 has been marked for the industrialised countries the low growth rates and high mass unemployment on average in the earlier decades of development of the capitalist system. The rise of income inequality has not been linked with the high rate of economic growth, and in effect, it has been the explanation by the advocates of rising inequality in the name of incentives; the increasing inequality since 1980 has been associated with the slow rate of growth. There are several changes between the period before 1980 and after 1980, mainly the process of globalisation and financialisation, which has effects on inequality and the growth rate and could be invoked as having some effect, according to Federico Cingano[11], in his econometric analysis where suggests that inequality in income has some negative. It has a significant impact on successive growth. "The trickle-down argument rests on the idea that the maximum incentives central to hard work and decision making will be more effective and risk-taking and generally from the latter resulted in inequality, growth, and higher output. Higher inequalities reflect the development towards society through the advancement in technology development and market structures. Perhaps the rewards rather than the distinctions in the skill or effort between the competitors set the notion of the inequality of outcomes." (Sawyer, 2015)

Both the world wars and the great depression constituted circumstances that were unusual and also had the effect of destroying the capital. Piketty also argues that the individual holder of capital transfers their capital and wealth into the hands of their descendants, and it emphasises that the upper classes are beneficiaries due to the inheritance of capital and cannot credit their wealth to the individual merit and the human capital. "He predicts that without the interference, wealth inequality exceeds income inequality and will become more extreme where the top 1% will get greater and greater wealth and the top 0.01% will do the best. Piketty's policy recommendation is that there should be a global tax on wealth rather than on income, and it is the most effective means to reduce inequality in society." (Goldhammer, 2014)

CONCLUSION:

At last, this article argues that there is no doubt that capitalism as a system of economy has been accelerating the economic growth of several countries worldwide. However, after the advent of the industrial revolution, the larger sections of society remained deprived of the benefits of capitalism, which eventually extended the exploitation platforms of labour and surplus value. Later it converted into a disparity in the economic growth of several sections of society and finally created inequality among individuals and classes. Marx and Piketty's arguments help us to comprehend that the drawback of the concentration of wealth in a few hands has exponentially grown societal inequality. Moreover, globalisation and neo-liberal policy have developed the disparity in income and growth, especially after the 1990s.

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[10]'Trickle-down effect' consists of product adoption or fashion trends that can impact the services and consumer goods.

[11] For more details, see Federico Cingano's work on 'Trends in Income Inequality and its Impact on Economic Growth' published in 2014.

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