**Capitalism and Economic Inequality/Neoliberal Institutions – IMF and WB/ US Economic Order/**

**Expected Essays:**

1. IMF Bailouts – A road towards stability or a recipe for disaster?
2. Is Capitalism Causing Economic Inequality?

**Arguments:**

Capitalism is a society where capital is **privately owned**, and workers paid wages by **private firms**. Essentially it is a society with **minimal government intervention** and resources are distributed according to the **outcome of free markets**. A principle of capitalism is to allow income and wages to be distributed by the free market. The only way to ensure **wage equality** would be through **government intervention**.

A society is capitalist when most of the distribution of products occurs through markets in which people and for-profit organizations trade goods, contracts and services to generate profit.

Markets allow the circulation of capital into new investment, as invested capital is mixed with labour power to produce goods and services that are sold to generate a profit, which provides more capital for further enterprise. Investors can continue to do this and create a cycle of increasing amounts of profit.

Today, eight people own as much wealth as 50 percent of the global population of 7.4 billion (**Oxfam – a charitable foundation’s report, ‘An economy for the 99 percent’**), and in the USA, the richest 1 percent own 34 percent of the wealth and the richest 10 percent own 74 percent of the wealth. If these figures continue to grow and the inequality isn’t addressed then the rising inequality and economic insecurity can erode social order and create a backlash against the capitalist system.

The inequality in capitalist societies is often not down to differences in talent and skill, but it is driven by resource inequality and inequalities of inheritance leading to differences in education, economic capabilities, and the number of opportunities available.

Moreover, an increasingly unequal society may lead to higher levels of other social problems within a country or region such as obesity, teenage births, homicides, and imprisonment rates.

These problems are very difficult for a capitalist society to alleviate as continuous investment from the top into the police and health service, for example, may be relatively ineffective as these problems are being endlessly recreated in each generation in the most deprived areas of society. Reducing inequality in societies is thus the best way to improve the quality of the social environment, the real quality of life for everyone, and national standards of performance as inequality is the underlying problem in societies that creates a steeper social gradient in areas such as health and educational performance.

**Why Inequality is an Essential ingredient of Capitalism:**

1. **Profit motive:** A basic principle of capitalism is that individuals are motivated by the profit incentive. For example, entrepreneurs undertake a risky venture to set up firms because they hope to make a substantial profit.
2. **Work Incentive:** Inequality is also important to **motivate workers**. If every worker received the same wage regardless of **skill and effort**, there would be **no incentive to learn new skills and work hard** at the job. A firm in a capitalist society can pay successful workers a higher wage to reflect their higher productivity. This will lead to wage inequality, but without it, it would be hard to **motivate workers.**

### Types of Inequality in Capitalism:

### ****Monopoly Power:**** A firm may develop monopoly power. Then it is in a position to charge consumers artificially high prices and deter entry. If firms have monopsony power, they can get away with paying a wage much lower than the productivity of the worker. Workers have no choice but to work for a very low wage. Therefore, capitalists with access to private property can ‘exploit’ their monopoly power to make a much higher profit than other people in society.

1. **Inheritance**. Another aspect of capitalism is that **private property** can be passed on from one **generation** to another. Therefore those who inherit capital can enjoy **high income** even without any effort. They have access to best private education and jobs. This creates **inequality of opportunity.**
2. Future of Neoliberal Institutions