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Can Capitalism Bring Inclusive Growth?

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–Suneel Sheoran

The recent Oxfam Report, 2016 has once again brought forth the debate on global inequality in light of its findings that the richest 1 per cent of the world's population now own more than the rest of us combined. This debate on global inequality in contemporary times also raises a question mark on the ability of capitalism – the economic system predominantly being followed all over the world, barring a few exceptions, to deliver inclusive growth. Capitalism is an economic system believed to have been born in the aftermath of the industrial revolution in the eighteenth century Europe. It is based on private enterprise and private ownership of means of production like land, labor, capital etc. as compared to the economic system of Socialism, on the other end of the spectrum, which encourages public or state ownership of means of production. The producers belonging to the elite capitalist class are driven by the sole motive of profit. However, the system of capitalism has been criticized since its inception due to the exploitation of working class under horrible working conditions and low wages and for the very fact that it divides societies into classes of 'haves' and 'have-nots'. Its proponents have pointed towards ills of other economic systems and freedom of choice to encourage a laissez faire system. However in light of the growing global economic inequality and poor standards of living even among sections of citizens in first world countries that have been following capitalism in spirit and law for centuries, certainly does raise a question on capitalism's flaws and its ability to deliver inclusive growth.

The concept of inclusive growth focuses on equitable growth for all sections of society. This involves ensuring that fruits of growth and development reach the poor and marginalized sections as well. Capitalism, with profit as sole motive, at times fails to reach areas that require prioritization of social welfare i.e. working on a non-profit basis. For e.g. running of schools and hospitals in rural and underdeveloped areas, building of public infrastructure like roads, rails etc. in rural areas etc. This leads to concentration of development works and industrialization led growth only in urban areas and hence creates regional inequality. Such regional inequality slowly turns into socio-economic inequality as

well due to lack of meaningful employment opportunities in areas left out of the Capitalist development model and strikes at the very root of inclusive growth. Moreover this increases urban migration leading to overcrowding and straining of public resources which in turn results in people living in miserable conditions.

In a race for delivering higher profits to owners, capitalist producers of goods and services compromise on payment of adequate wages and proper working conditions. For e.g. news reports of lack of payment of even minimum wages to laborers in certain sectors of economy like construction, textile etc. is not uncommon in India. Private firms loyal only to the shareholders don't feel inclined to share wealth with their employees. Resentment even among middle class employees regarding their long working hours and inadequate compensation is also quite prevalent. For e.g. in view of the sixth and seventh pay commissions' reports many educated youth are contemplating switching to government jobs even if they may be deemed overqualified for such jobs and even if it entails forgoing the corporate sector perks. Such tendency of the corporate capitalist class to squeeze out the proverbial last dollar leads only to enrichment of the already rich sections of society at the cost of the poor and middle class whose labor is undervalued.

Capitalism also attaches great importance to the idea of free and efficient markets to achieve growth and development. But, time and again, it has been seen that markets fail to allocate resources and fruits of growth efficiently and are rather skewed due to monopolistic or anti-competition practices and their short sighted views on growth. For e.g. the Bombay Stock Exchange lost a number of points the day the Indian government announced its scheme for public food security. The markets hence failed to take a long term view on growth by not recognizing that only a well fed population can lead to holistic and sustainable growth for all. Instead the free market proponents chose to pressurize government to take back its social-welfare program. The markets, moreover, driven with the sole aim of profit have frequently led the world into economic crisis accompanied by fall in employment rates and growth rates affecting the marginalized sections of developing and least developed economies the worst due to their greater vulnerability. This further serves only to widen the global inequality and the gap between the 'haves' and 'have-nots'. For e.g. the 2007-08 subprime crisis, though originated in USA due to uninhibited greed and unethical practices of investment banks, soon engulfed the entire world economy leading to fall in growth rates across the globe. But the bailout package of developed world economies ensured that the capitalist class largely remained unaffected even though the middle class and marginalized sections suffered due to economic slowdown.

Therefore capitalism has a number of shortcomings in its implementation and is not necessarily serving the purpose of inclusive growth. But, can the system be regulated and tweaked so as to promote greater inclusion and equitable growth? Capitalists themselves have come to realize that sustained high rates of growth leading to wealth generation for

all are possible only when there is greater purchasing power in hands of the consumer. Companies have come to realize that a happy employee means a better bottom line. This has meant gradually paying higher wages and improving working conditions for workers. Along with stricter government regulations on labor laws, this has brought in drastic improvement in workers' conditions when compared to the days of industrial revolution.

The focus on private enterprise for the sole motive of profit maybe responsible for a number of ills as discussed but it can also leads to greater efficiency. This heightened efficiency and enterprise in turn boosts economic production, employment opportunities, wealth generation and GDP growth rates leading to better living standards and pulling millions out of poverty. For e.g. before the economic liberalization of the 90's Indian economy was a closed one with the public sector controlling most of the economy. The lackadaisical work culture that it promoted coupled with regressive economic policies of the then governments almost led Indian economy to the verge of bankruptcy. However since economic liberalization that opened up Indian economy for private sector and limited the role of public sector to only certain areas, Indian economy has grown at a rapid pace and is today not only the fastest growing economy in the world but also the world's third largest economy by purchasing power parity. Though it has created a class of super-rich Indians, it has also pulled millions out of poverty. Between 2004 and 2012, India reduced its poverty levels by approximately 15 percentage points, in the process pulling a staggering 20 million Indians out of poverty per year.

However this success story of Indian economy would not have been possible without effective government control via regulations that ensured that the wealth so generated reached all sections of society either directly via the 'trickle down' effect or via its numerous social welfare programs. Therefore the malaise of wealth in only a few hands in capitalism can be corrected by the government stepping in to have a system of taxation that promotes economic equality, encouraging entrepreneurship and setting up venture capital funds to support entrepreneurs from the lower socio-economic strata; running social welfare programs that ensure substantive equality of opportunity by providing affordable quality education and health services. For e.g. Government of India recognizes this responsibility and hence to encourage entrepreneurship among marginalized sections of society and enhance socio-economic equality, it has started 'Start-Up India'. Enhancing equality of opportunity in order to counter the capitalism induced inequality also requires the government to ensure access to quality infrastructure necessary for running business – both public infrastructure as well as digital infrastructure which is increasingly becoming lifeline of today's economy.

Therefore, capitalism as an economic system has a number of problems that have resulted in growing global socio-economic inequality. Issues like low wages, poor working conditions, regionally concentrated development, enrichment of only a particular class and blind faith in efficiency of markets result in a skewed growth model that goes against the

concept of inclusive growth. This leads to rising social unrest and raises question mark on the very concept of capitalism delivering inclusive growth. However while the system of capitalism has its flaws, regulated by a government that works on social welfare model, capitalism can lead to improved efficiency in enterprise, enhance private investments and can boost economic production while at the same time raising the capital necessary for a government to run its social schemes for the betterment of the poor and the marginalized. For e.g. the Scandinavian countries have followed the capitalist mode with a strong regulatory regime and social welfare which led to praiseworthy results. Inequality adjusted HDI regularly rank Scandinavian Countries like Norway, Denmark, Sweden and Finland among the top ten countries. This shows that the model of capitalism can be made to deliver inclusive growth provided the governments and civil societies across the world know how to tame the beast!