O. Yanchuk, Student
N. Shkoliar, PhD in Ped., language advisor
Khmelnytsky National University

HOW CAPITALISM AFFECTS INEQUALITY

Capitalism is the political and economic system in which a country's trade, investment, industry, and production are controlled by private individuals and for-profit corporations rather than by the state. The emergence and growth of capitalism in the 19th and 20th centuries have led it to become the globally dominant economic system. Capitalism has outperformed all competing systems such as socialism and communism.

The objective of my work is to identify the determinants of the increase of income inequality that rich countries experienced through capitalism.

The global shift towards capitalism due to its potential for higher profits, equality of opportunity, economic freedom, and the reduced role of the state has led to the major problem of rising economic inequality because some individuals and groups are abler than others to exploit and take advantage of what capitalism allows them to.

Every year, a new world-historical record in socio-economic inequality is proclaimed. In 2018, the 26 richest men owned as much wealth as the poorer half of the world population (almost four billion people) combined (The Guardian, 20 January 2019). Everybody knows this level of inequality is unsustainable, every capitalist state is worried about it, and many measures are taken against it – but it keeps getting worse. This is partly because we understand neither capitalism nor inequality. Moreover, we do not understand them partly because we believe in the ideology that has been created around capitalism since the development of its modern, Western form.

A capitalist is a human being that owns capital as a property *before* engaging in a capitalist action. Capital is not the result of capitalism but a precondition. Moreover, it cannot be common property; capital and profit are private property, from which other people are excluded. The individual capitalist invests in order to replace the original capital and to generate a surplus, which is the profit. The capital itself does not diminish, it is not spent but always replaced. The capitalist lives off the profit. Whoever spends his or her capital on consumption is not a capitalist. The ideal type of a capitalist action consists in acquiring something with a certain invested amount of capital and selling it at a higher price. This something can be someone's labor power but it could also be anything else.

Inequality is usually studied in quantitative and economic terms. These generally refer to income and, less frequently, to profession or wealth. This approach is misleading. It reduces the issue of inequality to one dimension, which is not even the most relevant one. Inequality is about domination, not about money or careers. We are made to believe that we compete for a better job or more money. The cards for this competition, however, are dealt before it even begins. And the competition mainly takes place within the peer-group or the framework of a social class. Ideology tells us that the best in this competition win and that wealth or success is due to individual merit. Thereby, it renders the conditions and structures of competition invisible [1].

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 [3]. Inequality is not a result of competition, it is a starting condition. Women

were given the right to vote – but at that point, men had already captured all leading positions in society and all capital. Slaves were freed – but they had no education, no money, no connections, no respect, no access to jobs and markets. The poor were given the right to participate in the market – but they had no capital. The formerly excluded groups were able to achieve minimum rights through long struggles but they never received even a small fraction of the privileges of the formerly included groups. They were integrated as subalterns into the "democracy". This is the basis of our invisible inequality.

The age of "financial capitalism", and at least since 1980, along with the financialization of the economy, inequality increased because labor flexibility increased, trade unions lost power hence labor market institutions weakened, and public social spending started to retrench and did not compensate for the vulnerabilities created by the globalization process. The change, however, was not exogenous but was caused by a political change since the end of the 1970s that imposed a new economic paradigm or consensus favoring globalization and finance. The important technical progress that was occurring was also functional to that change. However, technological progress is not a cause of inequality: the way technological progress affects income distribution is shaped by economic and social decisions. Both globalization and finance increased pressure on labor, changed capital-labor relations, and allowed for an increase in labor flexibility and a weakening of labor market institutions and social policy, which in turn led to a reduction in the wage share. The increase of income inequality was just the natural consequence of this process [2, p. 18].

The importance of the following six changes for the process of globalization and financialization shaping a new economic regime can be especially underlined:

1. The political (and to some extent ideological) change that occurred during the 1980s, particularly in the United States and Great Britain with the new administrations of Reagan and Thatcher. These two political leaders were able to shape, to some extent, the international political consensus globalization required. This change was later promoted with the help of major international organizations, such as the International Monetary Fund (IMF) and the World Bank (WB), which had close ties with the Washington administration (Stiglitz, 2002), along with a new political economic doctrine that became known as the "Washington Consensus".

2. The financial deregulation that occurred in particular under the stimulus and policies of the Reagan and Thatcher administrations and later in many advanced and developing economies. Financial deregulation contributed to both the expansion of capital globally, in search of higher profits, and the intensification of finance and financial tools as an integral aspect of the economy. Economies across the globe soon became attracted to the process of financialization.

3. The fall of the Berlin Wall in 1989 and the following dissolution of the Soviet Union in 1991, which ended the Cold War and the ideological divide between Eastern and Western Europe and in a way between the Eastern and Western World. The inclusion of the former communist economies in the global economy, or to be more precise, in the economic system of Western Europe, North America and other few advanced economies also played a crucial role.

4. The deepening of the European Union integration process, which culminated in the Maastricht Treaty, introducing capital mobility along with the liberalization of trade, services, goods and labor in an important and large market.

5. The tremendous challenges posed by the technological progress that brought about the ICT Revolution and all the other great innovations introduced in transport and in telecommunications, substantially reducing transportation costs.

6. The takeoff (during the 1980s and 1990s) of several emerging economies – often identified with the term BRIC6 – in terms of economic growth and other development indicators [2, p. 22].

Capitalist society develops a hierarchy of social classes. Class position as well as class culture are passed on from one generation to the next. This is rendered invisible by the myth of meritocracy, which postulates that any inequality is result of a competition on a level playing field. In conjunction with the suggestion that competition is about money, the dominated 99.93 percent in capitalist societies are pushed to labor for the 0.07 percent. The nature of capitalism has led to society's biggest problem of huge gaps of widening inequality that has led to further worsening problems that are becoming continuously more difficult to solve.

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