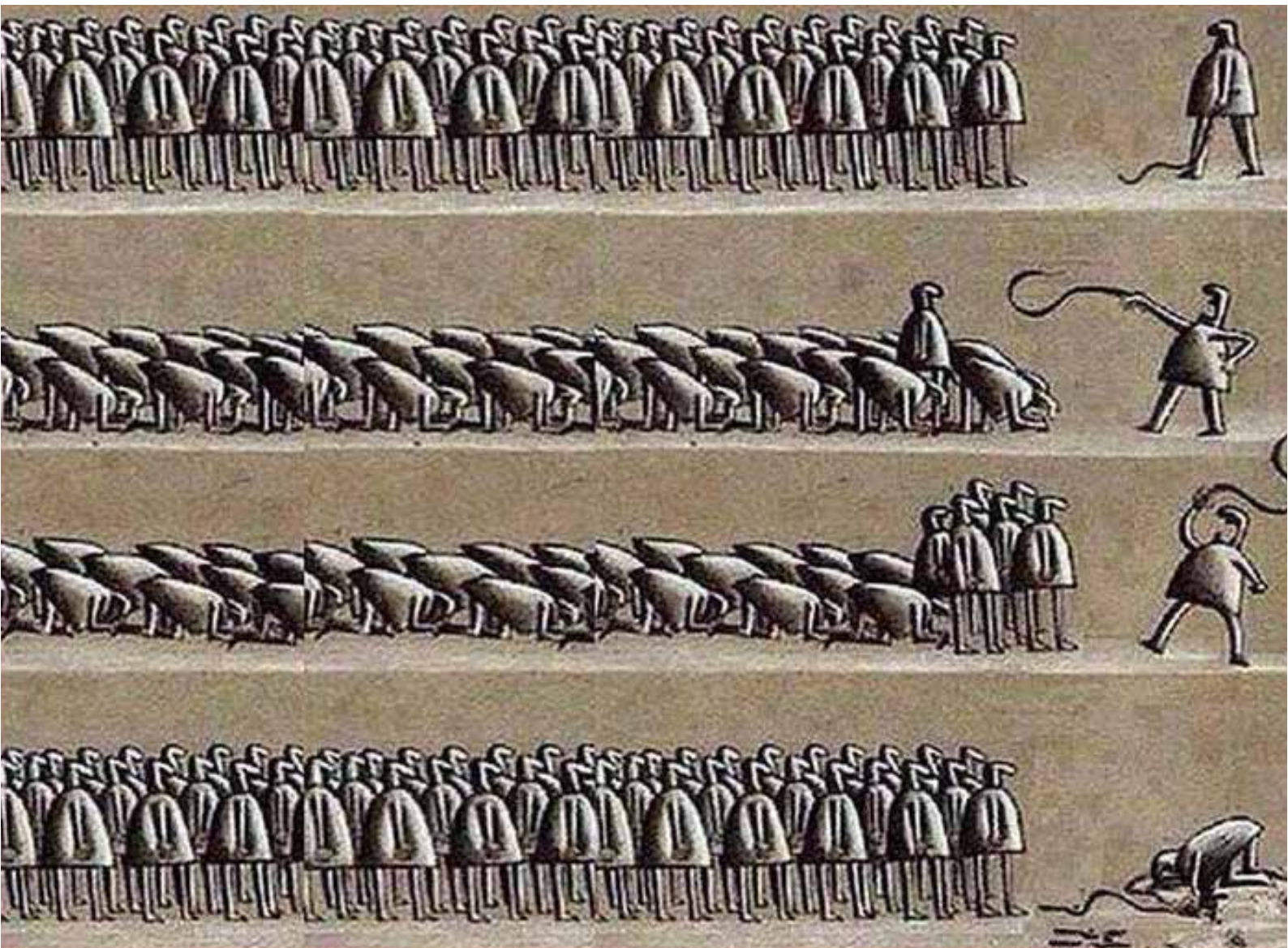


NEOLIBERALISM AND INEQUALITIES: an analysis



INTER UNIVERSITY CENTRE FOR ALTERNATIVE ECONOMICS
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Neoliberalism and Inequalities: An Analysis

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Kariavattom
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Kariavattom
July,2017

Prof. Abdul Salim A.
Honorary Director

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This work is an aggregation of my thoughts on the subject - thoughts that are an outcome of my exposure to lectures, debates, interactions, and personal experiences. I cannot claim that the ideas expressed are wholly original, for there have been written and talked about in academic and activist circles. I have attempted to interpret the available theory and data to the best of my knowledge. I confess that my thoughts had undergone consistent revision in the process, but none of the counter-streams of thought were persuasive enough to deter me from my original convictions.

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I dedicate this work to those who have lost out in the rat race of neoliberalism.

Aabid Firdausi M.S.

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EXECUTIVE SUMMARY

Capitalism, undoubtedly, has been the dominant social order around the world. One of the often hailed virtues of the capitalist system has been its ability to adapt to changing conditions. This dynamism materialises by a violent process of accumulation and expropriation. Contemporary capitalism takes the form of neoliberalism that results in the subjugation of the conventionally perceived interests of the state (for example, general welfare and national sovereignty) to the dictates of capital. The application of neoliberal policies cuts across all social orders from free markets to state capitalist countries and from dictatorships to democracies. Contemporary India, for example, has a peculiar brand of economic neoliberalism carried out along with fostering hyper-nationalistic sentiments that are otherwise conventionally understood to be contradictory. This realisation of neoliberalism as a multidimensional highly adaptive ideology is essential for counter-hegemonic movements in the contemporary geopolitical context. At the heart of the capitalist system lies the inevitable existence of inequalities. Thus, the question is not about the presence of inequalities, but the extent of the same. Worsening inequalities due to the inherent tendencies of the capitalist system for concentration of capital jeopardizes the egalitarian ideal of democracy that would inevitably lead to social unrest. The study examines these various dimensions of neoliberalism and implications of the same. The feasibility of worker cooperatives as an alternative mode of the enterprise is also examined towards the end.

Chapter 1

SITUATING NEOLIBERALISM IN A MULTIDIMENSIONAL CONTEXT

The dominant narrative in mainstream discourse is that the capitalist mode of production that has come to be accepted as the normal economic order of our times has generally improved the living conditions of people. The capitalist system characterized by the assignment of private property rights supposedly upholds liberty by freeing the markets from unwarranted regulations that impose restrictions on the economic freedom of an individual. Thus, theoretically, the system that relies heavily on markets, gives freedom to the individual to pursue economic activities like trade in goods and services, provided this is acceptable within the legal framework of the community. Economic liberty, as the narrative goes, is compatible with political liberty. Capitalism, therefore, is to be accepted as the general economic order of a democracy.

While advocates of capitalism enthuse about the virtues of free markets, a heterodox narrative also runs parallel to this orthodoxy. The heterodox perspective tends to view the capitalist system as being prone to systemic instabilities that result in crises. This structural anomaly that manifests itself in the form of fluctuations in economic aggregates comes with devastating consequences on the general welfare of the society. Economists like John Maynard Keynes believe that this self-destructive tendency can be mitigated to some extent by regulatory authorities, while proponents of the heterodox Marxist school of thought like David Harvey argue that this mitigation merely prolongs the impending crises that await the capitalist system.

It is true that capitalism has been somewhat successful in creating the necessary material base for potential betterment of living standards of the people. This has been made possible with the rapid industrialisation and technological advancements in the capitalist economies. Karl Marx who was optimistic about the possibilities of industrial revolutions wrote in the Communist Manifesto (1848) that “it has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals”(p.16). However, this potential for bettering general welfare has not been harnessed equitably. This can be attributed to certain endemic features of capitalism like its tolerance of inequality, vulnerability to crises, and environmental exploitation. While all three are linked to each other, the inevitable existence of inequality lies at the heart of the problem. The existence of private property

posits a social order wherein there will be distributional inequality of assets by both legal and illegal means.

This inegalitarian nature of capitalism is at odds with the egalitarianism espoused by democratic ideals as is traditionally understood. Practically, it is often the ruling class that represents the state. This can again pose challenges. Thus, the marriage between free market orthodoxy and political democracy is a tough one.

One of the unique and often cherished features of capitalism is its dynamism in the production process. The market, by virtue of the motivation of individuals to pursue self-interest, sees significant variations in the commodities made available to the consumers. Consumer sovereignty, thus, is a hallmark of the capitalist economy. This dynamism that occurs in the economic sphere runs parallel to a transformation that occurs in the social sphere. Accordingly, the socioeconomic transformation that occurs as a result of the dynamism of capitalism is concomitant with the very transformation of the capitalist system itself.

The capitalist economy has transcended from its mercantilist root to a system that relies heavily on international finance. During this transformation, capitalism broadly took three different forms: liberal capitalism, regulated capitalism and neoliberal capitalism (Solimano, 2014). The difference between the three is essentially based on the degree of regulation the state can exercise over the market. These variants of capitalism manifested itself one after the other in response to crises of their respective times – as a sub-dialectical process within the conventional grander scheme of dialectics as understood by Marx. The pre-World War I era saw unrestricted laissez-faire capitalism coexisting with the hegemony of British imperialism. The two World Wars that followed necessitated the emergence of Keynesian-regulated capitalism that depended on a strong welfare state. This era saw three decades of economic growth and better social welfare which came to an end with the crises of Keynesianism in the 1970s. What followed was an era of fiscal austerity, market deregulation, and privatization that has come to be called neoliberalism. The term neoliberalism despite having some definite propositions lacks semantical clarity as a concept. It is relatively a loose term that has been linked with a host of issues – from marketization to clinical depression.

Neoliberalism as an economic concept is closely related to the mainstream neoclassical theory. One important feature of the neoliberal economy is that it is characterized not by the absence of the state, but by the change in the nature of the state itself. The state restrains its regulatory character and assumes the role of a facilitator of free markets.

Intrinsic to the transformation of capitalism, there was a significant change in the nature of capital that was dominant in the production process. While there was a domination of industrial capital in the years of the Industrial Revolution, modern capitalism sees the dominance of finance. The post-war reconstruction boom was carried out in a regime of the industrial capital where production took place in the real economy. Since 1980, the economy underwent a process of financialization marked by sustained increases in the importance of financial activity relative to real nonfinancial economic activity (Turner, 2010). Deregulation created an atmosphere that made possible windfall gains from speculative investments. The regime existed as if to foster an upward redistribution of wealth. Economic power was increasingly being concentrated at the top. This was accompanied by several market-oriented reforms that undermined the gains achieved under the Keynesian welfare state.

This “market fundamentalism” (Soros, 1998) substantially transformed the landscape of public governance. However, it is a mistake to assume that neoliberalism is a project within the political framework of liberal democracies alone. In fact, the early application of neoliberal policies was in Chile that was at the time under the dictatorship of Pinochet. This shows that limiting neoliberalism as a

political and economic project alone ignores the ideological nature of the concept.

The neoliberal ideology theoretically rests on an argument for meritocracy. Meritocracy broadly refers to the idea of upward social mobility based on one's merit or achievements. The well-being of the modern worker (to an extent, the managerial class is also involved) is linked to his/her performance in the workplace. The ability of the modern worker to secure work in the first place depends on his/her skills or in bourgeoisie terms, the value of human capital. However, "merit", that occupies utmost significance in a neoliberal economy, is a term that is not deconstructed properly in mainstream discourse. The achievements of an individual greatly depend on his/her networking abilities that vary with his/her socioeconomic conditions. The very notion of meritocracy is challenged by Littler (2013) who argues that within a neoliberal framework, a certain pattern of conspicuous consumption is treated as a yardstick for measuring merit. Meritocracy, he argues, is a stealthy way by which plutocracy is endorsed. This is empirically verified by Jacobs (2015) in a report for Oxfam concluding that fifty percent of the world's billionaire wealth is non-meritocratic owing to either inheritance or a high presumption of cronyism.

These trends posit problems of a multidimensional character. As the elites are accumulating more wealth in the shareholder model of the enterprise, those at the bottom are engaged in a tough competition for employment. There is a burgeoning global precariat composed of millions of people who lead vulnerable lives with little existential security (Standing, 2011). It is naïve to discard that these masses do not have merit or do not possess the desirable value of human capital. This plutocratic scenario comes at the expense of fostering anomic attitudes leading to social unrest creating serious impacts on psychological well-being. In fact, Verhaeghe (2011) proclaims that meritocratic neoliberalism favours psychopathic personality traits and penalises others. According to him, the sociologist Zygmunt Bauman neatly summarised the paradox of our era "Never have we been so free. Never have we felt so powerless".

A bird's eye view of all these problems shows that the ideology of neoliberalism runs deep through all conceivable channels of modern life. This refashioning of society via manipulating the consciousness, subconscious and unconscious of the masses is an important agenda in neoliberalism. The originality of neoliberalism is thus precisely its creation of a new set of rules that broadly define a new society (Pierre and Christian, 2013).

Review of Literature

The earliest prominent use of the term neoliberalism can be traced to Friedman (1951) who criticised collectivisation that thwarts competitive market forces. He was writing this in the era of regulated capitalism where the state had attempted to exercise control over the free market. The author calls for all obstacles to neoliberalism be removed and for a spread of neoliberal ideas that will "capture the enthusiasm of men of goodwill everywhere" so that it becomes the "major current of opinion" (p. 4).

After three decades of neoliberal policies – when the concept had clearly become the "major current of opinion", Jonathan D. Ostry, Loungani and Furceri (2016) with the IMF published "Neoliberalism: Oversold?" – that explored the costs of pursuing neoliberal ideas. The researchers equate neoliberalism with deregulation and privatization. These policies have led to improvement in standards of living but at the risk of economic stability. The authors highlight the virtues of FDI when compared to short-term capital account inflows and discourage the latter. However, questions arise whether private investment or foreign investment itself is desirable for economic stability. The study stops short of undertaking an analysis of the structural dynamics of the system.

Mitchell Dean (2014) in "Rethinking Neoliberalism" studies the usage of the term "neoliberalism".

He argues that the term is not a misnomer but represents a “thought collective”, the historical roots of which are linked to the “actions of a strong state to secure the imagined conditions of an idealized market” (p.160). The author suggests that further research needs to be done whether neoliberalism is undergoing a “mutation of its rationality”.

As Schumpeter (1982) has famously argued, it is entrepreneurial innovation that drives the capitalist system. Booth (2013) highlights the difference between technology and innovation. The capitalist growth process that depends on innovation has slowed down in recent decades as capitalists have taken advantage of globalization and have resorted to short-term profit making. This has significantly affected the working class and a class analysis is pertinent. Harvey (2007) interprets neoliberalism as a class project that has been restored after the relatively successful gains during the post-war social democratic era (“embedded liberalism”). According to Harvey, neoliberalism either restored the class position to ruling elites, as in the United States and Britain, or created conditions for capitalist class formation, as in China, India, Russia, and elsewhere. This has been unfair to the marginalized and according to Harvey; this can only be resisted by long political struggles and social movements.

This unfairness has been studied extensively since the publication of “Capital in the 21st Century” by Piketty (2014). He studies the long run trends of economic inequalities in select countries. However, the momentous study falls short of recommending any concrete policies that can address the issue. Piketty’s idea of imposing a global tax on capital will not work in contemporary capitalism as it will be vigorously resisted by the capitalists. Thus, there is an absence of radicalism that is necessary to solve a systemic issue.

Statement of the Research Problem

An attempt has been made to trace the evolution of capitalism. The study also attempts to explain the mutating capability of the capitalist system with changing geopolitical conditions. This adaptability has resulted in the neoliberal regime that represents a renewed nexus of state with the interests of private capital that goes against the general welfare of the masses. Neoliberalism, as an ideology, finds application in all political projects from democracy to dictatorships. The study also examines the status of neoliberalism from a contemporary political economic perspective.

Inequality is consistent with capitalism but its dynamism inevitably begets increasing inequalities. Inequalities that drive the capitalist engine have assumed a further multidimensional character with the evolution of neoliberalism. Inequality is not just in the distribution of income, as is traditionally understood. Unrestricted capitalism has been driving inequalities in wealth (Piketty and Saez, 2014), health (Coburn, 2004), race (Robbins, 2004), etc. This unprecedented rise in inequalities observed with the adoption of neoliberal policies threatens social stability and jeopardizes democratic values. Are such developments a result of deregulation or an organic development within the capitalist framework itself? Is there an alternative to this conventionally understood mode of production?

Scope of Study in the Alternative Framework

The study partially depends on Marxian theory to explain the dynamics of capitalism and how it has evolved to its neoliberal variant. Capital has been treated as an organic component that drives the capitalist system contrary to the factor of production treatment that it is subject to under a neoclassical framework. The work is interdisciplinary in nature as it studies the research problem from economic, political and sociological perspectives.

Objectives

- To present a multidimensional understanding of neoliberalism as an ideological project.
- To study the trend of inequalities in the neoliberal period.

Methodology

The study relies on concepts from Marxist political economy to explain theoretically the dynamics of capitalism. This understanding stems from the treatment of capital not merely as a factor of production as is understood in neoclassical economics, but as an organic component that determines power structures and social relations. Due to the organic nature of capital, there is an inherent tendency to dispossess and accumulate which contributes to rising inequality. The author's understanding of neoliberalism as an ideological project stems from the broad definition of ideology given by Žižek (2012) as "...anything from a contemplative attitude that misrecognises its dependence on social reality to an action-orientated set of beliefs, from the indispensable medium through which individuals live out their relations to a social structure to false ideas which legitimate a dominant political power" (p. 2).

Data on two types of economic inequality are compiled- income inequality and wealth inequality. Data on wealth inequality is obtained from World Wealth and Income Database (WWID), published by the World Inequality Lab at the Paris School of Economics that measures share of wealth owned by population quantiles. WWID compiles data from tax records and thus has its associated limitations (tax evasion, coverage, administrative efficiency, etc.). Income inequality is measured using Gini coefficient values of money income obtained from the US Census Bureau. Data on racial inequality in the US is obtained from an analysis of the Federal Reserve's Survey of Consumer Finances done by the Economic Policy Institute. Wealth and Gini values are also obtained from the World Bank database for an international comparison.

Income inequality in India is studied by using data on top 1% fiscal share of income obtained from the WWID. A rural-urban comparison of asset inequality (a proxy for wealth inequality) is undertaken using data from the 70th Round of NSSO survey on Household Assets and Liabilities.

Chapter Scheme

Chapter 1 introduces neoliberalism in a socio-political and economic context. Chapter 2 reviews available literature. Chapter 3 studies the origins and evolution of capitalism. The chapter attempts to explain the mutations that capitalism has undergone and comments on the current state of neoliberalism in from a contemporary global political economic perspective. The chapter also explores the concept of neoliberalism itself to understand its implications in academic discourse and practical life. Chapter 4 studies the various inequalities and examines its link with the neoliberalisation of the economy. The final chapter concludes the thesis by suggesting an alternative mode of the enterprise.

Chapter 2

CAPITALISM: ORIGINS, MUTATIONS, AND TRANSCENDENCE

In this chapter, an attempt is made to explain briefly the origins of capitalism in the West. This is followed by an analysis of the mutations that capitalism underwent and the evolution of the neoliberal variant of capitalism. An attempt is made to explain the development of neoliberalism in India and comment on the present status of neoliberalism in the light of geopolitical developments. Neoliberalism, as a term has a multitude of interpretations by both proponents and critics of capitalism. These interpretations are economic, political or sociological in nature. A study of the meaning and implications of the term “neoliberalism” is presented at the end of the chapter.

Capitalism as a historical development

The history of capitalism is closely linked to the history of trade. The traditional narrative is that capitalism grew leaps and bounds with the invention of the steam engine and the Industrial Revolution that followed. Technological developments transformed the production process and resulted in the creation of wealth and prosperity. With time, this wealth was to trickle down to the masses and result in general prosperity.

A Weberian analysis leads to the origin of modern capitalism in the “Protestant work ethic” that was present in early capitalist countries, compared to the Catholic aversion to wealth creation. This aversion to wealth creation can be traced back to the “Cleansing of the Temple” account in the New Testament, where Jesus expels merchants for making his Father’s house a “house of trade”. The Protestants, specifically Calvinists, cherished hard work and thrift – thus, there was wealth creation and reinvesting profits for further production.

While Weber may have rightly explained the origin of capitalism in certain European countries, his analysis does not apply to other countries like Germany, Japan, Taiwan, etc. where capitalism prospered eventually. Thus, it is debatable whether the development of capitalism in a region should be necessarily tied to the prevailing religious or cultural scenario.

This is where a Marxian analysis of capitalism differs from Weber’s analysis. For Weber, the origin of capitalism is tied to certain aspects of religion; while for Marx, it is the other way around. Weber drifts

away from Marx's proposition of historical materialism. For Marx, society is in a flux where the base and superstructure act and react upon each other. Marx saw capitalism as a historical development that involved expropriation of one class and accumulation by the other. This class nature of society was a relatively recent phenomenon, according to his lifelong collaborator Engels -who writes in the "The Origin of the Family, Private Property and the State" (1884) that for the vast majority of human history, tribal communities existed with a shared ownership of the means of production.

Thus, contrary to the orthodox narrative of a harmonious industrial development; Marx saw the process to be significantly violent and "anything but idyllic" where a minority dispossessed the majority of their means of production – the grounds of which was laid down by the mercantile revolution against the feudal order. Marx linked the origin of capitalism to a process of "primitive accumulation" that required the workers to be free from the feudal structure as well as from ownership of any means of production. This dualistic nature of the "freedom" of the worker was necessary for a capitalist transcendence. Primitive accumulation involved expropriating the farmers, artisans and petty producers that existed in the pre-capitalist society. The process continues even today as global capitalist relations are consistently expanded. The growth of capitalism thus depended on class exploitation – at the heart of which lies the conflict between capital and labour. The capitalists by virtue of the ownership of the means of production were able to design, modify and carry forward the market-based system in a way that justifies this exploitation.

Capitalism under British hegemony

The market facilitates capitalist growth only with a ceaseless production process. Capitalism thus thrives on producing more and more and finding new markets for the same. This pursuit was satisfied by the colonialist conquests of the capitalist countries where capitalists expropriated raw materials from the newly found colonies and forced their own products to these markets. This was aided by trade policies (like tariffs on finished goods imported from periphery and tax exemption for manufactures exported from metropolis) favourable to the capitalists. Thus, there was a systematic exploitation of the periphery in order to finance the development of the metropolis. Capitalist development was aided in no small measure by imperialism.

This idea was modified by Patnaik and Patnaik (2015) to study imperialism in a historic and contemporary context. According to them, this imperialism was a necessity to prevent the collapse of the monetary system in the West that might have happened due to an increase in the supply price of the output. This was accompanied by an imposition of "income deflation" on the workers in the periphery. This deliberate state policy that was essentially anti-poor helped keep faith in money as a medium of exchange in the metropolis and prevented the collapse of the capitalist system.

Thus, the Pre-World War era saw a variant of liberal capitalism that was sustained by an imperial free trade under the colonial hegemony of Great Britain. This period saw the rise of financial institutions like banks and stock markets. Financial assets, that hitherto played a role in being the means to lubricate the production process, became an end in itself by virtue of short term profit generation. In the Keynesian parlance, this collective euphoria around the financial sector kindled the "animal spirits" that drove the capitalist economy to high rates of growth. However, the instability of this system subsequently led to ten years of an unprecedented rise in unemployment and a worsening of the living conditions of the general public¹. The third decade of the 20th century saw a loss of faith in the laissez-faire consensus, rise in economic protectionism and fascism in Europe. British hegemony was seriously damaged by these developments and the Empire lost colonial domination as countries in the periphery started waging struggles for Independence. This power vacuum saw the rise of America as a hegemon and the evolution of a new kind of post-colonial imperialism.

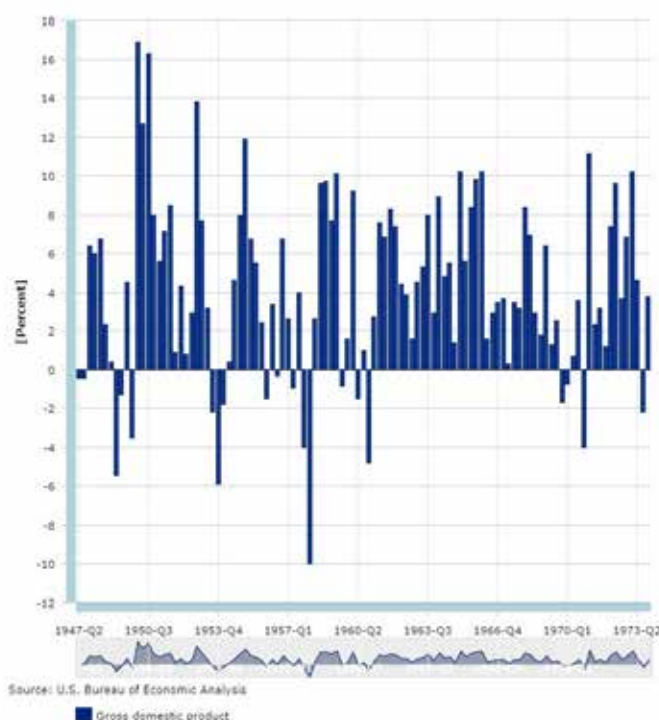
Capitalism under American hegemony

It is widely believed that the USA was able to recover from the depression by increasing government spending as mandated by the New Deal influenced by Keynesian economics. This period saw a compromise between capital and labour (Harvey, 2005) with expansionary fiscal policies that resulted in a welfare state, international capital flows curbed by capital controls and trade unions that engaged in collective bargaining. This era was called “embedded liberalism” (free markets embedded within state regulations) – a drift away from the dis-embedded markets that existed till the 1930s.

Till the 1970s, this Keynesian consensus prevailed as the dominant mode of thinking. The first two decades saw a fall in unemployment and a rise in economic growth rate that came to be called as the “golden age of capitalism.” The working conditions of labour and general welfare improved with the state actively pursuing redistribution policies. However, a Marxian interpretation of the scenario exposes the oxymoronic nature of regulated free markets and thus the limitations of Keynesian capitalism. The capitalist machinery can only sustain itself with profitability. This was seriously impacted due to the rising share of labour (due to the increased bargaining power of trade unions) in the national income. Thus, redistribution and macroeconomic regulation is at odds with the concentration of capital and thus the interests of capitalist elites themselves. Compounded by the impact of the oil shock and Vietnam War expenditures, the Keynesian consensus was abandoned for the resurgence of dis-embedded markets. This polarisation of “overwork and unemployment, prosperity and destitution” was characterised by Marx as the “absolute general law of capitalist accumulation” (Clarke, 2005).

Moreover, this concept of “golden age” itself becomes problematic when quarterly GDP data from the USA is scrutinized (see Fig 2.1). The years between 1945 and 1973 saw at least five instances of recession². The years 1950-53 that recorded the highest growth rate saw the US as a principal player aiding South Korea in the Korean War. Thus, the highest growth rate recorded during the Golden Age was possibly due to a military build-up during wartime.

Fig 2.1
Percent Change from Preceding Period in Real GDP during Golden Age (1947 Q2 to 1973 Q2)



This gives insights into the nature of how the success of industrial capitalism in the USA was tied to militarist interventions and sheds light on the post-colonial imperialist nature of the hegemonic state. Though the period saw a destruction of the value of capital due to the war and a labour-friendly welfare state, it is disputable whether it was the New Deal or the military expenditure that helped the US to recover from the Depression.

Capitalism after the 1970s

The limits of regulated capitalism manifested itself in the 1970s as the state cut down its expenditure and monetary policy was aimed at inflation targeting which was made official policy under the conservative governments of Ronald Reagan in the USA and Margaret Thatcher in the UK. This was done, however, at the expense of furthering unemployment which was tolerated because full employment was no longer the priority. With the state receding to the background, the ideological fervour of dis-embedded markets was restored. Accordingly, the policies that favoured the working class in the years that followed the World War were overturned. This marked the ascent of economic neoliberalism.

The resurgence of faith in the efficiency of free markets - was justified on the basis of assumptions in neoclassical models (rational expectations, continuous market equilibrium, and efficient financial markets) that were divorced from reality. The neoliberal era marked by deregulation saw an unprecedented rise in the status of finance, insurance and real estate (FIRE) sectors that were to drive the economy. These sectors were hailed as heralding the post-industrial society. The flipside of the story is that these were venues that facilitated rampant speculation and short term profit making under a deregulated atmosphere. The deregulation of finance was concomitant with the deindustrialisation of the metropolis – which was an inevitable outcome of neoliberal state policy that paved way for the hegemony of finance over industry. This was an assault on the working class that had consolidated its rights during the post-war Keynesian era.

In the international context, this was accompanied by globalisation that gained momentum by the setting up of supranational institutions. Big business firms were now able to shift production to regions that were favourable to profit-creation and use tax-havens to their advantage. The firms, while setting up production elsewhere, create jobs (which are not their primary motive, but an inevitable externality).³ Globalisation led the capitalists to take advantage of the vast labour reserves in the periphery at the expense of the working class in the metropolis. Eyeing this possibility, the state adjusts its policy so as to welcome further private investment. These include tax concessions, relaxing labour laws, providing land at throwaway prices, patenting ideas and processes, etc. The neoliberal project thus inevitably leads to a nexus between state and interests of private capital that is directed towards increasing private profits at the expense of the welfare of the masses.

Dumenil and Levy (2004) has linked this with the idea of “capital resurgent”: the reassertion of class power by the capitalists. This required dismantling the Keynesian state that raised the living standards of the working class via high government expenditure. Thus, the neoliberal era was marked by the subjugation of labour to the capital in a dialectical reversal of the consensus prevailing under the Keynesian regime.

These economic transformations were sustained via at least two developments within the superstructure of the capitalist system in the neoliberal era.

1. By funding academic research that tended to favour such policies and supporting think tanks that stood for unregulated capitalism (like Mont Pelerin, Heritage Foundation, etc.) The neoliberal thought thus came to dominate academic and research institutions and public policy (rollback of the welfare state, deregulation, corporate tax cuts, etc.) This had a considerable influence across

the world with the help of the international institutions like the IMF and World Bank. Friedman's (1951) hope of making neoliberalism the "the major current of opinion" thus materialized.

2. Corporate controlled media that is "manufacturing consent" (Chomsky, 1988) to state propaganda and creating a docile workforce that engages in mass consumption. This was facilitated by the proliferation of entertainment and advertising - what Adorno and Horkheimer (1944) called "culture industry." This process of *demand construction* has been rampant: the overshadowing of needs by ever-growing wants.

Thus, the neoliberal regime prevailed via a strong ideological hegemony that was aided in no small measure by the development of a global rationality via globalisation. This rationality was predominantly Western in nature and served the interests of the dominant capitalist class. Consumption of select global goods and access to world class services came to be treated as the yardstick of the betterment of living conditions in developing countries. Behind this veil of a very lopsided notion of development, the masses continued to suffer due to the withdrawal of the state from key areas like health and education.

Neoliberalism in India

The success of capitalism depends largely on the expansion of markets and the internationalisation of capital. This was achieved during the colonial period via subverting the political sovereignty of the peripheral countries in the direct territorial expansion. The mid-20th century saw the breakup of this order with freedom struggles in the peripheral Third World. Certain newly independent countries like India followed autarkic development policies like public sector expansion, bank nationalisation, capital controls, import substitution, etc. that went directly against the interests of foreign capital. Thus, India became one of the first countries outside the Soviet bloc to adopt a comprehensive centrally planned system.

Though the state aligned with the domestic bourgeoisie (big business houses) during this protectionist period, the economy was relatively insulated from the dominance of foreign capital. In fact, as was explained in the previous section, the volatility of metropolitan capital was in a way curbed by macroeconomic regulations in the metropolis itself. Thus, it is no surprise that India started depending on foreign capital in the 1980s when this regulatory framework was dismantled in the 1970s. This shows how capitalist relations are forged in the framework of global capitalism.

The New Economic Policy of 1991 is seen as the hallmark embracement of neoliberalism by the government. India faced a foreign exchange crunch that led to a Balance of Payments crisis. Subsequently, the policy decision was to adopt certain Structural Adjustment Programmes as recommended by the International Monetary Fund. This required reversing the policies adopted during the initial decades of Independence and encouraging foreign capital via deregulation. This push to a market-oriented economy has been vigorously pursued for over two decades and is an ongoing process. Thus, it can be said that private capitalism has triumphed in India over state capitalism since the 1990s.

The paradox of the high performing Indian economy is that not enough jobs are being created commensurate to the volume of foreign capital that is flowing into the economy. There is a negligible amount of employment generated in the public and the private sector, even though there is a large amount of FDI inflows in the economy (Mehra, 2013). This indicates a dissociation between employment generation and economic reforms. In fact, "jobless growth" has become a characteristic feature of neoliberal India. This is because of two reasons:

- 1) Job creation is not the primary motive of private and especially foreign players. Job creation, as mentioned earlier, is an externality to the objective of optimising profits. If the prevalent atmosphere jeopardizes this goal via regulations and labour-friendly laws, the capitalists will shift

their production to other regions. Two cases highlight this point. While Tata shifted its Nano car manufacturing plant from Singur, West Bengal to Sanand in Gujarat, Swedish firm Nokia shifted its production to Vietnam from Sriperumbudur in Chennai. While in the first instance, the state was enacting its prescribed role in the neoliberal regime which had to be overturned due to widespread opposition from the dispossessed peasantry, the second instance was one where the multinational moved to another country that offered more tax concessions.

- 2) The service sector is the largest recipient of the FDI inflow over the years. Though the largest contributor to GDP, the service sector lags behind in job creation. This is especially so because of the labour-displacing nature of the technology used in the sector. Thus, while investments in the service sector enhanced the productivity of the business, there has been relatively less employment generation. Moreover, the voluminous FDI inflows have been marked by its conspicuous absence of investment in the manufacturing sector that is labour intensive. Besides, the majority of the workforce is engaged in the primary sector and resides in the rural areas which are *relatively* untouched.

There are two important points to infer about the nature of capital from these scenarios:

- 1) The organic nature of capital allows it to be extremely volatile that can subjugate the interests of the state to facilitate the further accumulation of capital. The movement of capital is unbound by any national territory and hence, the state's appeasement of foreign investors can often come in conflict with the general welfare of the public and national sovereignty itself.
- 2) Neoliberal India has been pushing for 'competitive federalism' that essentially posits a contest among states to attract the maximum volume of private (and foreign) capital (for instance, competition for setting up Special Economic Zones where capital is allowed full sovereignty). This has exacerbated regional inequalities via creating pockets of high investment zones in certain states. This has weaved a dualistic narrative within the periphery itself.

While the popular debate in mainstream discourse seems to be about neoliberal fetishism of economic growth versus welfare oriented development, the subaltern (the Adivasis) in India are constantly excluded from such discourse as well as from the fruits of development. Though the subaltern has been treated as a subject of development policy, rarely has there been an encouragement of a participatory model wherein the subject transcends to garner agency to raise their genuine concerns. In fact, the mainstream growth trajectory that post-colonial India has carved for herself has resulted in a patchy development of the Indian metropolis via dispossessing the subaltern from their natural settings and appropriating resources from such ecosystems. Thus, the process of primitive accumulation is carried out in these peripheral regions where existing pre-capitalist structures are subverted to the interests of metropolitan capital.

Despite a large segment of the population being excluded from reaping the fruits of growth, the state continues to actively pursue further neoliberalisation of the economy. While there have been protests against the dominant development paradigm by the marginalised, the regime has succeeded in cementing support from a middle class that has become ambivalent about further liberalisation. Part of this has been due to their dependence on private capital for employment (despite the precarious nature of many such jobs) and also the expansion of a commodity culture that seeks to link identity of the self to a particular pattern of consumption. Interestingly, this narrative has undergone a peculiar modification with the ascension of the Narendra Modi-led government in 2014.

An observation of the current political and economic climate reveals that the context in which the neoliberal policies followed by the present government are different from what is traditionally understood. The Bharatiya Janata Party rode to power on a *Hindutva* agenda. While conventionally

such nationalist policies are opposed to foreign capital, the present government has openly called for further liberalisation. While the narrative has been weaved around decentralising power to the states via decisions like dismantling the Planning Commission and promoting competitive federalism, what has really happened is an upward concentration of economic decision making power to the central government (via policies like GST) that is habituated by neoliberal advocates. Thus, further neoliberalisation of the economy has been carried out parallel to right-wing upper caste hegemony in the cultural and social sphere. This cultural homogenisation along religious lines has found support among the electorate as is evident from the results of the several by-poll elections in 2017. Thus, directly appealing to the psychological depravities of a population alienated from the fruits of neoliberal growth has indirectly resulted in support for further neoliberalisation in what can be called neoliberalism with Indian characteristics. This can be interpreted as a synthesis of right-wing ideals with economic neoliberalism.⁴

Neoliberalism in Contemporary Global Political Economy

The year 2016 is of much importance in the study of capitalism as a historical development for the occurrence of two events: Britain's exit from the free market of European Union (Brexit) and the victory of self-proclaimed protectionist Donald Trump in the US presidential elections. Both events that went contrary to the outcomes predicted by experts were largely representative of a public discontent of unequal distributional benefits of growth from globalization. This should be interpreted as a countermovement by the working class against the hegemony of the establishment (though there was the hegemony of the anti-EU "Leave" campaign that lacked any remarkable roadmap for the post-Brexit scenario). In fact, one of the few regions that overwhelmingly voted to "Remain" was London – which is seen as a hub of finance capital. This makes clear the alienation that the working class has suffered from neoliberal policies that have favoured the financial architecture in a globalised world. Both Brexit and the Trump phenomenon were marked by a resurgence of nationalist sentiments as opposed to the cosmopolitanism that the two developed countries have been popularly thought to uphold.

While Britain proclaimed its commitment to continue with free trade, Trump has continued his protectionist rhetoric. This shift in the ideology of the US from a torchbearer of liberal capitalism to an advocate of autarkic policies with the professed aim to "make America great again" has created uncertainty around the fate of the globalization project. In fact, Patnaik (2017) interprets this as an end of the neoliberal conjecture as globalization has been cornered by a global demand deficiency. All tendencies to avert this possibility (namely the colonial policy of deindustrialisation, Keynesian model of direct state expenditure, and speculative asset bubbles) have been exhausted due to the internal contradictions of globalisation itself. Trump has resorted to an increase in military spending which amounts to a stimulus but does not solve the problem of demand deficiency. The only feasible alternative for Patnaik seems to be a welfare-oriented state which in turn may go against the interest of finance capital.

However, certain interesting developments have happened elsewhere. China that had hitherto nourished the *image* of a state capitalist country has openly committed to free market ideals. India, as explained earlier, seems to be following its own brand of neoliberalism. Saudi Arabia, with an overgrown public sector has decided to privatize certain state owned assets. These may be avenues where foreign capital may flow in the near future. Thus, though there may be a shift in the mechanics of globalisation; it is to be seen how global capitalism, dynamic as it is, adjusts to the changing conditions.

Without underestimating the capability of capitalism to mutate to new forms, it is pertinent to say that the Left parties worldwide can address the disenchantment of the deprived classes that have lost due

to neoliberal policies. A strong countermovement can materialise with the political mobilisation of the workers, peasants, and other petty producers who constitute the majority of the population. However, this alliance needs to cut across caste, culture, and religion by instigating class-consciousness that breaks free from the clutches of neoliberal ideological hegemony. This counter-hegemonic movement will find strength only when there is a proper understanding of the multidimensional nature of the neoliberal agenda.

The Concept of Neoliberalism Re-Examined

The term neoliberalism has a multitude of interpretations. “It is a migratory set of practice that articulate diverse situations and participates in mutating configurations of possibility” (Ong, 2007, p.4). In the initial years, the proponents of free market orthodoxy considered it to be synonymous with “freedom” and “reason”. Friedman (1951) writes that “the growing power of the State has brought widespread recognition of the extent to which centralized economic control is likely to endanger individual freedom and liberty” (p. 2). He clearly explains the role of the state under neoliberalism to “have the function of maintaining law and order and of engaging in “public works” of the classical variety. But beyond this, it would have the function of providing a framework within which free competition could flourish and the price system operates effectively” (p.3). This clearly explains the refashioning of classical liberalism. Neoliberalism exists on the premises provided by the state, i.e. the state is no longer the regulator, but the facilitator of the market.

The roots of this reconfiguration of the state’s role can be traced to ordoliberalism that promoted the social market economy in Germany. But ordoliberalism can be distinguished from neoliberalism in that the former required a state to provide for social security and other welfare measures. Neoliberalism, on the other hand, creates fictitious markets for public goods and social necessities that Polanyi (1944) considered to be a utopian project. Thus, neoliberalism emerged as an attempt to “privatize Keynesianism” without any social rationale. The strength of the neoliberal project rested on its “ideological appeal” rather than its “analytical rigour” (Clarke, 2005).

The privatization of the welfare state was accompanied by the growing influence of financial markets and institutions and accordingly, the financial elites. In the globalized world with limited capital controls, the national state was to act in sync with the interests of global finance. This was different from the era of controlled capital flows, where the state was acting in sync with the interests of domestic capitalists. Growing financialization in its international avatar thus compromised the national sovereignty of the state. This is evident in the scenarios of capital outflows (or threats of capital outflows) when the state attempts to engage in redistribution or labourfavouring policies. This liberalization of capital flows and growing financialization of the economy manifested itself in a number of crises like the Latin American debt crisis (1980), Exchange Rate Mechanism crisis (1992-93), East Asian financial crisis (1997), Argentinian crisis (2001-02), the dot-com bubble (2000) and the subprime mortgage crisis (2007-08).

The distortion of what was traditionally understood to be the domain of the Keynesian state could be seen in the labour market. Rules, regulations, and customs which upheld the interests of the working class were seen as impediments to the progress of profit creation. Institutions that represented labour’s interests like trade unions were subsequently diluted with the dilution of the compromise between labour and capital. Dumenil and Levy (2004) interpreted this exclusively as a political project that aimed to restore the power of the capitalists. This conflict was masked to an extent by the changing nature of the corporate firm. In the neoliberal economy, corporations are headed by individuals that are hired on a contract basis and are paid according to the profits made. This ‘hire and fire’ mechanism encourages risk taking and speculative behaviour.

This remodeled economy has been equated with the resurgence of the idea that marketization is modernisation (Bhagwati, 1998). However, this process of modernisation, especially in India, was accompanied by a shift from an agrarian to a post-industrial “stock-market economy” which is entirely misguided as it pays lip-service to the much-needed industrialisation (Bagchi, 2006). Economic neoliberalism, thus, can be broadly interpreted as follows:

- Financialisation of capital and the economy that encourages short term profit creation rather than the long term interests of the organisation
- Focus on labour productivity in the production sphere via increased automation and globalisation (taking advantage of the reserve army of labour in the periphery)
- Change in the nature of leadership of corporate firms that posits a myopic vision
- Deregulation and privatisation that expands markets for protecting the interests of the capitalists.

Neoliberalism, however, was not simply an economic theory but a comprehensive political philosophy, theory of law, economic history and historical sociology (Dean, 2014). It should not be seen in the economic sense also that alters the role of the state. It has systematically evolved from a political project to an ideological project – that is, of course, linked to material interests. This hegemony in the realm of ideology has found expression in academic institutions, media and public policy which fosters a circular flow that is hard to break. Thus, neoliberalism should be studied with great emphasis on the superstructural component of the capitalist system.

The growing class conflict between the working class and capitalists can be linked to the studies of Wacquant (2012) and Aviram (2015) that look into the effects of the growing penal wing of the state and the privatization of prisons (run on a for profit basis) that result in mass incarcerations in a neoliberal capitalist environment. The Repressive State Apparatus (in the Althusserian sense) is used extensively to create an atmosphere favourable for big capital. This was accompanied by a psychological and social reconstruction of ideology in a way that justified the immense wealth appropriated by the elites and the glaring inequalities that existed in the society. The argument that wealth creation is an outcome of merit was proved wrong by Piketty (2014) where he empirically proved the resurgence of patrimonial capitalism; similar to what existed in the Victorian era. Parallel to this, the idea of public good and community has been dissolved in favour of the self-interested individual finding a place in the society dictated by the forces of the market. This has serious psychological implications and a crisis of identity as is explained by Verhaeghe (2011). In short, the tangled mess that is the modern usage of neoliberalism may be telling us something about the tangled mess of neoliberalism itself (Peck, 2010).

Notes

1. Liberal capitalism was prone to a number of crises of relatively lesser magnitude like in 1873, 1893, 1901 and 1907.
2. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP).
3. The term externality is not used in the neoclassical sense – but in the philosophical sense, i.e., that which is existing outside the perceived subject.
4. This combination of ethno nationalism with economic neoliberalism has also been carried out in Israel where sentiments were ratcheted up against Palestine. But, this was a product of geographical tensions and the ideals of identities that are proclaimed to be upheld are not actually embodied by the members of the state.

INEQUALITIES RE-EXAMINED

This chapter explores major philosophical works on inequality and attempts to map the trends in inequality with the historical development of capitalism to its present stage of neoliberalism. I conclude the chapter by citing possible reasons for the same.

Inequality in Philosophy

Equality has been considered for a long time to be an element of distributive justice. The concept was first commented upon by the ancient Greeks (Aristotle's *Nicomachean Ethics*). Aristotle believed in natural inequality and argued for curbing economic inequalities by building a strong middle class. However, the concept of equality underwent a radical revision with the Enlightenment era. Thinkers like Hobbes (1651), Locke (1690) and Rousseau (1755) postulate the idea of equality in a hypothetical state of nature that represents an asocial setting. These philosophers have conflicting views among themselves regarding the nature of human condition – for example, Rousseau's view of the morally innocent primordial man was a contrarian response to the Hobbesian view of viewing the state of nature as “solitary, poor, nasty, brutish, and short” (Hobbes, 1651). Nevertheless, this line of thought speculates on some possible developments of the unequal society as we know it. For example, for Rousseau (1755), “physical inequality” exists naturally, but “moral inequality” has been the result of the development of private property. Similarly, Thomas Paine in his *Agrarian Justice* (1797), critiques the inequalities that have materialised due to the ownership of personal property that has come about with civilizational progress.

More recent developments within the realm of moral philosophy include the works of Rawls (1971) who revised the institutional social contract tradition and Sen (2007) who challenged the Rawlsian position by arguing for a more capability-driven approach focusing on what actually happens to people (see Maffettone, 2011). However, these propositions as profound as they are, are set within the framework of capitalism. A critical analysis of the capitalist system gives us key insights as to why growing inequality is inevitable, and in fact, of paramount importance for the sustenance of the system.

The pre-capitalist feudal structure had glaring inequalities. However, in such structures, the have-nots accepted their fate due to exogenous factors with little hope of upward social mobility. This attitude shifts in the industrial and particularly, post-industrial neoliberal period where the hegemonic opinion is that the have-nots remain so due to their incompetence. This shift in ideology was strengthened by the notion of a meritocratic argument, as explained in the previous chapter. The current chapter attempts to disprove the same by attempting a sociohistorical study of inequality.

Inequality – A Marxian Analysis

From a Marxist perspective, there are at least three arguments that critique capitalism for its reliance on inequality

1. At the heart of any capitalist structure lies the capitalist-worker class difference. The capitalist owns the means of production, while the worker does not. This gives the capitalist unfair advantages like the power to suppress wages and expel workers. This power relation is key to understanding inequalities in capitalism.
2. The organic nature of capital and the tendency of capital to accumulate and circulate - this is carried out initially by primitive accumulation that subverts pre-capitalist structures, which is followed by proletarianization of those thrown out of work. However, the dispossessed cannot be absorbed indefinitely into the workforce – that creates reserve armies of labour, especially due to the international circuit of capital in the globalized world.
3. The tendency of capital to concentrate which is manifested in the cut-throat competition among capitalists resulting in the continuous subsuming of smaller capital by bigger capital resulting in monopolies. The role of the capitalist, in fact, is the increased accumulation of wealth and in that, he is “capital personified and endowed with consciousness and a will” (Marx, 1867, p.107).

These phenomena are not isolated from one another. They are inextricably intertwined and can occur either simultaneously or sequentially. Inevitably, the transformative changes made by capital in the production sphere or the market have its effects on the social sphere – which becomes evident when a class analysis is taken into consideration. Thus, it logically follows that capital exerting itself over labour would widen the inequality existing between the capitalists and the working class, i.e. those who own the capital would get richer while those who only have their labour power to sell would be worse off.

This inequality in income due to the class dichotomy begets an inequality in the socio-political sphere. For example, the concentration of capital due to its imminent tendency to do so results in the creation of monopolies that can exert considerable influence in the marketplace. This can thwart competition by wielding more power than disaggregated small capital. These monopoly capitalists or ‘big business houses’ have considerable say in governance. This can be purely due to financial muscle (lobbying, corruption, etc.) or due to the necessity of the state to take these capitalists into confidence to retain investment and create jobs. Thus, the state is compelled to succumb to the interests of the capitalists or more specifically to the diktats of unregulated capital. This is done often by the perversion of public policy by distorting the conventionally perceived role of the state as a provider of basic services. This has considerable negative externalities on the life of those who are not well-off. This web of causation shows how vicious cycles can be generated.

In the neoliberal era, capital is financialised. The financialisation of capital lends it a rootless transnational character and the state is even more forced to adjust its policy to the interests of finance capital. If the state tries to intervene in the market that upsets the interests of finance capital, i.e. that impedes its quest for further profits, there will be a capital flight. This means that finance capital relocates itself to other regions that are willing to bend its policies or to safer havens that guarantee a stable policy

(this can be the USA, for example). Thus, we see a remodelling of the state apparatus in the neoliberal era. This is important as the state is perceived to be the only legitimate institution that can implement policies to redistribute surpluses and reduce inequalities. Compromising national sovereignty leads to cronyism that jeopardizes democratic values.

However, the existence of some form of inequality is seen as an inevitable aspect of any form of society. Perfect equality or sameness is inarguably a utopian project and jeopardises the vibrant diversity of human communities. Despite being advocates of a communist society that is ideally seen to be synonymous with a harmonious society where inequalities cease to exist, Marx and Engels did not envision a perfectly equal society. This is in very simple words explained by Engels (1875) in his letter to August Bebel, where he writes that “the elimination of all social and political inequality, rather than ‘the abolition of all class distinctions, is [...] a most dubious expression. As between one country, one province and even one place and another, living conditions will always evince a *certain* inequality which may be reduced to a minimum but never wholly eliminated. The living conditions of Alpine dwellers will always be different from those of the plainsmen.” (p. 3).

Equality was a bourgeois political notion associated with the French Revolution. In Marxist analysis, the concept of equality is seen as a vehicle that distracts the masses from the class oppression that prevails in a capitalist society. “The concept of a socialist society as a realm of *equality* is a one-sided French concept deriving from the old “liberty, equality, fraternity,” a concept which was justified in that, in its own time and place, it signified a *phase of development*, but which, like all the one-sided ideas of earlier socialist schools, ought now to be superseded, since they produce nothing but mental confusion, and more accurate ways of presenting the matter have been discovered” (ibid, p. 3 - 4).

Thus, a radical change is impossible within the coordinates of the capitalist system. While explaining the labour theory of value in his *Value, Price and Profit*, Marx writes that the “cry for an equality of wages [...] is an offspring of that false and superficial radicalism that accepts premises and tries to evade conclusions.” Wages in the labour market are bound to differ because of differences in the labouring power and production of different commodities requires different amounts of labour. “To clamour for equal or even equitable retribution on the basis of the wages system is the same as to clamour for freedom on the basis of the slavery system” (ibid, p.18).

The proletarian demand for egalitarianism thus should significantly differ from the bourgeois notion of equality. The latter is seen by Marx as essentially a superstructural notion that masks the class differences and dilutes the conflicts that essentially arise from it. This is why there is a significant departure from the traditional yet radical Marxian idea of equality from the more modern work done by Rawls. A revision of the social contract would have been for Marx a restatement of the interests of particular sections of the society. Thus, a Marxian vision of inequality fundamentally differs from most mainstream conceptions of inequality primarily because the latter group of theories take into account class differences as inevitable and hence, do not transform the status quo. Socio-political institutions cannot be expected to solve these issues as they serve as extensions of bourgeois interests. Real equality, therefore, would be achieved only with an emancipatory transformation to a post-capitalist society.

Situating Inequalities in a Multidimensional Context

I have deliberately used the very broad term “inequality” so as to capture the multidimensionality of the subject. Inequalities of one form most often coincide with other forms and tend to reinforce each other. This section also aims to justify the need to actively engage with the issue via redistributive measures as opposed to the neoclassical theory of *laissez-faire*.

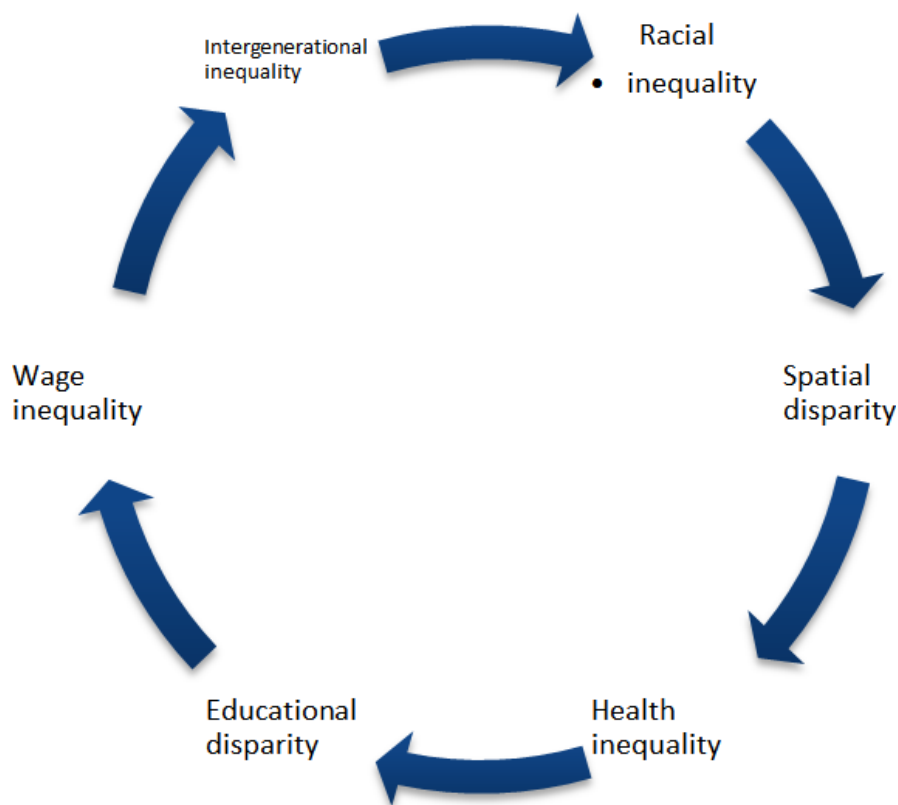
For example, individuals who are discriminated against on the basis of some abstract social notion (for example, race) are likely to concentrate in certain regions of the urban space. Congestion can create

negative health effects that can affect the educational attainment of that individual. This affects the individual's job prospects and the person is likely to land a low-income job in poor working conditions. This trend can continue to the next generation which reinforces the whole vicious cycle. One can clearly see a web of causation at play that fosters a vicious cycle of inequalities (Fig 3.1).

In this very simple hypothetical example, there exists racial inequality, spatial disparities due to segregation in the urban space, health inequalities, educational outcome disparities, wage inequality due to landing a poor job that leads to low income for the family and poor prospects for the children of the household. The working poor who only possess labour power find themselves in this quagmire with little scope for upward social mobility.

There is very little that the individual can do as the general cause of the person's plight lies external to him/her. Yet, inequality is often treated as an outcome of individual callousness. While this may be true to some extent, inequality and poverty in reality is the outcome of social dynamics that fall outside the individual's realm of control. This outlines the need for concerted interventions in the form of redistribution as opposed to the neoclassical theory of "letting the individual alone". However, as explained earlier, the state is unlikely to engage in such measures as they upset the interests of the capitalists.

Fig 3.1
Overlapping Inequalities – A Vicious Cycle Approach



Facts and Figures

This section examines the facts and figures of various inequalities. The first part analyses global inequality, followed by the American, Nordic and Indian cases.

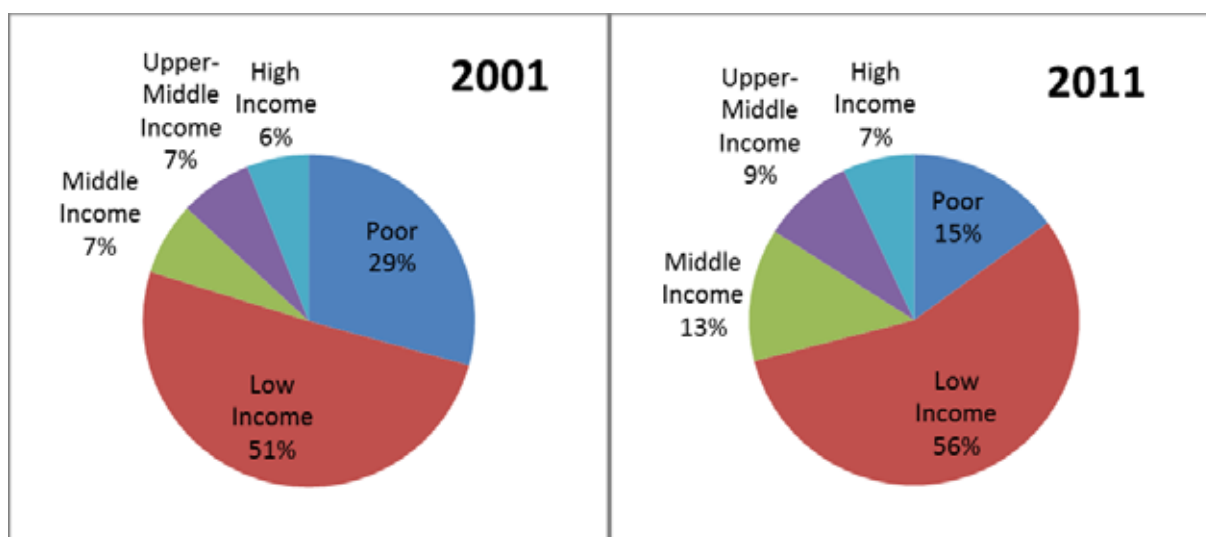
Global Inequality

If the world was perfectly equal, then each individual would be getting \$16892 annually that amounts to around \$1260 per month¹. This is obviously not the case. Inequalities in wealth and income have been gaining considerable attention since Piketty's 'Capital in the 21st Century' (2014). Economic inequality exists in wage payments, income distribution and wealth accumulation and varies according to the nature of work, socioeconomic (family background, education, health conditions, communitarian features, etc.) and geographic conditions at play. Though there have been several discussions and debates both politically and academically since the publication of Piketty's work, there has been little change in reality. "Since 2015, the richest 1% has owned more wealth than the rest of the planet" (Hardoon, 2017). The report titled 'An Economy for the 99%' raised several key figures that reveal the extent of wealth inequality today. Perhaps the most glaring of them all is that eight people own as much as the bottom 50% of the world population.

The Global Wealth Report (2016) by Credit Suisse finds that wealth shares of the top 1% and top 10% continue to rise with respect to the rest of the population. The data is based on the available estimates of the wealth holdings of the household, i.e. "the marketable value of financial plus non-financial assets (principally housing and land) less debt" The report finds that the bottom 50% of population own less than 1% of the total wealth, while the top 10% own 89% of all global assets.

Milanovic (2016) estimates that inequality within countries has increased while there has been a growing middle class in emerging economies that have contributed to a reduction in global inequality. Thus, economic growth in countries like China, India, Brazil, etc. has helped reduce extreme poverty in the world². This change can be seen in Fig 3.2.

Fig 3.2
Global inequality in 2001 and 2011



Source: Author's representation from data compiled by the Pew Research Center 3

However, the millions lifted out of poverty do not enjoy secure lives as a considerable amount of them still live in the low-income groups. Low-income groups are particularly vulnerable to various kinds of shocks and they are less insulated than the higher-income groups. Moreover, poverty cannot be understood in its entirety as a static concept, it tends to be very dynamic and also multidimensional. Thus, though extreme poverty has been reduced, a vast number of those lifted out of poverty live in precarious conditions. Comparatively, the growth of the middle class has not been sufficient. Thus,

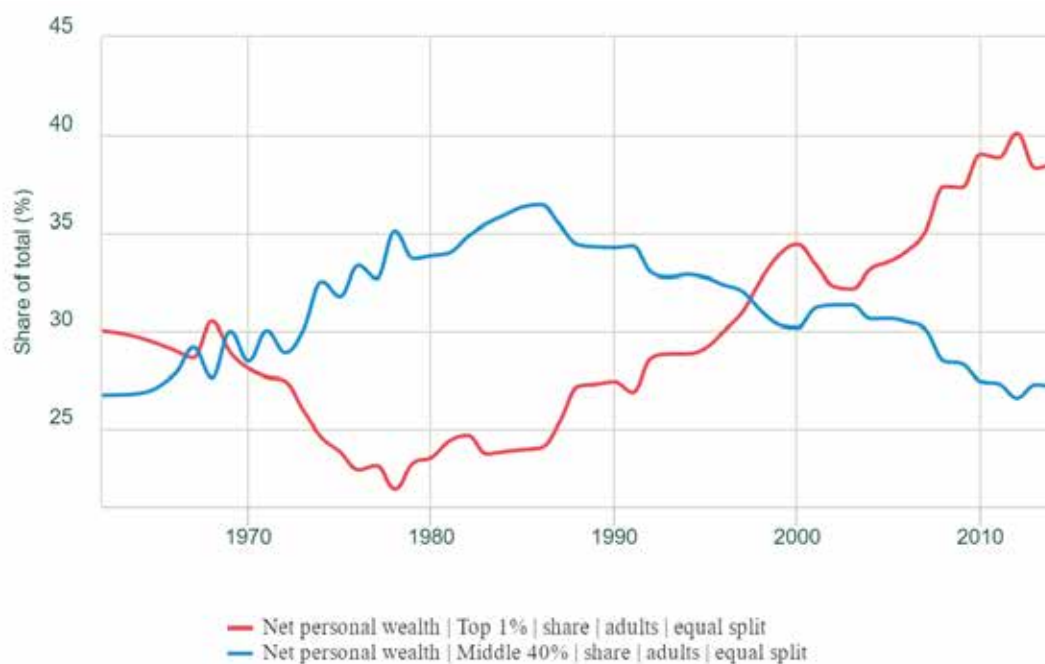
it logically follows that as the lower and middle-income classes are not benefiting from the wealth generated, a significant amount of it is redistributed upward towards the richer sections of the society.

This raises the question of whether there has been a convergence between the capitalist countries of the North and South. Pritchett (1996) examines the trend of per capita incomes historically between 1870 and 1960. He notes that there has been a massive divergence between the richer capitalist countries (the US) that grew at roughly nine times more than the poorer countries. Milanovic (2013) using Gini value finds that between 1960-80 global inequality remained roughly constant, increased till 2000, fell to the recession, and increased again. Measuring inequality by taking into account their weighted populations, there seems to be minimal convergence – which fades when India and China are excluded from the analysis. Thus, there seems to be a divergence than convergence between the North and South.

The American “Dream”

The phenomenon of internal divergence between the elites and the poor can be clearly seen in the USA. Fig 3.3 analyses the wealth inequality between top 1% and the middle class (considered by Piketty’s definition as the 40 percent population share between the top decile and median).

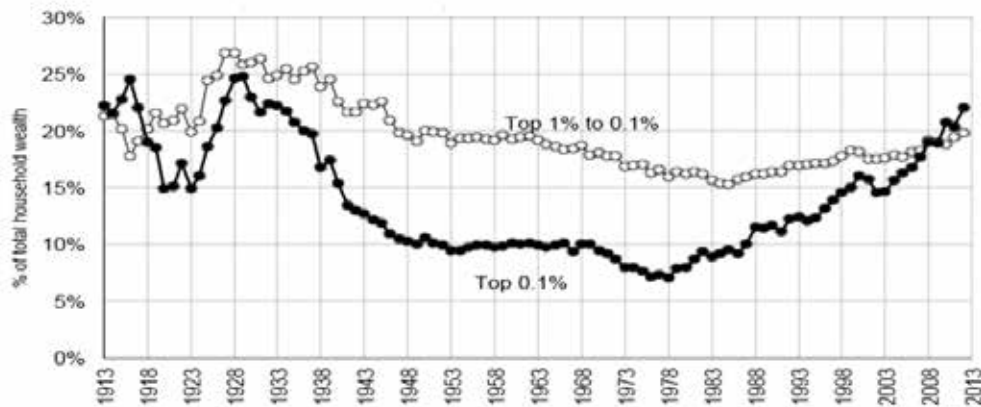
Fig 3.3
Wealth Inequality in the US (1962-2014)



Source: *World Wealth and Income Database*

As can be clearly seen, there has been a significant increase in the wealth shares of the top 1% since the 1980s – the era that marked the advent of rampant neoliberalism. Saez and Zucman (2014) decomposed the top 1% share and shows how the growth in top 1% has been partly due to a surge in the wealth share of the top 0.1%. The top-one thousandth of the population owns over one-fifth of the country’s wealth.

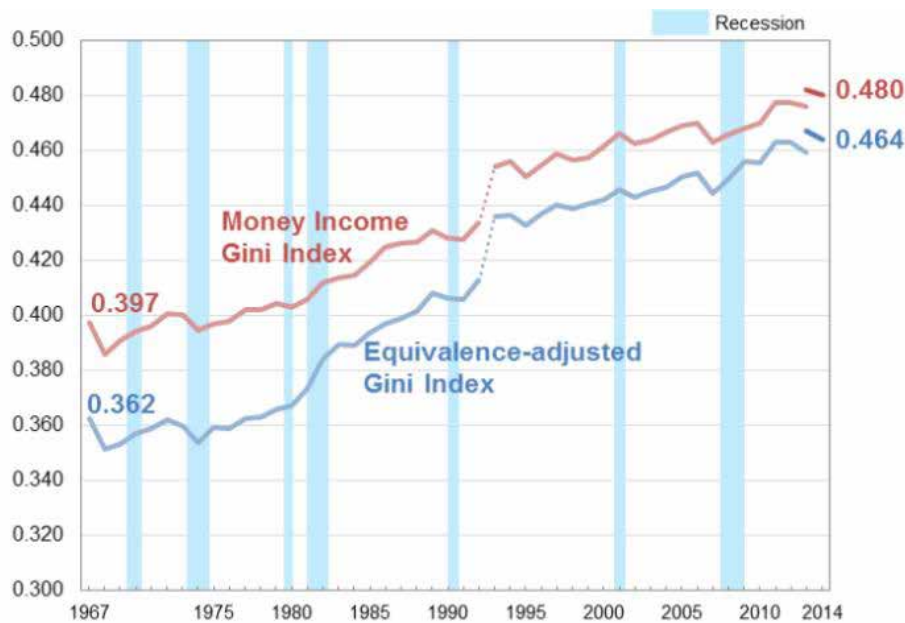
Fig 3.4
Top 1-0.1% and top 0.1% wealth shares in the USA, 1913-2012



Source: Saez and Zucman (2014)

This graph clearly shows the level of extreme inequality in the neoliberal period by revealing the extent of inequality within the top 1% itself. This is extremely important as it emphasises the point that a minority within the minority elite is amassing a major part of the increase in wealth. Income inequality has also been increasing considerably, but to a lesser extent than wealth inequality (ibid). Fig 3.5 shows the trend of income inequality in the US using Gini values.

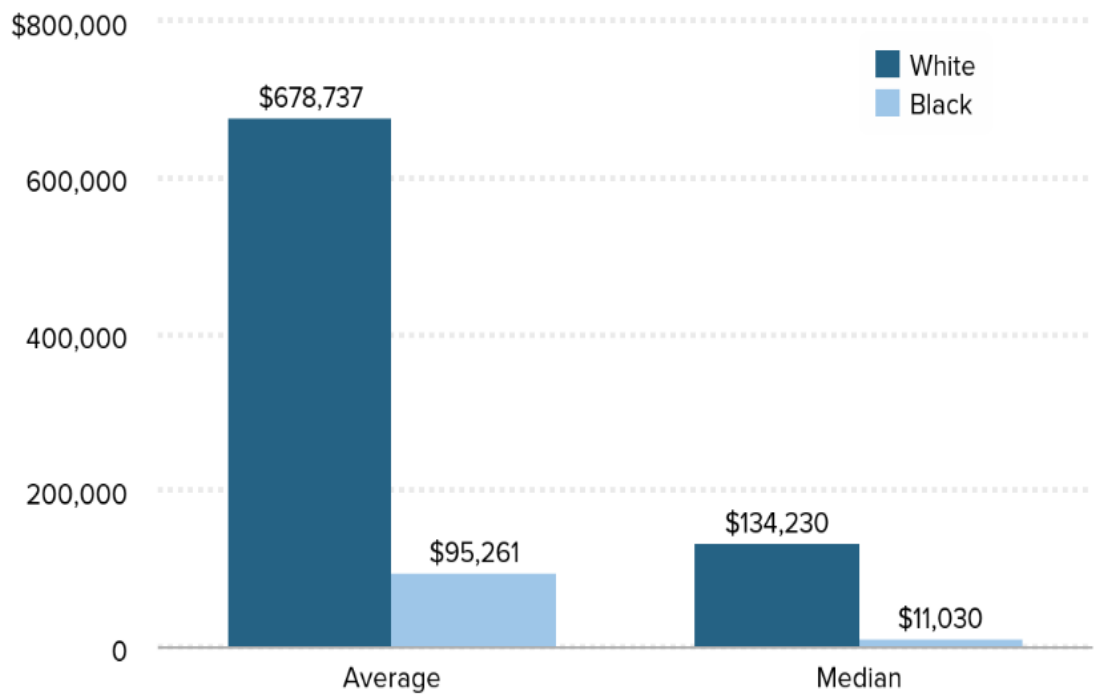
Fig 3.5
Gini Index of Money Income and Equivalence-Adjusted Income in the US 1967-2014



Source: U.S. Census Bureau, Current Population Survey, 1968 to 2015 Annual Social and Economic Supplements.

To get a clearer picture of inequalities, racial inequalities can be studied. As illustrated in Fig 3.1, being born into a community that is discriminated against historically can lead to stagnation or worsening off of conditions, especially when there are little policies that can cushion against the uncertainties of global capitalism. The following figure shows the unequal wealth distribution between the white and black households in the USA.

Fig 3.6
Median and average wealth, by race



Source: Economic Policy Institute, Survey of Consumer Finances

While neoliberal policies have affected the average American household, the effects are compounded for those communities that have faced discrimination. The privatization of quasi-public goods like education and health has compounded the vicious-cycle trap. This is why hopes for prosperity in the US remain a “dream” for vast sections of the population.

Nordic Model: An Egalitarian Alternative?

I have exclusively focused on the trends of inequality in the USA because of its repute as ‘the leader of the free market’. Nordic capitalism (referring to the systems in Scandinavian countries: Sweden, Denmark, Finland, Iceland and Norway) is touted as an alternative to the US model of capitalism. What distinguishes the Nordic model is its commitment to a strong welfare state, collective bargaining, and free markets – a system that has come to be called social democracy. Social democracy attempts to minimise the ill effects of capitalism without replacing the system with any radical alternative (Kenworthy, 2014). The success of this model is most evident in the Nordic countries being ranked consistently high in the World Happiness Report. However, the Nordic model is not an exception to my argument of an inevitable rising inequality within capitalism. Though income inequality is relatively less (due to collective bargaining), it has been showing a rise for the past three decades. More pronounced is the level of wealth inequality that exists in the Scandinavian countries – registering the

highest levels in Europe. Denmark has more wealth inequality than the USA. This is significant because it counters the egalitarian assumption associated with Nordic countries. Concentration of wealth has considerably reduced the scope for upward social mobility particularly in Sweden (Clark, 2013)

Table 3.1
Income Gini (various years) and Wealth Gini values (2008)

Countries	Income Gini	Wealth Gini
Denmark	29.1	80.8
Finland	27.1	61.5
Iceland	26.9	66.4
Norway	25.9	63.3
Sweden	27.3	74.2
United States	46.1	80.1
<i>World</i>	-	80.4

Source: Income Gini: World Bank, Wealth Gini: Davies et al (2011)

The Indian Case

India is praised for its success in the frontiers of economic growth. This is especially so because of its nature as a post-colonial economy that was subjected to economic colonialism as a part of the British Empire. The trajectory of Indian GDP shot up from the 'Hindu rate' (3-5%) to higher rates (6-7%) after the New Economic Policy of 1991. The structural reforms pushed the economy to a post-industrial phase with little progress in manufacturing and with the majority still employed in the primary structure Table 3 that contributes relatively lesser to the GDP. Thus, the service sector that propelled the Indian economy did not perform as expected by the authorities to alleviate the employment issue on the ground – mostly due to the technologically reliant nature of the jobs that are essentially labour-displacing. The high growth rates were due to a credit-boom that spurred consumption by elites and middle classes (Chandrasekhar, 2016). It is in this context that the state withdrew from its public roles of providing basic services like health and education. This has contributed to increasing inequalities in India.

Wealth inequality was estimated by Hardoon for Oxfam (2017) that estimated that the richest 1% owned more than half of India's wealth. 57 billionaires have as much wealth as the bottom 70% of the Indian population. In sharp contrast, the bottom half owns just over 2% of the country's wealth. While India prides in having an increasing number of billionaires, the flipside of the same is that the country is home to the largest number of malnourished in the world.

Though notoriously inadequate, a rough idea of growing inequality can be studied from the evolution of the fiscal incomes (excluding capital incomes) of the top 1% in India. The U figure clearly shows that there has been a declining trend of inequality in the dirigiste period where there was an active public sector expansion, sympathetic to the domestic bourgeoisie but intolerant of international finance. This takes a U turn with the 1980s when the ascendancy of neoliberalism – reversing the redistributive gains acquired by the post-Independent state in the first three decades since 1947.

Fig 3.7
Top 1% Fiscal Income Share, India, 1923-1999



Source: World Wealth and Income Database

The 70th Round of the NSSO survey on Household Assets and Liabilities can be used to measure the rural-urban inequalities in asset distribution.

Table 3.2
Rural India asset inequality

Average value of assets of bottom 10%	Rs. 25071
Average value of assets of top 10%	Rs. 56.89 lakhs

Table 3.3
Urban India asset inequality

Average value of assets of bottom 10%	Rs. 291
Average value of assets of top 10%	Rs. 1.45 crores

As is clearly evident, urban inequality is very much higher than rural inequality. The top 10% in urban India own around double the assets of the top 10% in rural India on an average. One of the reasons for the low asset ownership of the urban poor is due to rural urban migration.

Table 3.4
Gini Coefficient of Consumption Expenditure

	1983	1993-94	2004-05	2009-10	2011-12
Rural Gini	27.10	25.80	28.10	28.40	28.70
Urban Gini	31.40	31.90	36.40	38.10	37.70
All India Gini	29.80	30.00	34.70	35.80	35.90

Source: Compiled by Himanshu (2015) from NSSO data

The evolution of Consumption Gini in rural, urban and all India levels shows a consistent rise since the implementation of the Economic Reforms. It is understood that the rich tend to consume less due to their high income because of the low Marginal Propensity to Consume (MPC). The poor, on the other hand, save less and consume more in order to meet their immediate needs. Thus, if the consumption of the poor has fallen, it follows logically that their incomes have also fallen (under the assumption that the rich have low MPC). However, it is widely believed that surveys tend to understate the level of inequality that exists in the economy.

Interpreting the Data

In the previous section, I showed how inequality has been significantly on the rise over the past three decades. I attempt to explain why in this section.

Neoliberalism, being very comprehensive in nature, makes it impossible to lay one's fingers on one component in particular for the rise in inequalities – rather, it is a host of phenomena that can be broadly recognized under the neoliberal agenda.

One reason why this happens is that labour's share of output has been affected in the neoliberal period, partly due to a shift to more technologically reliant post-industrial society and also due to a reassertion of the capitalists due to reduced profits during the regulated era. This was carried out by a concerted effort to push down tax rates for the high-income groups (Fig 3.8) and also, due to the dismantling of trade unions that has severely diminished the collective bargaining power of the working class (Fig 3.9). While labour productivity increased, wages remained stagnant that worsened the plight of the poor (Fig 3.10).

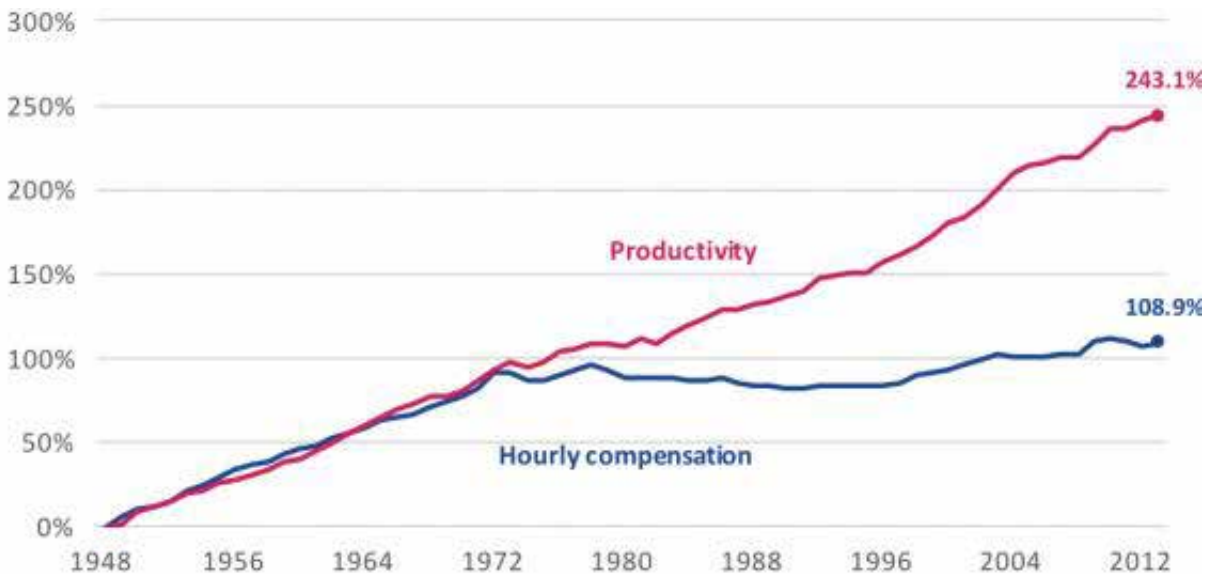
Fig 3.8
Top Marginal Income Tax Rates, US



Fig 3.9
Top 10% Income Share and Union Membership, 1917-2012



Fig 3.10
US Productivity and Real Hourly Compensation, 1948-2013



Source: Economic Policy Institute, inequality.org

It is evident from the graphs that the glaring inequalities started accelerating with the ascent of neoliberalism. The context in which these phenomena occurred also underwent a significant change. One reason is how globalisation led to the outsourcing of production from developed countries to countries like China with vast low paid labour reserves. This helps suppress wages in the North (where labour reserves are not as large) and maintain low-paid labour in the South. The weakening of labour unions in this changed scenario impeded organised resistance against this worsening-off of the average worker.

Post-war regulated capitalism affected the profit share of capitalists and this pushed them to speculative domains of finance. The financialisation of capital led to prioritizing 'speculation' over 'enterprise' –

with ‘functionless investors’ (using Keynes’ words) attempting to increase their short-term profits. It is not merely deregulation that is causing problems in the financial sector, but the inherently volatile nature of finance that is causing most of the problems. To be sure, the inequalities that arose due to the development of deregulated finance are only an organic development within capitalism. State intervention that redistributes national income in favour of the working class always goes against the interests of the capitalists, which would inevitably result in the withdrawal of such redistributive policies.

The change in the nature of organisation aided these growing inequalities. The 20th century saw the evolution of managerial capitalism – a growing ‘technostructure’ (Galbraith, 1967) that steered corporations with long-term interests. Interestingly, this group of managers emerged as a bridge between the workers and the capitalists – contrary to the class dichotomy in Marx’s analysis. However, due to the internal contradictions of capitalism, this could not continue under neoliberalism. Neoliberalism saw the fragmentation of the middle class and a further upward redistribution of wealth (favouring the topmost executives). The dominant model of enterprise became the shareholder model – where the wealthy had the ultimate say in the running of a corporation, contrary to the stakeholder model. The neoliberal corporation aimed at maximising profits for the shareholders – most often at the expense of the working class.

These changes in production should be seen along with a vigorous encouragement of consumption in contemporary capitalism. This aspect is difficult to measure with hard data but can be seen with keen observation. Advertising is an important tool in this respect. This ideological influence greatly contributes to the proliferation of wants which helps to sustain demand for the products that corporations produce. This demand construction has contributed largely to the refashioning of what is perceived as the “self”. The identity of an individual is continuously defined by the commodities that he owns. Commodities are equated with status symbols and the society largely determines the position of the individual by the objects he buys. Thus, an individual is defined by his consumption pattern – which reduces the self to a mere consumer. This has wide existential questions. Alienation thus prevails not only in the production sphere but also in the consumption sphere.

It is true that increasing consumption expenditure is a vital component of aggregate demand and is desirable. However, rampant consumerism has several undesirable implications. Ecological exploitation is one of them. Demand for commodities is being met at any means by enterprises, often jeopardizing existing ecosystems. The demand for automobiles and the externality of vehicular pollution is a prime example. The growing consumer culture has ethical implications also – resulting in a docile workforce that is often at the expense of healthy dissent in a democracy. Alienation, thus, makes people turn to commodities to answer existential questions related to being and meaning. This deeper psychological implication of ideology is often ignored by Marxist scholars.

Notes

1. This rough measure is based on author’s calculation. This has been found by dividing World GDP at PPP: \$126.69 trillion (IMF Economic Outlook April-2017) and global population estimate: 7.5 billion. Equivalent per capita monthly income has been found by subtracting 10% capital depreciation (Piketty 2014) from the per capita GDP estimate.
2. Income groups are defined as follows: The poor live on \$2 or less daily, low income on \$2.01-10, middle income on \$10.01-20, upper-middle income on \$20.01-50, and high income on more than \$50; figures expressed in 2011 purchasing power parities in 2011 prices. (Kochhar, 2015)
3. Pew Research Center has prepared the data from the World Bank PovcalNet database (Center for Global Development version available on the Harvard Dataverse Network) and the Luxembourg Income Study database.

Chapter 4

CONCLUSION

This study attempts to trace the evolution of capitalism to its present stage of neoliberalism. I have attempted to look at this transformation from both orthodox and Marxist perspectives based on my preliminary readings. The Marxist perspective offers a more radical yet realistic analysis of the capitalist system by stressing on the class nature of society. Capital is to be seen as an organic component that vests in the capitalist with certain powers. Inequality in the ownership of capital due to concentration inevitably results in an upward redistribution of power. This feature of the capitalist system is emphasised to convince my argument that any measure to completely alleviate the deprivation issues faced by the poor will be ineffective within the coordinates of a capitalist system.

I have attempted to provide a historical understanding of global capitalism under different phases. Perhaps what is understood as the Golden Age was merely a romantic conception of the potential for sustained reform of capitalism. The Golden Age of American capitalism, in fact, was ridden with fluctuations that were tamed by strong government regulations. However, due to the internal contradictions of the “class compromise” between capital and labour within the system, the Keynesian consensus broke down. The neoliberal era that followed saw the privatization of the hitherto *public*, dismantling of trade unions, corporate tax cuts, deregulation, and the globalisation of production that rendered the working class powerless.

In this work, I have stressed on the need to understand neoliberalism in a multidimensional context. Despite a major setback in the form of the Global Financial Crisis in 2008, the neoliberal project still continues unabated. It should not be narrowly viewed as a change in economic policy, but as an ideology that comes with a diverse set of implications. It is precisely this superstructural component of the project that lends it the flexibility to be implemented in any political system. As an ideology, neoliberalism has been able to convince mainstream academia, media and policy makers the virtues of unrestricted capitalism. Accordingly, neoclassical orthodoxy is still the dominant paradigm in the teaching of economics. There needs to be more vigorous discussions as to how to undo this dogmatic hegemony and involve more pluralism in the teaching of economics.

In the socio-cultural sphere, the neoliberal project has been associated with refashioning of certain abstract concepts like individual responsibility, competition, and merit. This is very significant as it shapes the subconscious of the masses. As the state recedes from providing essential public services, the individual is left to fend for himself in the market dictated by corporations. One important phenomenon that has been gaining momentum (especially in neoliberal India) is the startup culture that creates an impression that anybody can be an entrepreneur. This is aided by credit supply by financial institutions. While there are obvious success stories, five out of ten startups fail in the first four years (Small Business Trends Report, 2016). This raises uncertainty around this profession,

I have devoted a chapter in this project to analyse economic inequalities and social inequalities (racial inequality is studied in particular) in the neoliberal period. Using data available in the public domain, I have proved my point that inequalities tend to accelerate in the capitalist system. This is not merely the result of deregulation but due to the imminent tendency of wealth concentration in capitalism. This plays severe limits on measures to curb inequality within the system as measures to counter the systemic tendencies will result in an eventual breakdown of the system in that particular state. Some of these measures that are in mainstream discussions (from various reports of World Economic Forum, OECD, etc.) are:

- Tax policies that are progressive in nature. Piketty (2014) has argued for a global tax on capital citing that it is the uneven distribution of capital incomes that is worsening inequalities.
- Greater social spending on public services like health, education, and social protection that ensures well-being of the general population
- Though collective bargaining by unions was seen as market imperfections, there has been a growing support for strengthening trade unions by several organisations (like Oxfam, EPI, etc.)

While these policies are certainly desirable, questions arise as to how long these are sustainable. The first two measures, namely higher taxes and greater state spending tend to go against the interests of the capitalist. It is unusual for a state to undertake such actions that can upset the interests of capital. Also, greater social spending most often needs to be realised from greater revenues or by engaging in deficit spending. Since the role of the state is curtailed when it comes to imposing greater taxes on the richer capitalists, one cannot logically expect the state to step up social sector spending – even if, the state would decide to do so. Deficit spending, again, is another contentious issue for finance capital (Patnaik, 2017) and the state is unlikely to carry that out.

The third suggestion, namely that of strengthening trade unions is appealing yet impractical on a long-term basis. Trade unions had helped improve the labour share during the Keynesian era but had to be dissolved due to the fall in the share of capital which led to the resurgence of the capitalists. Again, unionisation and collective bargaining may not be as effective in curbing wealth inequality as it is in curbing income inequalities – as is evident in the Nordic example I have provided. Delinking from globalisation which is a heterodox policy proposal (see Amin, 1990) would fail to address neoliberalism as an ideology – the issue of demand construction is not confronted.

Is There An Alternative?

Technology is widely regarded as a domain that will facilitate the transition to a post-capitalist society (Mason, 2015). Rifkin (2014) envisions a ‘zero marginal cost society’ where production takes place at a little cost much akin to the production of music on the internet today. Thus, he argues that goods and services will be available nearly for free due to the “Internet of Things”.

Technological developments, however, tend to be labour displacing. This anomaly is to be mitigated by the state handing Universal Basic Income (UBI) to the citizens irrespective of the person’s stature

in society. This idea has been gaining traction in socialist circles and is hailed as an originally Leftist idea. Even if UBI is provided without cutting down other public expenditure, it fails to address the need for meaningful work that is essential to the human condition. Labour will be displaced and work will continue to perpetuate alienation.

When piecemeal measures fail, radical alternatives need to be discussed and implemented. One such alternative seems to be organising enterprise in the form of worker cooperatives. These organisations dissolve the dichotomy between the capitalist and the worker by ensuring that the workers control the capital – not the other way around, as is traditionally the mode of production. Enterprises are collectively owned by the workers and the workers make the decisions regarding the functioning of the company. This makes the workplace democratic by ensuring democracy in the economic sphere along with the generally understood conception of democracy in the political sphere. Cooperatives exist around the world, the most successful being Mondragon in the Basque region of Spain. Uralungal Labour Contract Cooperative Society is an example of a successful cooperative in Kerala.

Organizing enterprise along these lines would be a major advancement in heterodox principles being translated into policy. The notion of such cooperatives breaks free from the neoclassical sense of production, where capital and labour are treated as factors of production in mathematical functions. Inflexible labour markets are conventionally seen as an impediment to progress – apparently oblivious to the fact that the inflexibility partly arises due to organised resistance that attempts to safeguard the interests of labour. The radical reorganisation of the mode of production would view capital in its organic form, underlining the need to regulate its circulation by decisions taken by workers who are directly engaging with the production process. Such a strategy would treat the working class not merely as factors of production, but as active and dignified stakeholders who make decisions regarding production and distribution.

The labour centred mode of production that also ensures participatory democracy defies orthodox economic theories where individuals are expected to act in the optimization of self-interest. This solidarity among the working class helps strengthen the resilience of the firm with lower attrition rates during times of crisis because of the cooperative spirit among the workers. Cooperatives address the ecological damage caused by reckless capitalism by adhering to sustainable goals. Income inequalities can be significantly controlled as the workers themselves choose the director board in most cooperatives and the pay differential do not normally exceed 12:1. Since they are fundamentally labourcentred, cooperatives attempt to take care of the health and education of the working class members and their family. Another significant role of cooperatives lies in addressing the consumerist culture by encouraging a more meaningful work-life balance. Thus, alienation in the production and consumption sphere is addressed.

It is reasonable to expect unprecedented repression when cooperatives become a formidable alternative to the dominant model of enterprise. This necessitates a greater struggle from the working class by seizing political power – that would eventually embolden the state to implement more radical redistributive policies. This can lead to an emancipatory transformation of the exploited class from its current plight. Such an organised resistance should cut across the working class, peasantry, and the subaltern, lending them agency to voice their genuine concerns and chart out alternatives. Only then can this descent to a dystopia due to the internal contradictions of the capitalist system be averted.

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