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State Versus Free Market Capitalism: A Comparative Analysis

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Abstract
Capitalism has been dominating in the most part of the world and the countries have been adopted it due to its so-called efficiency and wealth maximization through joint stock companies and corporation. But the experience of last two centuries have highlighted fact that capitalism based on free market economy and no-government intervention and profit-maximization has generated severe income inequality, social segmentations and concentration of wealth in a few hands. These anomalies have made this system unattractive to some an extent and some economists have expressed pessimistic views about its validity in future. They are supporting state capitalism, which has been flourishing in different countries during last three decades.The objective of this paper is to analyze the controversies about capitalism in the light of facts and examine the possibility of the success of state capitalism. The author has used secondary data for the analysis and used descriptive techniques has been used to draw the results because this study is qualitative in nature. For analysis we describe the characteristics both economic systems and then compare them. The evidence shows that income inequality is increasing in western countries and it has become a serious issue in these societies. In contrast, state capitalism is flourishing particularly in East Asian economies and uplifting these economies and has posed a serious threat to free market capitalism. In fact, is a paradigm shift in world economy.
Keywords: free Market capitalism, income inequality, state capitalism

1. Introduction

Scott (2005) said that the term capitalism, in its modern sense, is often attributed to Karl Marx. In his magnum opus Capital, Marx analyzed the "capitalist mode of production" using a method of understanding today known as Marxism. However, Marx himself rarely used the term "capitalism", while it was used twice in the more political interpretations of his work, primarily authored by his collaborator Friedrich Engels. In the 20th century, defenders of the capitalist system often replaced the term capitalism with phrases such as free enterprise and private enterprise and replaced capitalist with rentier and investor in reaction to the negative connotations associated with capitalism. (Skousen, 2001).

Capitalism is defined in the Oxford Dictionary (2013) as an economic and political system in which a country's trade and industry are controlled by private owners for profit, rather than by the state."

Chris Jenks (2002) contended that "Capitalism, as a mode of production, is an economic system of manufacture and exchange which is geared toward the production and sale of commodities within a market for profit, where the manufacture of commodities consists of the use of the formally free labor of workers in exchange for a wage to create commodities in which the manufacturer extracts surplus value from the labor of the workers in terms of the difference between the wages paid to the worker and the value of the commodity produced by him/her to generate that profit." The Webster Dictionary defines capitalism as "an economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market".

Some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by the facts, expresses a crude and naive trust in the goodness of those wielding economic power and in the sacralized workings of the prevailing economic system. Meanwhile, the excluded are still waiting. (Fulcher, 2004)

Proponents of capitalism argue that it creates more prosperity than any other economic system, and that its benefits are mainly to the ordinary person. Critics of capitalism variously associate it with economic instability, an inability to provide for the well-being of all people, and an unsustainable danger to the natural environment. Socialists maintain that, although capitalism is superior to all previously existing economic systems (such as feudalism or slavery), the contradiction between class interests will only be resolved by advancing into a completely social system of production and distribution in which all persons have an equal relationship to the means of production.

Karl Marx while differentiating between "Absolute and Relative Surplus-Value" said that

“The prolongation of the working-day beyond the point at which the laborer would have produced just an equivalent for the value of his labor-power, and the appropriation of that surplus-labor by capital, this is production of absolute surplus-value. It forms the general groundwork of the capitalist system, and the startingpoint for the production of relative surplus-value."

Many socialists consider capitalism to be irrational, in that production and the direction of the economy are unplanned, creating many inconsistencies and internal contradictions. Capitalism and individual property rights have been associated with the tragedy of the anti-commons. Marxian economist Richard D. Wolff postulates that capitalist economies prioritize profits and capital accumulation over the social needs of communities, and capitalist enterprises rarely include the workers in the basic decisions of the enterprise. Following the banking crisis of 2007, Alan Greenspan told the United States Congress on October 23, 2008, "The whole intellectual edifice collapsed. I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders. ... I was shocked."

What is Socialism?

Bertrand (et al, 2011) states that "Socialist systems are those regimes based on the economic and political theory of socialism, which advocates public ownership and cooperative management of the means of production and allocation of resources."

Critics of capitalism associate the economic system with social inequality; unfair distribution of wealth and power; a tendency toward market monopoly or oligopoly (and government by oligarchy); imperialism; counter-revolutionary wars; various forms of economic and cultural exploitation; materialism; repression of workers and trade unionists; social alienation; economic inequality; unemployment; and economic instability. Notable critics of capitalism have included: socialists, anarchists, communists, national socialists, social democrats,environmentalists,technocrats,sometypeof conservatives, Luddites, Narodniks, Shakers, and some types of nationalists

Some labor historians and scholars have argued that unfree labor — by slaves, indentured servants, prisoners or other coerced persons — is compatible with capitalist relations. Tom Brass argued that unfree labor is acceptable to capital. Historian Greg Grandin argues that capitalism has its origins in slavery: "when historians talk about the Atlantic market revolution, they are talking about capitalism. And when they are talking about capitalism, they are talking about slavery."(Wheen, 2006).

According to Immanuel Wallerstein, institutional racism has been "one of the most significant pillars" of the capitalist system and serves as "the ideological justification for the hierarchization of the work-force and its highly unequal distributions of reward.

Many aspects of capitalism have come under attack from the anti-globalization movement, which is primarily opposed to corporate capitalism. Environmentalists have argued that capitalism requires continual economic growth, and that it will inevitably deplete the finite natural resources of the Earth. (Harvey, 1979). Such critics argue that while this neoliberalism or contemporary capitalism has indeed increased global trade, it has also destroyed traditional ways of life, exacerbated inequality and increased global poverty - with more living today in abject poverty than before neoliberalism, and that environmental indicators indicate massive environmental degradation since the late 1970s. (Braudel,1979).

Many religions have criticized or opposed specific elements of capitalism. Traditional Judaism, Christianity, and Islam forbid lending money at interest (Polanyi,1944) although alternative methods of banking have been developed. Some Christians have criticized capitalism for its materialist aspects and its inability to account for the wellbeing of all people. (James, Paul; Gills, Barry,2007) Many of Jesus' parables deal with economic concerns: farming, shepherding, being in debt, doing hard labor, being excluded from banquets and the houses of the rich, and have implications for wealth and power distribution. In his 84-page apostolic exhortation Evangelii Gaudium, Pope Francis described unfettered capitalism as "a new tyranny" and called upon world leaders to fight rising poverty and inequality.

Some economists have expressed apprehension about the viability of capitalistic economic system in the long run because in the past two centuries it has facilitated accumulation of wealth while on the other hand it has generated inequality. Due to its purely materialistic approach it has overlooked the social aspects of human being. The economic growth recorded in the advanced countries during last 50 years has not brought any positive impact on the lives of lower segment of this society. It indicates that there are structural weakness in the system of capitalism. In this chapter, we will examine how other researchers have analyzed the performance of capitalism in order to understand the growing unrest in the advanced economies.

Stilwell (2005) argues that "political economists have long considered the recurrence of economic crisis to be capitalism's 'archiles heel'. Marx thought this tendency to crisis would create the material conditions in which radical change of the system would be both possible and necessary. Keynes agreed that, left to its own devices, capitalism would not ensure continuous full employment, although he envisaged the possibility of significant repair. Institutionalisms have also emphasized the need for economic regulation to deal with systematic instability. The problem evidently persists. An economic system that cannot consistently reproduce itself and expand-lapsing instead into periodic recessions with large-scale unemployment, and financial turmoilnecessarily has an uncertain future. So it is worth reflecting on the nature of the structural contradictions underpinning this system instability."

Main Research Question

The main research question of this paper is to investigate whether capitalism is changing its face and taking new form. The emergence of state capitalism is a consistent reality or a temporary phenomenon.

Objective of Research

The objective of the study are:

1. To analyze the existing state of capitalism in the western countries particularly in the United States and its impact on its society.
2. To look into the state capitalism in East Asian economies particularly China.
3. Can state capitalism pose any threat to free-market capitalism?
4. Can state capitalism may have spillover effect and spread in other countries to replace free market economic system?

Methodology of Research

This research study is a qualitative in nature and we describe first the major characteristics of free market capitalism and state capitalism and then compare both economic systems to draw the conclusions regarding their future prospective and growth. For analysis, we have used different qualitative tools to draw the results.

Structural Weakness of Capitalism

Stilwell (2005) has mentioned some structural weakness of capitalism which we briefly explain here:-

- Problem of disproportionality

Does the increased complexity of industry make more likely the possibility of structural imbalances, as Marx anticipated? Without central planning, incompatibility between production decisions of firms in the different sectors of the economy producing capital and consumer goods is always likely. The resulting gluts and shortages have the potential to trigger generalized recession. This is a specific manifestation of a general problem arising from the 'anarchy of capitalist production'.

- Tendency of falling profit rate

Whether the economic crisis associated with the tendency rate of profit to fall are likely to recur is yet more contentious. To the extent that industrial expansion leads to higher organic composition of capital, as mechanization continues and the capital-labor ratio arises, then one may infer that there will be a long-term tendency for the rate of the profit for capitalist industry as whole to be squeezed. Politically, it buoyant profits (and their distribution to corporate executives via inflated remuneration packages share-ownership) that fuel anti-capitalist sentiments-not a tendency to falling profits. But the relentless process of capital accumulation, particularly in a period of labour-displacing technological progress, continues to generate fundamental tensions.

- Unemployment

Unemployment is the most obvious manifestation of the structural contradictions of the capitalist economy. Neither Marxist nor Keynesian economists find anything surprising about that. Marxists have always argued that the existence of a reserve army of labour is integral to the accumulation process. Keynesians have consistently emphasized that there is no inherent tendency towards a full-employment equilibrium and the rejection of Keynesian policy by neo-liberals more concerned with balanced budgets adds further to the likelihood of recurrent, if not persistent, unemployment. The problem now assumes increasingly troubling forms. The tendency towards 'jobless growth' brings into question the future of wage-labour as the principal means by which income 'trickle down' to the bulk society and social stability is maintained under capitalism. Can the economic system be adapted in such a way that work is more evenly distributed? The French Government has made important attempts to do so imposing a limit on the permissible length of working week. The alternative is a society increasingly polarized between those who benefit materially from the capital accumulation process and those who have a marginal attachment to the mainstream economy.

- Under-consumption

The problem of under-consumption is related issue. In so far as wage incomes are pushed down and up or made more unequal, then the issue of who will buy the outputs of the production process become more problematic. Of course, luxury consumption by capitalists and the minority of the workface in well-paid positions provides one avenue for the absorption of the economic surplus, as does consumption and investment expenditure by the state. Veblen drew attention to these aspects of consumption spending a century ago, and they have frown spectacularly since then. However. The capacity of the system to continue matching the growth of productive capacity with a corresponding growth of effective demand for goods and services is more troubling at a time when global competition between the downward pressure on wage rates.

- Consumerism

Waves of new product development, based on new technologies, have made electronics equipment, personal computers, mobile phones, and so forth, the focal points for growth of production and consumption. Consumerism, promoted by commercial advertising, consumer goods, continue to spread. Contemporary political economists, such as Sweezy and Galbraith, have addressed the issue, the pointing to the vast resources 'propping up' the economy in this way. Yet therein lie further tensions and resources of potential crisis. Catering to the contrived wants of a consumerist society becomes more patently unsatisfying. As Esterlin puts it, the 'triumph of economic growth is not triumph of humanity over material wants: rather; it is the triumph of material wants over humanity'.

- Casino Capitalism

Consumerism also generates enormous social wastes, partly in the sales promotion process itself and partly in the built-in obsolescence of the products. To the extent the accumulation of capital depends on the proliferation of credit, it also means that the system become ever more vulnerable to crisis emerging from financial institutions: "casino capitalism" is an inherently unstable system. Modern capitalism also makes rapacious use of the physical environment: as such, it is inherently unsustainable system. Of course, if economic policies could switch the focus from aggregate production and consumption to redistribution and restructuring for sustainability, one could be more optimistic about the prospects of dealing with these tensions. However, as we have seen the current structure of political economic power are ill-suited to the management of such progressive transformations. An economic system based on production for profit has its internal dynamic, but it is not one conducive to social equality, economic security or ecological sustainability.

Emergence of state capitalism

State capitalism consists of state ownership of the means of production within a state, and the organization of state enterprises as commercial, profit-seeking businesses. The debate between proponents of private versus state capitalism is centered on questions of managerial efficacy, productive efficiency, and fair distribution of wealth.
According to Musacchio (2012), a professor at Harvard Business School, "it is a system in which governments, whether democratic or autocratic, exercise a widespread influence on the economy, through either direct ownership or various subsidies. He also emphasizes the difference between today's state capitalism and its predecessors. Gone are the days when governments appointed bureaucrats to run companies. The world's largest state-owned enterprises are traded on the public markets and kept in good health by large institutional investors."

The crisis of Western liberal capitalism has coincided with the rise of a powerful new form of state capitalism in emerging markets. This model is being developed on basis of state multinationals being flourished under the umbrella of the emerging economies. Adrian Wooldridge in her article title "Emerging Market Multinationals: The rise of state capitalism" published in The Economist in its January 2012 print edition argues that:

"During the last 15 years the headquarters of Corporations have emerged like big cities where hundreds of professional are working. The building in which these headquarters are located are worth-seeing. For example, China Central Television's building resembles a giant alien marching across Beijing's skyline; the 88-storey Petronas Towers, home to Malaysia's oil company, soar above Kuala Lumpur; the gleaming office of VTB, a banking powerhouse, sits at the heart of Moscow's new financial district. These are all monuments to the rise of a new kind of Hybrid Corporation, backed by the state but behaving like a private-sector multinational. The growth of capitalism under the dictate of state is not a new idea and history is full of its example. The British East India Company is the best example of paving the way for the development of British Empire. This is the repetition of history and emergence of old wine in a new bottle. Almost all existing emerging economies multinationals were operating like public departments in 1990s and it was assumed that they would either be closed or privatized when the economy took a positive turn. But their role have changed as the emerging economies strengthen and gradually they have been expanding their feathers. The world top ten big oil and gas companies are all public sector entities. The state-owned companies have 80 percent stake in Chinese and 62 percent of Russian Stock Markets. They aggressively capturing new markets and new industries. For example China Mobile customer's base is more than 600 million. Public sector companies of emerging economies have 30 percent share in world foreign direct investment in 2010. Some economists contend that way of the operation of these companies is not they are heading towards liberalization but it is a new economic and business model. Now these companies are striving to make it successful so that it can be introduced in all world economies. The Brazilian Government, which was following privatization program, now compelling small firms to merge into big firms so that they unitedly compete with their rivals in the world market. It is yet to be seen whether the "state capitalism model" is sustainable. Its supporters advocate that it has inherent strength to bring stability as well as growth.

The wild privatization by Russian under Boris Yeltsin in the 1990s alarmed many emerging countries and encouraged the view that governments can mitigate the strains that capitalism and globalization cause by providing not just the hard infrastructure of roads and bridges but also the soft infrastructure of flagship corporations. So Lee Kuan Yew's government in Singapore, an early exponent of this idea, let in foreign firms and embraced Western management ideas, but also owned chunks of companies. The leading practitioner is now China. The new model bears little resemblance to the disastrous spate of nationalizations in Britain and elsewhere half a century ago. China's infrastructure companies win contracts the world over. The best national champions are outward-looking, acquiring skills by listing on foreign exchanges and taking over foreign companies. And governments are selective in their corporate holdings. Overall, the Chinese state has loosened its grip on the economy: its bureaucrats concentrate on industries where they can make a difference."

Yet a close look at the model shows its weaknesses. When the government favours one lot of companies, the others suffer. In 2009 China Mobile and another state giant, China National Petroleum Corporation, made profits of $33 billion—more than China's 500 most profitable private companies combined. State giants soak up capital and talent that might have been used better by private companies. Studies show that state companies use capital less efficiently than private ones, and grow more slowly. In many countries the coddled state giants are pouring money into fancy towers at a time when entrepreneurs are struggling to raise capital. Those costs are likely to rise. State companies are good at copying others, partly because they can use the government's clout to get hold of their technology; but as they have to produce ideas of their own they will become less competitive. State-owned companies make a few big bets rather than lots of small ones; the world's great centers of innovation are usually networks of small start-ups.

Wooldridge (2012) argues that the successes of free market theory has stopped working and the recession which eaten up Lehman Brothers has gradually taking the whole rich world into its fold. Greek is the weak western country which has already facing chaotic situation due to recession and financial mismanagement. Even the income US workers is contracting since 2009. The Canadian Institute (Fraser), which measures economic freedom for the last forty years, disclosed that global freedom index steeply rise to 6.7 in 2007 from 5.5, in 1980 but afterwards it started retreating. The credit crisis of 2008 has given the way for emergence of state capitalism as alternative economic system. This system is not only using state power but also manipulating corporate powers. Now the emerging economies are also exploiting capitalistic instruments by getting enlisted public sector companies on equity markets to take benefits of globalization. State capitalism also emerged in different regions of the world in past. It dominated German economy in 1870s and Japan in 1950s. But it was not on such a large scale as it is expanding in the emerging economies such as in China, India, Brazil and South Africa with latest economic tools.

Scope of State Capitalism

The scope of state capitalism can be judged from the fact that the Chinese government is the majority shareholders in 150 big companies, besides having stake in hundreds of small companies. China's economy has been growing at 9.5 percent per annum and its international trade is rising 18 percent per year for the last 30 years. In just one decade, China's GDP has grown three times to 11 trillion.Chinese government does not only managing its currency cleverly, supporting its companies operating in other countries and providing subsidies to business firms operating in the domestic markets. Almost all multinationals have strong resources base. For example 13 world large firms having command over 75 percent of world oil resources are of state control companies. The success of these companies is not restricted to one sector. It is making headway in different fields. For example, China Mobile has captured 600 million customers, Russian Sberbank is the Europe third large bank, Dubai Ports is working as a big player in operation of ports and its rank is third. In chemical sector, Saudi Basic industries Corporation ranked among top chemical company of the world. State capitalism is rising with strong financial strength. It is flushed with cash and liquidity. It has established sovereign wealth funds which are manipulating markets from New York to Tokyo. The state is advancing while private sector is retreating all over the globe. The state capitalism is spreading with fast speed due to the following reasons:-

- It is growing on large scale. It is not growing alone, but together.
- China and Russia both are pushing state capitalism jointly.
- The emerging economies possess latest business weapons.
- On average they are growing 5.5 percent per year vis-à-vis 1.6 percent by advanced world.
- The governments in the free capitalist world are following the steps of state capitalism. For instance, French government has also established a sovereign wealth fund to play in the global markets.
- State capitalism is appeared as a new trend and has attraction for the young world to opt it.

The young economists at world banks are discussing emerging trends in the context of state capitalism.

Global Expansion of State Capitalism

State-owned China's National Offshore Oil Corporation and had made efforts to take over US Company, Unocal in 2005 and Dubai's ports have purchased many US ports. Most of Globalization economies theories have proved faulty because they could not work in the emerging economies. For example, Kenichi Ohmae's claimed that "nation state has eliminated" has proved wrong. Milton Friedman's contention that "the government should only disciplined market as it had not business experience" has proved an idea not workable in the 21st century. Naomi Klein's conviction that "large corporations are large than government" has met its fate as the government is now dominating than the corporate entities. Francis Fukuyama's assertion that "democratic capitalism has established its victory all over the world" appears to be a fallacy. The fact is that government is establishing its grip over market while autocracy is establishing its dominance over the democracy all over the world.

War between State and Corporations
Dr.Ian Bremmer, in his book "The End of Free Market- Who will win the war between States and Corporations" Published in May 2010 in the U.S.A. by Publisher Portfolio, stated the strategies being used by the emerging economies to exploit the market for their political goals. He argues that invisible hand working behind free market is become visible in the shape of state capitalism. The international economic infrastructure is in a state of recession and the free market economies of the world are among the hardest hit. Consequently, many have posed the question: is the free market a failed economic system? He pleads that 'state capitalism,' a term that he defines as "a system in which the state plays the role of leading economic actor and uses markets primarily for political gain," is the single most imminent threat to the existence of free market democracy. The book begins with explaining the history of state capitalism and how it rose from the ashes of mercantilism, which is the practice of economic nationalism for the purposes of establishing a wealthy and powerful state. He then explains how recent state capitalism came into existence from post-Communist authoritarian governments who experimented with the free market, not for the purposes of having a flourishing economy, but in order to have leverage over the citizenry of their respective states.

Strategic Tools of State Capitalism
Bremmer then elaborates on the different tools that modern state capitalist governments utilize to maintain power.The list includes direct influence over national oil and gas corporations (NOCs), various state owned enterprises (SOEs), privately owned national champions, and finally, sovereign wealth funds. Next, Bremmer carries out in-depth case studies on countries that currently practice state capitalism. Among them are Saudi Arabia, whose royals survive by using the kingdom's massive oil revenues to buy political allegiance; United Arab Emirates, where each Emirate has its own state-owned oil company; Algeria, with over one thousand state-owned companies; Ukraine, where the government owns all agricultural land and hold majority stakes in railroads, telecommunications, electricity, chemicals, heavy machinery, and civil aviation; Russia, which has applied restrictions in foreign investment to certain strategic sectors; India, which involves itself in politically sensitive products like food, fuel, fertilizer, electricity, and water; Mexico, Whose government owns an oil company ranked 31st on the 2009 Forbes Global list of top companies by revenue; and China, which provides great financial assistance to companies which are interested in foreign investments in key economic sectors? Throughout the book, Bremmer presents statistics that would make even the most confident banker on Wall Street sleep uneasy. These statistics include a report from the Forbes Global 2000 list of the world's largest companies, 117 of which are state-owned from Brazil, Russia, India, and China (also known as the BRIC countries). Meanwhile, a total of 239 American, Japanese, British, and German companies—privately owned—dropped off the list.

New Future Growth Centre
The World Bank in its Report "Global Development Horizons, 2011: Multi-polarity: The New Global Economy" predicted that "The coming decades will see global economic growth increasingly being generated in emerging economies. By 2025, global economic growth will predominantly be generated in emerging economies. Over the past two decades, the world has witnessed emerging economies rise to become a powerful force in international production, trade and finance. Emerging and developing countries' share of international trade flows has risen steadily, from 26 percent in 1995 to 42 percent in 2010.Much of this rise has been due to an expansion of trade not between developed countries and developing countries, but among developing counties. Similarly, more than one-third of foreign direct investment in developing countries currently originates in other developing countries. Emerging economies have also increased their financial holdings and wealth. Emerging and developing countries now hold three-quarters of all official foreign exchange reserves (a reverse in the pattern of previous decade, when advanced economies held two thirds of all reserves), and sovereign wealth funds and other pools of capital in developing countries have become key sources of international investment.

At the same time, risk of investing in emerging economies has declined dramatically. For example, borrowers such as Brazil, Chile and Turkey now pay lower interest rates on their sovereign debts than do several European countries. As investors and multinational companies increase their exposure to fast-growing emerging economies, international demand for emerging-economy currencies will grow, making way for a global monetary system with more than one dominant currency.

Income inequality-A gift of Free Capitalism

Income inequality is another serious problem of advanced societies where people have been divided into two groups: rich and poor. Some economists blame capitalism as the root cause of income inequality while other held ruling elites responsible for framing pro-rich policies and ignoring poor segments of society. The OECD Report, 2014 says that

"High level of income inequality is the outcome of a long-term trend increase. Income inequality in the United States increased significantly in the recent decades and at a stronger pace than the OECD average. Between the mid-1980s and 2012, inequality (measured by the Gini coefficient) went up by almost five points (or 15%) in the United States, from 0.34 to little under 0.39. Meanwhile, on average across OECD countries, inequality increased from 0.29 to 0.32; only in Sweden (from a low level), Israel and New Zealand did inequality grow faster than in the United States. In the US the increase was concentrated in three periods: from the 1980s to the early 1990s; during the early 2000s; and since the late 2000s. Two recent surveys illustrate the concern about economic inequality in the US. 65% of American adults believe that the gap between the rich and everyone else has increased during the past decade (PRC, January 2014). And 67% of American adults are very or somewhat dissatisfied with the way income and wealth are currently distributed in the US (Gallup, January 2014).

Trends in inequality (Gini coefficient) 1985 – 2012

OECD average: un-weighted and based on 12 countries for which data are available at all points (Canada, Denmark, France, Germany, Israel, Italy, Netherlands, New Zealand, Spain, Sweden, United Kingdom and United States). Data for 2011 and 2012 are provisional.

In most countries, increasing inequality was due to rich households faring much better than both low- and middle-income families. The share of top-income recipients in total gross income grew significantly in the past three decades in most countries, but it was particularly marked in the US, where the share of the richest 1 per cent in all pre-tax income more than doubled since 1980, reaching almost 20% in 2012. It was also large in a number of other English-speaking countries: Australia, Canada, Ireland and the UK. Elsewhere, increases tended to be greater in some of the Scandinavian and Mediterranean countries, especially in Portugal.

Even within the group of top-income earners, incomes became more concentrated. In the US, the share of the top 0.1 per cent in total pre-tax income quadrupled in the 30 years to 2010 from 2 per cent to over 8 per cent of total pre-tax incomes. In Canada, the UK and Switzerland, their share was 4 to 5 per cent, and close to 3 per cent in Australia, Italy, and France. Moreover, people who achieve such a high income status tend to stay there: from one year to the next, only 25% drop out of the richest 1% in the US, compared to some 40% in Australia and Norway.

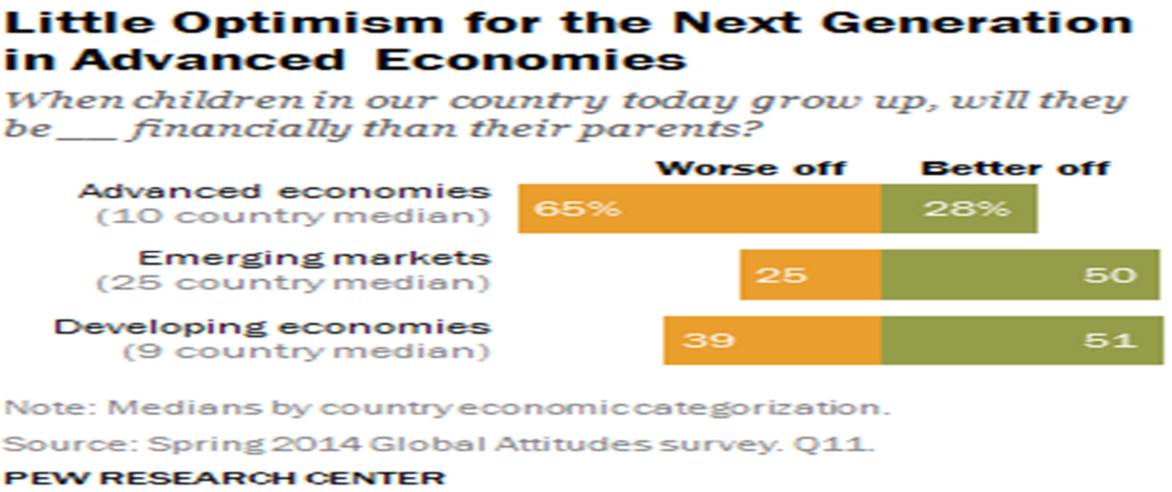
No trickledown effect of Growth on households

The benefits of growth did not trickle down: lower income households fell behind. Is high and rising inequality a problem when average incomes and living standards are rising? Yes, when the poorest are left further behind, especially in terms of real incomes. This is what happened in the growth years prior to the crisis: In the United States, households at the bottom of the distribution – the poorest ten percent – could not keep pace with middle and higher income households. The average income of this poorest group actually fell by 10%, in real terms, between 2000 and 2008 and by a further 7% between 2008 and 2010, before recovering only modestly during 2011 and 2012. Even looking backward, the evolution of incomes at the bottom was also disappointing: between 1985 and 2005, average household income in the United States grew by 25%, but only by 3% for the poorest 10 percent of Americans. Comparing living standards 1 in terms of income around the world, the average American is far richer than most: for every 100 Dollars the average OECD citizen makes, an American makes 123 Dollars. But this is not true for the poorest 10 percent Americans: they only make 73 cents for every Dollar of their OECD fellow counterparts. So while the US ranks third on average OECD incomes, behind only Luxembourg and Norway, it ranks only 18th for people in the bottom 10 percent. 1 OECD work on inclusive growth builds directly on the work on income inequality but aims at introducing a multi-dimensional perspective by also considering health and jobs as determinants of living standards.Average disposable annual income of the bottom 10%, in US$ PPP and inflation adjusted, total population, 1985-2012 or closest

Note: OECD average: un-weighted and based on 12 countries for which data are available at all points (Canada, Denmark, France, Germany, Israel, Italy, Netherlands, New Zealand, Spain, Sweden, United Kingdom and United States). Data for 2011 and 2012 are provisional.

OECD Income Distribution Database (2013), reveals that "To many people, what matters is not so much inequality of outcomes (e.g. incomes) but rather inequality of opportunities. Income inequality today would be less of a problem if everyone had the same chances of climbing up the income ladder and when hard-working people can reach the top of the distribution tomorrow. One way to gauge the level of opportunity in a country is to look at how well children do relative to their parents – if most people end up at a different place in the earnings distribution than their parents, intergenerational mobility is high. On this account, the US is less mobile than most other societies in international comparison. Across countries, there is clear evidence that countries with more unequal economic outcomes do not compensate by offering greater opportunities

Figure 1 Income inequality and intergenerational earnings mobility, mid-2000s



To the contrary: there is less earnings mobility between generations in countries where income inequality is higher. More equal societies such as Denmark, Finland and Norway also have greater earnings mobility. Conversely, there is less intergenerational mobility in countries where income inequality is higher, particularly in Chile, but also in the United States, Italy and the United Kingdom.In the United States, intergenerational mobility remained remarkably stable over a long period of time. American children who enter the labor market today have no greater (nor less) chances of moving up the income ladder relative to their parents than children born in the 1970s or 1980s (Chetty et al., 2014).

Figure 1 shows that social mobility tends to be higher in more equal societies as compared to those which societies are unequal or unbalanced from the point of wealth distribution. Intergenerational earnings mobility is measured by the earnings elasticity between fathers and sons.

Impact of 2008 financial crisis on Households income

The Great Recession had a significant effect on income from work and capital (i.e., market income) in many OECD countries. In the United States, household market income fell, in real terms, by 5% between 2008 and 2010. This is slightly more than the OECD average (4.2%), but much lower than the dramatic falls experienced by some European countries. In Iceland, Greece, Estonia, Spain and Ireland, but also in Mexico, market income went down 10% or more. Like in most other countries, the fall in market income in the United States was driven mainly by surging unemployment and more jobless households. Almost 80% of the fall in market income was due to drops in employment income, 15% due to self-employment and the rest due to capital income. In other countries, the fall in employment income was less dominant (OECD, 2013).

As a consequence, market incomes drifted apart during the first phase of the crisis. Between 2008 and 2010, market income inequality rose by 1.3 percentage points in the United States and by 1.2 points on average in the OECD. With 6 percentage points, the increase was particularly large in Spain and Ireland. In countries where the crisis hit harder, poorer households either lost more income in the recession or benefited less from recovery. Likewise, income vulnerability increased among the young and children, while the income of the elderly was relatively more immune. Between 2008 and 2010, youth and children replaced the elderly as the groups facing the largest relative poverty risk. In the US, the share of 18 to 25 year olds living in households with less than half the median income (about US $ 14,500 in 2010) The growth of the financial sector also played a role. In the US, the share of financial professionals among top earners increased continuously over the years, from 8 to 14%. Real estate and financial professionals within the top 0.1% group realized higher income growth than people in other occupations (such as lawyers or medical professionals), leading to a growing divergence of average incomes across professions among top earners (Bakija et al. 2012).

Figure 2

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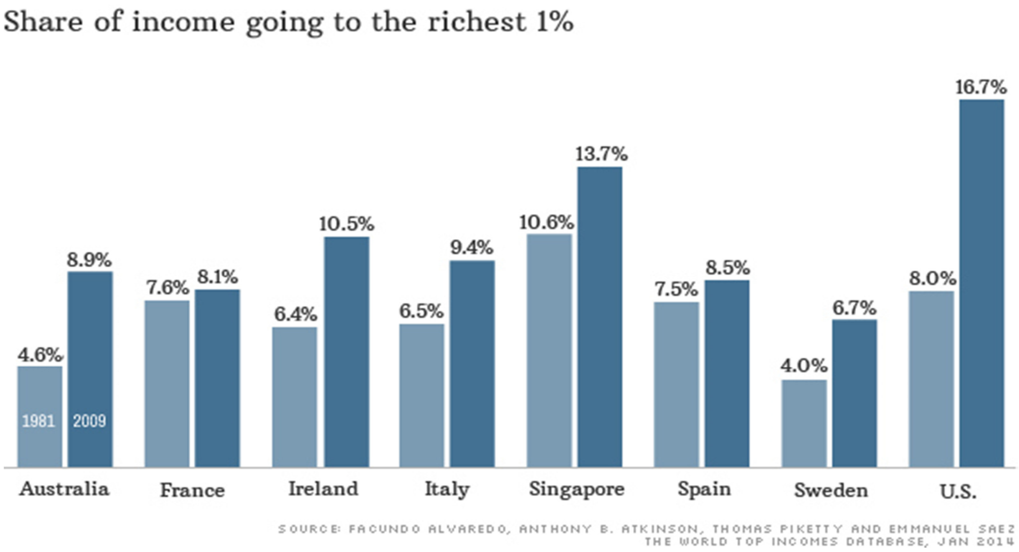

More or less unequal? 1985 Gini 2008 Gini France Ireland Germany Greece Spain OECD-27 Japan Italy United K...United States...0.200.250.300.350.40 Gini score

Table 1 Income Inequalities in OECD members countries,2008

Country	Pop, avg % income change	Poorest 10%, avg % income change	Richest 10%, avg % income change	2008 Gini score	Better than 1985?
SOURCE: OECD					
Australia	3.6	3	4.5	0.34	Worse
Belgium	1.1	1.7	1.2	0.26	Same
Canada	1.1	0.9	1.6	0.32	Worse
Czech Republic	2.7	1.8	3	0.26	Worse
Denmark	1	0.7	1.5	0.25	Worse
Finlan	1.7	1.2	2.5	0.26	Worse
France	1.2	1.6	1.3	0.29	Better
Germany	0.9	0.1	1.6	0.3	Worse
Greece	2.1	3.4	1.8	0.31	Better
Hungary	0.6	0.4	0.6	0.27	Same
Ireland	3.6	3.9	2.5	0.29	Better
Israel	1.7	-1.1	2.4	0.37	Worse
Italy	0.8	0.2	1.1	0.34	Worse
Japan	0.3	-0.5	0.3	0.33	Worse
Luxembourg	2.2	1.5	2.9	0.29	Worse
Mexico	1.4	0.8	1.7	0.48	Worse
Netherlands	1.4	0.5	1.6	0.29	Worse
New Zealand	1.5	1.1	2.5	0.33	Worse
Norway	2.3	1.4	2.7	0.25	Worse
Spain	3.1	3.9	2.5	0.32	Better
Sweden	1.8	0.4	2.4	0.26	Worse
Turkey	0.5	0.8	0.1	0.41	Better
United Kingdom	2.1	0.9	2.5	0.34	Worse
United States	1.3	0.5	1.9	0.38	Worse
OECD-27	1.7	1.3	1.9	0.3	

7. Conclusions

In this paper we have discussed inherent weakness of capitalism which advocates free market, perfect competition, resources accumulation, mass production, mass consumption and casino culture. All these characteristics, in fact, are weakness of capitalism because the myth of free market has lost importance. Similarly, perfect completion is just an illusion and in real life there is monopolistic competition and in some market there is complete monopoly of certain business firms. The accumulation of resources for further investment has also lost significance because it has caused concentration of wealth and wealth disparity in capitalist economies. Mass production just to reduce cost has generated surplus supply and economic glut, resulting in slow demand. To create demand artificially as suggested by the British Economist, Lord Keynes has generated further complications in the economy and made more complex to understand and to manage. This is the reason in the current era macroeconomics theories have failed to attain desired results during recessions in Japan, Great Britain and the United States.

The failure of free market capitalism has paved the way for the development of state capitalism which is flourishing in China, India, Russia and Brazil where state enterprises are dominating domestic and international markets. In this scenario, some economists, believe that it is the end of free market because the markets operating under state capitalism are operating successfully and generating huge wealth while the free markets are in a state of stagnancy for the last two decades.

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