The end of the nation state

Tutorial Essay NO. 2 Title: Capitalism creates both wealth and poverty and therein lies the main explanation for inequalities between nations. Discuss. Capitalism is defined by the Oxford dictionary as an economic system in which trade and industry are controlled by private owners for profit. Indeed, in this system, growth is based on the accumulation of capital, which is detained by a small minority who controls the means of production, and receive a considerable amount of profit, whilst the majority (or working class), only have their labour power, and receive little profits if any.

This system has been hugely criticised by authors like Karl Marx and Friedrich Engels, and still is today. So how come it is still in application in most of today??™s developed countries Who does capitalism benefit And where does it create poverty Finally, is it the only reason for inequalities between countries In the first part of my essay, I will look at how and when capitalism creates wealth and poverty, and then see if it is the only reason for the difference in development between countries. First, we can see that capitalism creates wealth as it works on the principal of a meritocracy. This means that it entrepreneurship, unlike other systems like communism. Indeed, as Mike W. Peng says: `The rise of entrepreneurship throughout the transition economies of central and eastern Europe […

] creates wealth and pushes these economies to higher level of competitiveness??™. We can see there that capitalism creates wealth as taking risks, and investing is being rewarded. Furthermore, we can all say that the wealth which is created by capitalism is transnational and very unequal as it allows having poor people in very developed countries, just as there can be very wealthy people in the world??™s poorest countries. The countrys success in developing itself depends thereafter on the strength of its state, and its policies on redistribution. We have seen that capitalism creates both wealth and poverty in MDCs, just like it does in LDCs, so we can now look at if it is the only explanation for inequalities between nations. To begin, we can start by saying that capitalism does not work in every country, and this has been demonstrated by the `Washington Consensus??™.

The Washington consensus is the name given by economist John Williamson in 1989 to a list of ten recommendation policies for countries willing to reform their economies. It is under these ten rules that the International Monetary Fund and the World Bank have agreed to lend money. These rules include the liberalisation of the economy, the application of free trade, and privatisation of big firms. We know today that they have had devastating effects on some economies which were not ready not ready to apply them, but who desperately needed the capital to develop, It has come to the point where LDCs now do not want to borrow from the funds that have been set up for them. This shows that capitalism is not always the way forward and that there are other conditions to its good functioning. Indeed, for capitalism to work, it is imperative to have a strong, incorrupt, fair state. A state that can redistribute the riches created, but also a state that can regulate the markets.

That said, we can now look at two examples of states which are complete opposites. First Sweden, in this country, the state is very strong and takes care of its` population from retirement pensions all the way to free medical care. However, this naturally comes at a price, and every worker in Sweden pays an average tax above 50% of their income.

This is why in this country the lowest salaries of the richest 10% of the population are only 1. 7 times superior to the medium salary (Panorama de la societe, OECD). Whereas in countries like the United state where the state has much less of a social presence (pensions are individual and capitalised, and medical care are not supported by the state), the poorest of the richest 10% have a salary which is equal to around 2.

2 times the medium salary. This shows the role of the state in the difference of inequalities within the countries. In conclusion, we have seen that capitalism can create both wealth and poverty within a country, depending on whether or not the riches created or then well redistributed and are proportional not only to the level of capital imputed in the production, but also proportional to the labour. If capitalism was left to run freely, then the difference in wealth within countries would be so huge that it would be untenable for the lowest incomes, and possibly lead to a revolution as we have seen all along the 19th century with the criticism of capitalism by Karl Marx and Friedrich Engels. Furthermore, we have proved that it is one of the reasons of today??™s inequalities between the countries, but that there were more historic and geographic reasons like colonialism.