



Wealth Inequality: Capitalism Versus Socialism

Barely three decades ago, there existed societies where inequality was lower than ever before in human history, as compared to now when a mere 0.027% of world's population owns a combined wealth of \$45 trillion.

Prabhat Patnaik
20 Feb 2022, NEWSCLICK



Much has been written about the immense increase in economic inequality that has occurred of late and various startling figures have been provided by bodies like Oxfam, which has just come out with a report titled *Inequality Kills*. This shows that the wealth of the 10 richest men has doubled since the pandemic began while the incomes of 99% of the population of the world are lower today than before the pandemic. A

mere 0.027% of the world's population is estimated to have owned a combined wealth of \$45 trillion in 2020, which is more than 15 times the current gross domestic product or GDP of India.

Some have even claimed that the contemporary world is characterised by the *highest level of economic inequality ever witnessed in human history* (MR Online, February 12). This claim is by no means implausible. Since every social system needs production, and since producers have to be given some minimum level of subsistence, there is a floor to what even the poorest must have access to, no matter how low the level of their labour productivity; and this is true even of earlier social systems.

On the other side, the share of economic surplus, which is the difference between labour productivity and the wage rate of productive workers, can keep rising as labour productivity rises with the development of productive forces. As capitalism has witnessed the highest level of development of productive forces to date, it should come as no surprise if economic inequality under capitalism in the sense of the share of economic surplus in output is higher today than at any earlier time.

The obvious argument against this view would be that with the development of the productive forces there would also be an increase in the real wage rate of the productive workers, so that the share of economic surplus, and hence the level of inequality that typically is an offshoot of it, need not increase under capitalism compared with earlier modes of production.

But if we see capitalism in its international setting where it causes deindustrialisation in its periphery and hence builds up massive labour reserves that keep real wages pretty close to a subsistence level despite the substantial increase in labour productivity, then it follows that inequality defined in terms of the share of surplus in the *world as a whole* would be much higher under capitalism than under earlier modes of production, precisely because of the greater development of the productive forces it ushers in compared with earlier modes.

But even as inequality in this sense is greater today than at any other time in human history because of the capitalist mode, *barely three decades ago there existed societies where inequality was lower than ever before in human history*. I refer, of course, to the erstwhile Soviet Union and the other socialist countries of Eastern Europe.

After the collapse of socialism in those countries, it has become fashionable to talk of them as being effectively no different in this respect from the capitalist countries, with an "apparatchik" that lived off the surplus exactly as capitalists do. But this attempt at obliterating the differences between the two social systems with regard to inequality is a dishonest ideological manoeuvre, which is factually incorrect. On the contrary, the contrast between the two systems in terms of inequality is simply unimaginable.

Max Lawson of Oxfam quotes Branko Milanovic, an economist of Yugoslav origin, to show that inequality in Eastern European economies (though he uses a different measure from what I have used above) was far less at that time compared with West Germany, France or Denmark, not to mention the US where, of course, it was much greater.

And this lower inequality, according to Milanovic, was because of at least three factors. The first was the massive expropriation of private, especially feudal, property after the Bolshevik Revolution, and its distribution among the peasants; similar land redistribution was carried out in many other Eastern European countries after the war.

The second was the fact that *everybody* had access to free education and healthcare. Every student received not only free education but also a stipend to study, and since there were no private colleges and universities, all received the *same* education and had the same opportunities for advance open to them; there was no question of some students, from a so-called "affluent" background being better placed compared with other students.

And the third factor was guaranteed employment; everyone was assured of a job, there being no question of some remaining unemployed and constituting a reserve army of labour, as occurs under capitalism.

These factors however, though important, do not fully explain the greater equality under socialism. These have to be supplemented by the very logic of the socialist system that prevented any increase in inequality. The economy's being forever at full employment gave the former socialist economies a dynamic that was fundamentally different from that of capitalism.

Under capitalism income distribution is determined separately and independently, through bargaining between workers and capitalists, in which the workers are handicapped by the existence of the reserve army: the greater the relative size of the reserve army, the lower is the wage share that the workers can obtain through their bargaining.

These independently given shares of workers and capitalists in output are the reason why there are crises of over-production in capitalism. If the relative share of workers, that is, their real wage divided by labour productivity, is, say half, and the total production capacity of the economy is 100, then 50 would come to the workers and 50 to the capitalists *if full capacity output is produced*.

The workers more or less consume what comes to them; but if capitalists' consumption (including the consumption of their "hangers-on") and investment, which are decided upon independently, add up to only 40, then *only 40 of the surplus will be "realised"*, and, since the share of surplus is half, workers will get 40 and not 50, and the "realised" total output will be 80. This means that 20 of producible output will remain unproduced, and if labour productivity is, say, 1, then 20 more workers will be unemployed over and above those who would have been unemployed anyway if 100 had been produced.

In a socialist economy, however, if the sum of investment and consumption by state personnel including managers (there are no capitalists and hence no capitalists' consumption) is 40, then *the output*

will still remain at 100, namely, at its full capacity level and the extra amount will simply be given to workers. The workers' share will be adjusted upward, so that they get 60 through a fall in prices relative to money wages. The workers' share, in other words, instead of being given independently, is itself flexible, always adjusting so as to realise the full capacity output.

Thus, while a capitalist economy has unemployment in the event of insufficient aggregate demand, a socialist economy *never has insufficient aggregate demand because the share of wages always adjusts to offset any such possibility.* The share of economic surplus in output, therefore, can rise secularly, and correspondingly the share of wages in output can fall secularly, only if the ratio of investment to output rises secularly. But even in such a case since there are no private capitalists owning the means of production, this entire rise in economic surplus comes to the State and there is no increase in income or wealth inequality among *individuals*.

Thus, the very logic of the functioning of the socialist system was such that it ruled out any over-production crises, any unemployment and any tendency toward growing income or wealth inequality among individuals. What is more, the transition to such a remarkably egalitarian system from an earlier system marked by massive inequality, occurred within a very short span of time. As one of Lawson's interlocutors puts it: "You had situations where parents were illiterate and their sons became university professors".

Some people believe that one cannot have creativity in a society characterised by substantial equality, for such equality undermines incentive. But this is a flawed argument for two obvious reasons. First, it is myopic in believing that the mainsprings of creative endeavour lie only in *monetary* incentives. In other words, this argument justifies a bourgeois order by making assumptions about human nature that limit it only to what one witnesses within a bourgeois order.

And second, it does not reckon with the massive *loss* of creativity (quite apart from the human costs involved) that is entailed when the mass of the population is kept uneducated, unemployed, in poor health, and nutritionally deprived

IL&FS Transportation Forensic Audit report Shows Gross Irregularities and Manipulation

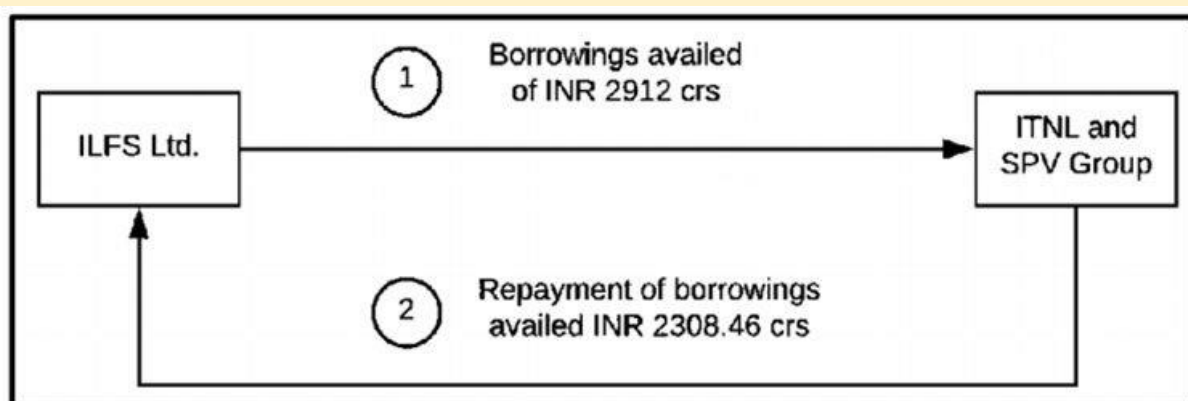
Moneylife Digital Team 19 February 2022



The forensic audit report of IL&FS Transportation Networks (ITNL) and its special purpose vehicles (SPVs) by Grant Thornton, shows gross financial mismanagement, withdrawal of funds from projects by ITNL leading to large cost overruns and accounting manipulation. The report found that road projects had to suffer Rs8,077 crore cost overrun, largely due to funds being taken out by ITNL. Interest cost overruns of Rs3,433.42 crore were one of the significant components of project cost overruns contributing 42% of the total project cost overruns. The mechanism of this is as follows:

IL&FS initially advanced loans at 10% to the SPVs. These loans were later assigned to other lenders. The assignment resulted in effect where SPVs had borrowed funds from the new lenders and repaid the loans taken from ITNL. The SPVs were charged an interest rate of 14-16% on loans assigned by ITNL against the 10-12% charged by ITNL earlier. The interest was to be borne by the SPVs, resulting in a cost overrun of Rs3,433 crore.

The report highlights several instances of circular transactions where the provider of funds is the ultimate recipient as well. The trouble from IL&FS spread to the parent with the holding company disbursing multiple loans to ITNL.



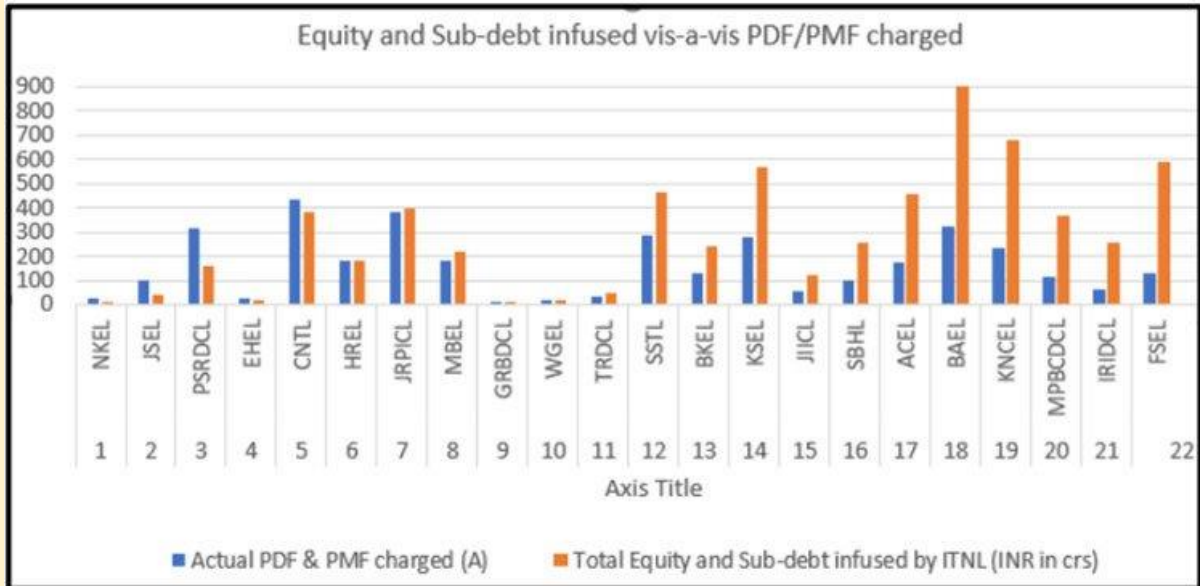
Source: GT forensic audit report

Response from ITNL was “ IL&FS as a Holding company of ITNL had been providing funding support to ITNL on a regular basis based on its requirements. The decision for the same were taken at the Group level by IL&FS Group Management Board taking into account overall group requirement, exposure level etc. Similarly, ITNL as a parent company of the SPV was required to provide funding support to the SPVs to meet their cash flow requirements. This was also necessitated due to various Sponsor undertakings provided by ITNL to Senior lenders at the time of financial closure of the Project”

Further ITNL used short term borrowings to make long term investments including equity investments in SPVs, which resulted in potential asset liability mismatch as well as liquidity issues in standalone ITNL.

ITNL availed temporary loan facilities from ILFS (300 crore) to repay its debt to indusind bank (545 crore). The report notes many such instances of circular transactions and also points out that SPVs had to incur interest cost even on non-cash transactions.

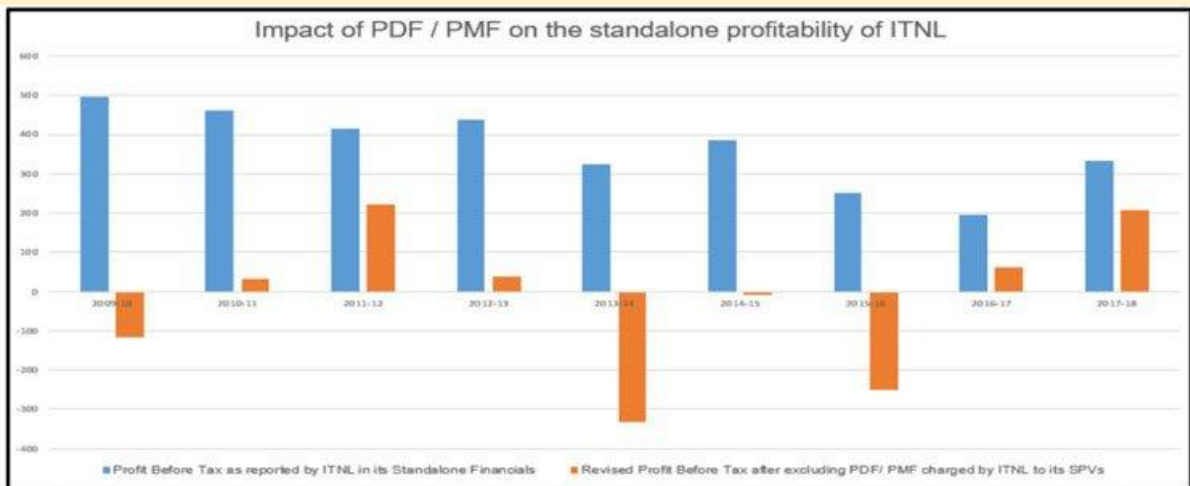
ITNL took out the money from the road projects by charging excess project development and project management fees (PDF & PMF) taking out additional Rs2,281 crore. This fee money was used to make equity contributions into the SPVs.



Source: GT forensic audit report

In majority of the instances (i.e. 16 SPVs), the PDF/PMF charged by ITNL is more than 50% of the total funds (equity and sub-debt) invested by ITNL in its SPVs. ITNL had utilised borrowings from external lenders and Group companies of IL&FS Limited to partly fund its share of equity as a sponsor/promoter of the SPVs.

In fact, in case ITNL had not recognised PDF/PMF, it would have potentially suffered a loss of Rs146.96 crore.



Source: GT forensic audit report

Some other significant observations from the report:

- ITNL/SPVs availed the loan facilities based on the project cost mentioned in PIM(Project Information Management), which

was higher than the project cost as mentioned on the website of DEA (Department of Economic Affairs) by Rs5,203 crore.

- Discussion regarding margin revision, design fees, O&M start-up fees, etc. to be charged from SPVs were conducted in advance to ensure that the financial forecast of ITNL for Q3 of FY 2016-17 is converted from a loss of INR 116 crs to Profit After Tax.
- To reflect profitability in standalone financials of ITNL revenue of Rs329 crore was accounted in the books of ITNL during 08 February 2017 to 31 March 2017 by way of revisions in contracts between ITNL and SPVs which led to profit after tax of Rs195.71 crore for the FY 2016-17.
- Potential payments were made by SPVs (MBEL and HREL) to ITNL against invoices to reduce cash balances in SPVs, which might have resulted in a better financial picture in terms of reduced cash to debt ratios.
- During FY17-18, ITNL provided interest-free loans of Rs111.19 crore to a few of its SPVs. However, the same entities were during that time facing financial and liquidity constraints.

Additionally, many other irregularities like potential anomalies in advance extended to various parties even though work was not carried out, Financial assistance by providing excess bills, awarding contracts to parties without a proper bidding process, misrepresentation of lenders of the SPV projects by submitting inflated toll revenue estimates etc have been abundantly noted in the report.

The forensic investigation analysed financial records, bank statements, public domain searchers, digital evidence recovery and review of top executives to come up with the findings. GT notes that some of the request for data were not met by the company. The GT reports points to fraud and manipulation in the company.

The report reiterates the fact that there were severe corporate violations like evergreening, gross irregularities and anomalies, compromised tender process and general circumvention of rules that misled regulators as well as investors.

The audit tracked emails of employees to establish the circular transactions were deliberate. Thus, it appears to be unusual that IL&FS Limited had disbursed multiple loans to ITNL even though ITNL was facing severe liquidity issues, which were known to the then KMPs of the IL&FS group.

In 2018, several IL&FS group entities defaulted on repayments due to severe liquidity problems. Later, the government superseded the board of directors, and the new board under the Chairmanship of Mr Uday Kotak was constituted. The board started working on ways to revive the ailing group. One of the actions taken was appoint Grant Thornton Bharat LLP (GT) to conduct forensic audits on some group companies with the purpose of unearthing financial irregularities; finding fraudulent transactions and wrongdoings by the erstwhile management, identify and fix the responsibility and assess its impact on the ongoing resolution process. For the review period Karunakaran Ramchand was the Managing Director of the company, Mukund Sapre was the Executive Director and Neeru Singh was the Non-executive Director.

ITNL, a subsidiary of IL&FS Limited, is a developer, operator, and a facilitator of surface transportation infrastructure projects, taking projects from conceptualization through commissioning to operations and maintenance under public to private partnership on a build-operate-transfer ('BOT') basis in India. ITNL is one of India's largest BOT road asset owners, with approximately 13,100 lane km in its portfolio.

The forensic report titled 'Project Icarus' was finalised by Grant Thornton and was released to the stock exchanges by ITNL on Friday.

No. of Bank Branches & Business Correspondents

As per reply to Rajya Sabha Question No.2595 for 21.12.2021

		No. of Bank Branches
1.	Uttar Pradesh	19,489
2.	Maharashtra	17,112
3.	Tamilnadu	11,945
4.	Karnataka	11,138
5.	West Bengal	9,767
6.	Gujarat	9,765
7.	Rajasthan	8,488
8.	Andhra Pradesh	7,939
9.	Madhya Pradesh	7,868
10.	Bihar	7,857
11.	Punjab	7,346
12.	Kerala	7,308
13.	Odisha	5,822
14.	Telangana	5,808
15.	Haryana	5,751
16.	Delhi	3,693
17.	Jharkhand	3,548
18.	Chhattisgarh	3,295
19.	Assam	2,942
20.	Uttarakhand	2,686
21.	Himachal Pradesh	2,230
22.	Jammu & Kashmir	2,143
23.	Tripura	797
24.	Goa	746
25.	Meghalaya	490
26.	Chandigarh	433
27.	Puducherry	284
28.	Arunachal Pradesh	257
29.	Mizoram	246
30.	Manipur	240
31.	Nagaland	210
32.	Andaman & Nicobar Islands	199
33.	Sikkim	189
34.	Ladakh	140
35.	Dadra & Nagar Haveli	118
36.	Lakshadweep	12
Total		1,68,301

(As on 30-11-2021 Including private banks, foreign banks, small finance banks, etc)

**No. of Business Correspondents / BCs in Banks including private banks
and India Post Payments Bank as on 30-11-2021**

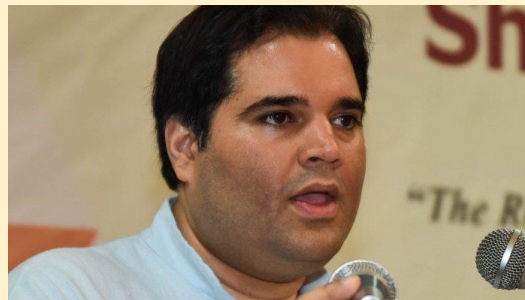
1.	Uttar Pradesh	66,118
2.	Maharashtra	46,294
3.	Madhya Pradesh	41,738
4.	Bihar	39,995
5.	Rajasthan	35,131
6.	West Bengal	27,630
7.	Tamilnadu	25,542
8.	Andhra Pradesh	23,595
9.	Odisha	20,851
10.	Gujarat	20,140
11.	Karnataka	17,962
12.	Telangana	17,305
13.	Jharkhand	14,105
14.	Chhattisgarh	13,411
15.	Assam	12,257
16.	Haryana	9,241
17.	Punjab	9,208
18.	Kerala	6,916
19.	Uttarakhand	5,151
20.	Himachal Pradesh	4,929
21.	Delhi	3,731
22.	Jammu & Kashmir	3,456
23.	Arunachal Pradesh	1,921
24.	Meghalaya	1,397
25.	Manipur	1,236
26.	Tripura	1,212
27.	Nagaland	778
28.	Mizoram	682
29.	Goa	523
30.	Dadra & Nagar Haveli	278
31.	Puducherry	249
32.	Ladakh	242
33.	Sikkim	174
34.	Chandigarh	130
35.	Andaman & Nicobar Islands	28
36.	Lakshadweep	2
Total		4,73,558

Public welfare govt can't promote capitalism by creating inequality:

Varun Gandhi targets Modi government

Varun's latest attack comes following a series of tweets, letters and newspaper articles targeting the BJP over the past few months

Shemin Joy, DHNS, New Delhi, FEB 22 2022,
DECCAN HERALD



BJP MP Varun Gandhi on Tuesday trained guns on the Narendra Modi regime for attempts to privatise banks and railways that could lead to loss of thousands of jobs, saying a government for public welfare can never promote capitalism by creating inequality.

His attack on "public welfare government" came days after the Pilibhit MP took potshots at the "strong government" for not taking "strong action" against "super corrupt system".

"Privatisation of banks and Railways will leave five lakh employees forcefully retired i.e. unemployed. With jobs lost, hopes of lakhs of families are lost. A 'public welfare government can never promote capitalism by creating economic inequality at social level," Varun said in his latest tweet.

Varun's latest attack comes following a series of tweets, letters and newspaper articles targeting the BJP over the past few months. Varun has been vocal on issues like job loss and economy, especially since the killings of farmers in Uttar Pradesh's Lakhimpur Kheri last year in which Union Minister Ajay Mishra Teni's son is allegedly involved.

On February 18, Varun tweeted, "Vijay Mallya -- Rs 9,000 crore, Nirav Modi -- Rs 14,000 crore, Rishi Agarwal -- Rs 23,000 crore. When around 14 people are committing suicide in the country due to the burden of debt, the life of these rich people are at the peak of splendour. A 'strong government' is expected to take 'strong action' against this super corrupt system."

The tone of the tweet was not missed by the BJP as Varun spoke about "majboot sarkar" (strong government) and "majboot karyavahi" (strong action), key themes of the party's projection of Modi government. The almost direct attack on the BJP also comes in the midst of election campaign.

On February 13 after reports of alleged bank fraud by ABG Shipyard Ltd's Agarwal came to light, he had tweeted that if farmers or small shopkeepers is unable to repay the loan of even thousands of rupees, their property will be attached or will be forced to commit suicide, but those who steal thousands of crores easily get bail.

He was also critical of the appointment of Santishree Dhulipudi Pandit as Jawaharlal Nehru University (JNU) Vice Chancellor and had said that such "mediocre appointments serve to damage our human capital and our youth's future".

Earlier touted as BJP's counter to the Congress' first family, the Gandhi family, Varun has off late fallen out with the leadership and has been raising issues. He has also been critical of the handling of the economy and has written articles on rising unemployment and farmer issues.

He has been critical of the now-repealed controversial farm laws and has been demanding legal backing for Minimum Support Price (MSP). He also wrote to the Prime Minister seeking action against the Minister of State in the Lakhimpur Kheri incident.

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