Paradigm Shift:
Three Narratives of Capitalism and Economic Growth

Prof. Dr. Ottmar Edenhofer

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International Panel on Social Progress

• “If social sciences exist, is it not, precisely, because analyzing action, institutions, social relations, structures, can help to build a better world?” (Calhoun & Wieviorka 2013).

• Over 200 leading academics and researchers from all around the world have produced final report.

• Topics include: Democracy, Poverty, Inequality and Well-Being, Governance, Security, Global Health, Gender, Urbanization, Education.

https://www.ipsp.org/
Three Narratives of Capitalism and Economic Growth

1. Economic Growth as a Narrative of Liberation

2. Capitalism and Growth as a Narrative of Exploitation and Alienation

3. The Challenge of the Global Commons – Overuse of natural resources, shortage of public infrastructure
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Growth is good for the poor

Poverty Reduction

Average Annual Change in log(Per Capita Income in Poorest Quintile)

Average Annual Change in log(Per Capita Income)

Growth

\[ y = 1.185x - 0.0068 \]

\[ R^2 = 0.4935 \]

Dollar und Kray (2002)
Capitalism as the force underlying current prosperity

**GDP per capita**

**Population in extreme poverty**

Gross World Product Per Capita

- East Asia and Pacific
- Europe and Central Asia
- Latin America and the Caribbean
- Middle East and North Africa
- South Asia
- Sub-Saharan Africa

Snower (2014)
Institutions matter!

- Sound rules (institutions) unleash market forces
- Market forces make difference between Malthusian trap and growth

GDP per capita

South Korea
North Korea

Acemoglu et al. (2005)
Within and between country income inequality on a global scale

International Panel on Social Progress (IPSP), Chapter 3
The elephant curve

Change in income for percentiles of the global income distribution between 1988 and 2008 (Source: Milanovic, 2013).
The elephant curve

1. Absolute poverty reduced by more than 50 %: A
2. Global income inequality decreased: A, B
3. Low growth rates of poor and middle class families in advanced economies around 80 to 90 percentile
4. Increase in income inequality (within countries): C, D
5. Increased wealth concentration at the top: D

Change in income for percentiles of the global income distribution between 1988 and 2008 (Source: Milanovic, 2013).
The share of total income earned by the top 1%
Declining share of the top 1% in some European economies and in Japan
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Power imbalances ...

... in favor of large corporations and banks, at the expense of national governments

- Tax evasion and competition may lead to situations in which the provision of public goods is lacking.
- Powerful groups are able to procure advantages by means of lobbying.
- Economic bonds in the financial system, e.g. profits, become privatized, losses become socialized; opaque financial products.
Declining public wealth

Share of public wealth in national wealth

Alvaredo (2016): Global Inequality Dynamics: New Findings from WID.world
Income share of labor is declining – the distribution of primary assets should be the main focus

Bottom 50% income share in China, the US and France

Alvaredo (2016): Global Inequality Dynamics: New Findings from WID.world
Inequality and social mobility

The Great Gatsby Curve: More inequality is associated with less mobility across the generations

Materialism and the loss of meaning

Meaning of Life

GDP per capita (2007) log scale

Oishi und Diener (2014)
The revolt of white (less educated) angry men

Despite low income

- No redistribution
- Free market
- Deregulation
- Tax cuts
- Small government

Cultural values

- Opposing liberal lifestyle / LGBT agenda
- Nationalism
- Social order / against immigration
- Religious principles: sanctity / purity / dignity
- Pro-death penalty / against abortion
- Anti-establishment
- Prosperity Gospel

Ambitious climate policy requires leaving the majority of fossil fuel reserves untapped.
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Management of the Global Commons in the 21st century

1) Avoid overuse of global natural resources

2) Ensure public investment and expenditures
The Common Destination of Goods

“The principle of the subordination of private property to the universal destination of goods, and thus the right of everyone to their use, is a golden rule of social conduct and ‘the first principle of the whole ethical and social order’.

71 John Paul II, encyclical letter Laborem Exercens, in Pope Francis, encyclical letter Laudato Si [93]

St. Thomas Aquinas
(1225-1274)
Summa Theologiae II/II q. 66, a. 2.
The Polluter Pay Principle

“Yet only when ‘the economic and social costs of using up shared environmental resources are recognized with transparency and fully borne by those who incur them, not by other peoples or future generations’\textsuperscript{138}, can those actions be considered ethical.”

138 Pope Benedict XVI, encyclical letter \textit{Caritas in Veritate}, in Pope Francis, encyclical letter Laudato Si [195]

Arthur Cecil Pigou (1877-1959)
Concepts of Social Welfare

Multiple Conceptions of Welfare

- Private Capital Stock
- Hospitals
- Schools, Universities
- Transport Infrastructure
- Natural capital

Capital Stocks Relevant for Welfare

Investment in public infrastructure

Open Access Resources:
- Determine Rate of Use
- Regulation of Use Creates Rent

(Partial) Appropriation of Resource Rents
(Taxation, State Ownership, etc.)
Natural and social global commons as the new wealth of nations

Globalization causes overarching environmental problems to worsen, calling for international cooperation.

A shortage of public infrastructure and social capital exists across countries.
The Climate Rent

Source: own presentation / MCC / PIK
Overview of SDG financing needs

Financing needs

- Health
- Education
- Food security
- Energy
- Water & sanitation
- Transport
- Telecommunication
- Biodiversity
- Data for the SDGs
- Emergency aid
- [Privately financed]
Purely domestic carbon pricing revenues for 2°C target would cover a substantial share of the SDG financing needs in many countries. Even higher domestic potential if some redistribution across national borders.

Source: Franks et al. 2018, Nature Sustainability
Make globalisation just (again?)

- **International agreements** and multilateral institutions
  - UNFCCC Climate Agreement
  - Prevention of ruinous tax competition
  - Securing minimum standards within the social system

- Giving the debate about **free trade, externalities and technological change** a new direction: **Fairness** is important!

- A new balance between **government, market and civil society**
  (e.g. just taxes, reasonable investment strategies, taming financial markets)

- Launching a debate about **rights, duties, identity** and **dignity**
Developing a social-liberal-sustainable perspective

• This perspective would include:
  • limiting **inequality**
  • limiting ecological **externalities**
  • ensuring fundamental **individual rights** against corporate actors (such as the State or google)

• **Capitalism** would have a fundamentally different face if we mitigated **rent seeking** and **inequality** and took **externalities** seriously into account.

• How to reconcile (liberal and democratic) national states and increasing globalization is the core question of our times: **Inclusive nation states** have to cooperate in order to manage **transboundary externalities** and **public goods**.