

Three Narratives of Capitalism and Economic Growth

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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 will produce the final report in 2017.
- Topics include: Democracy, Poverty, Inequality and Well-Being, Governance, Security, Global Health, Gender, Urbanisation, Education.



<https://www.ipsp.org/>

Three Narratives of Capitalism and Economic Growth

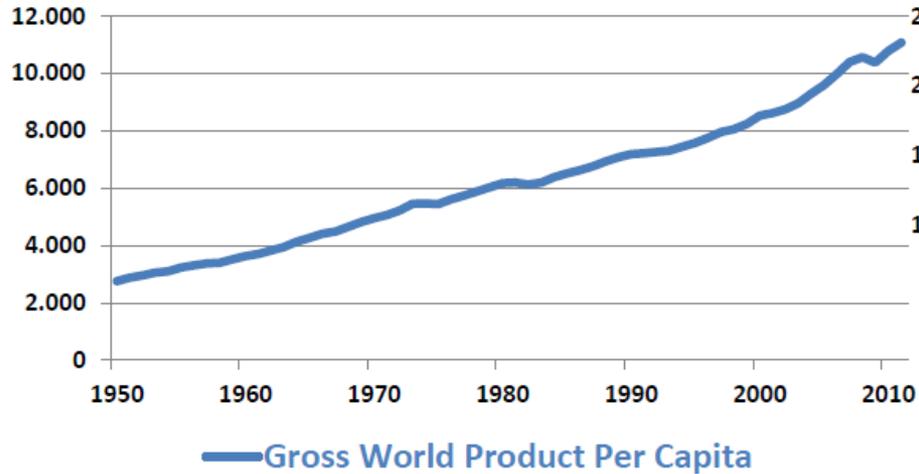
1. Economic Growth as a Narrative of Liberation
2. Capitalism and Growth as a Narrative of Exploitation
3. The Challenge of the Global Commons – Overuse of natural resources, Shortage of public infrastructure

Three Narratives of Capitalism and Economic Growth

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2. Capitalism and Growth as a Narrative of Exploitation
3. The Challenge of the Global Commons – Overuse of natural resources, Shortage of public infrastructure

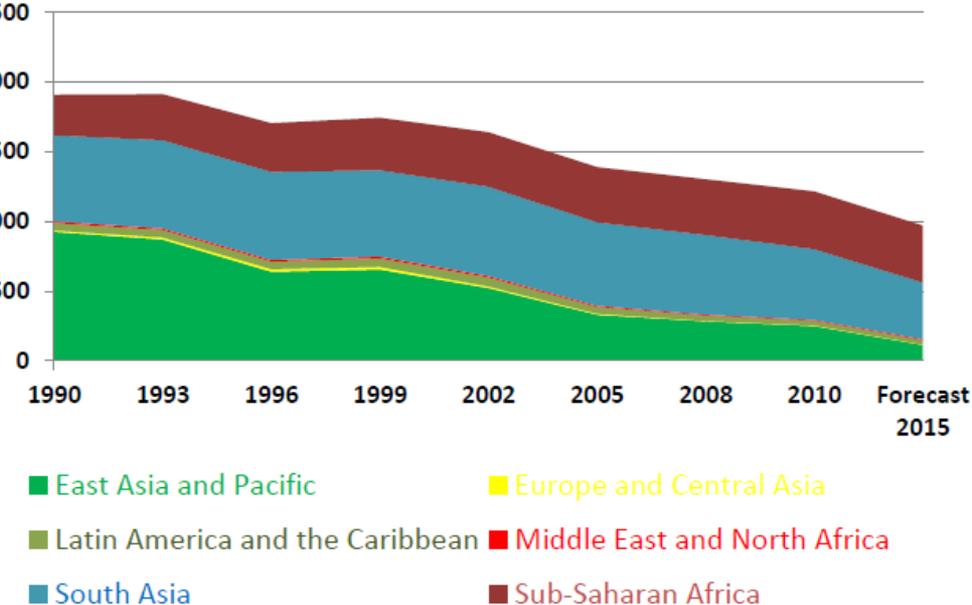
Capitalism as the reason behind current prosperity

GDP per capita



Snower (2014)

Population in extreme poverty

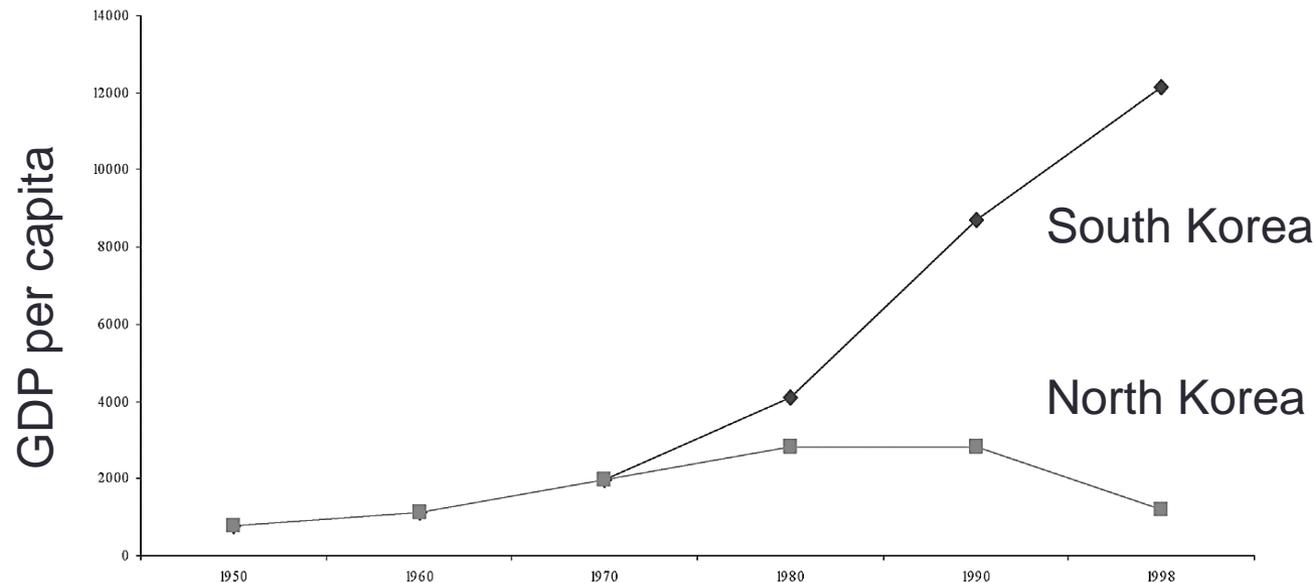


Fair rules as the basis for development



- When investors are safe from expropriation, they generate wealth
- Government required to set rules which align private and social objectives

Fair rules as the basis for development



Source: Acemoglu et al. (2005)

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

Capitalism as the reason behind current prosperity

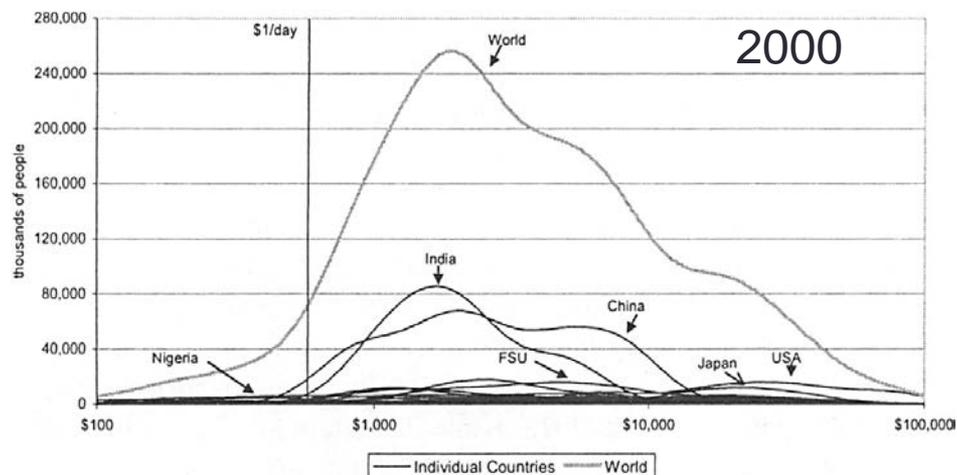
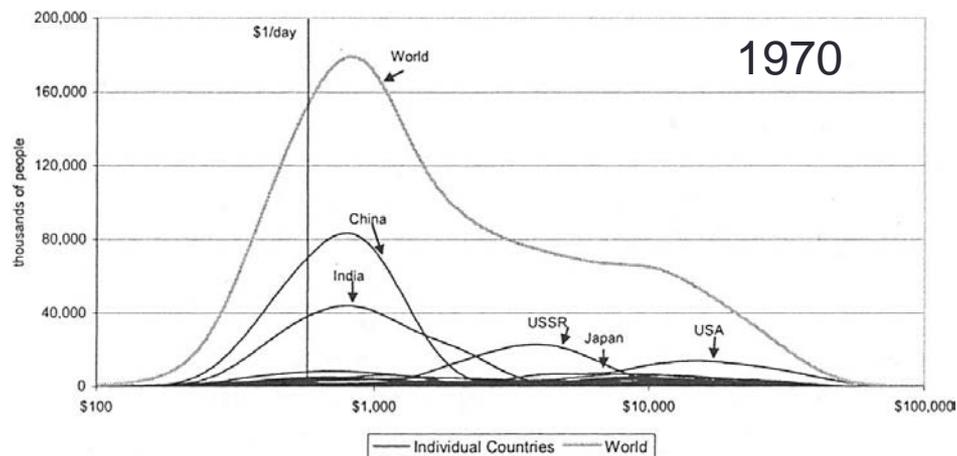
- Technological change
- Secure intellectual property rights



Quelle: <https://corporate.ford.com/company/history.html>

- Incentives for innovation
- Free trade

With better rules: lower inequality



- As countries develop better institutions they start growing
- Growth of low income countries reduces poverty
- ... and global inequality

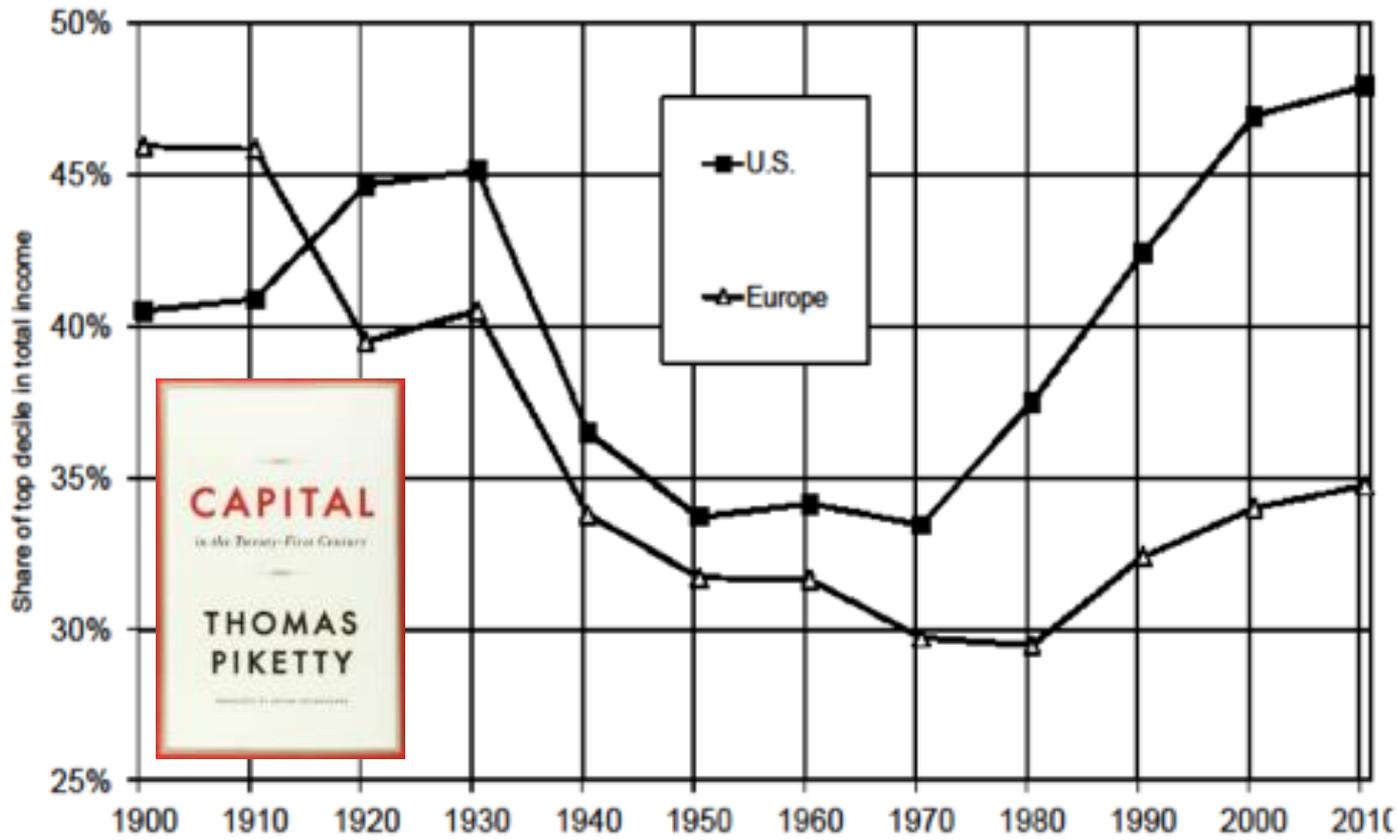
Sala-i-Martin (2006)

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Increasing Inequality

Figure 9.8. Income inequality: Europe vs. the United States, 1900-2010

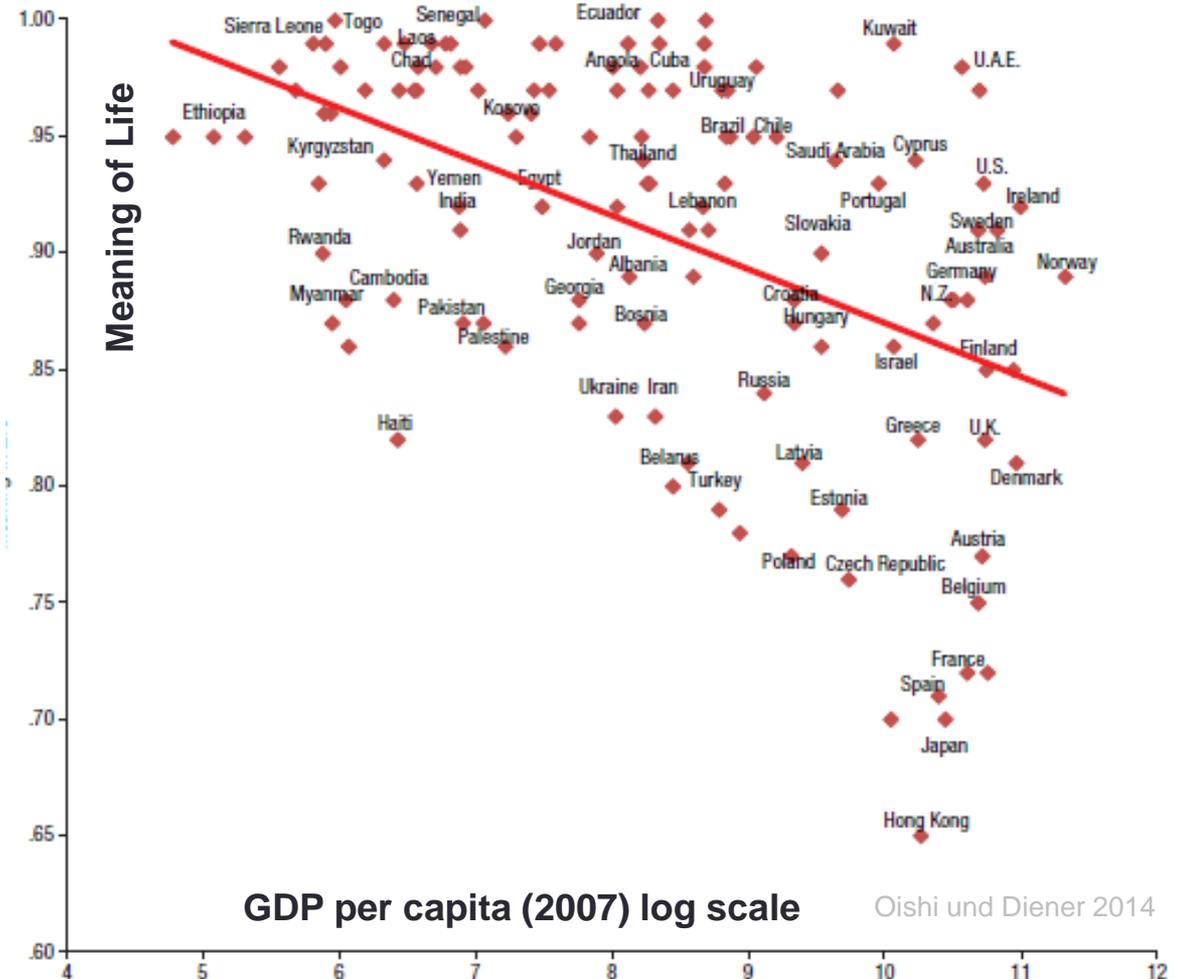


The top decile income share was higher in Europe than in the U.S. in 1900-1910; it is a lot higher in the U.S. in 2000-2010. Sources and series: see piketty.pse.ens.fr/capital21c.

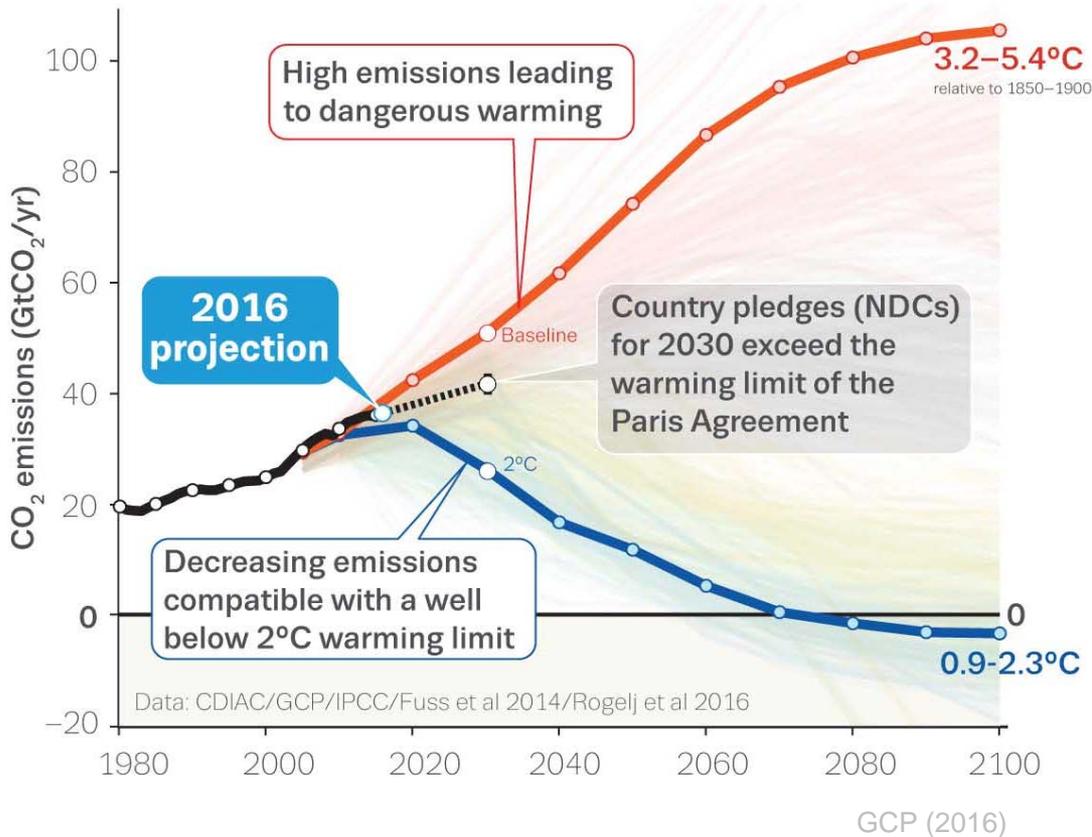
Materialism and a loss of meaning



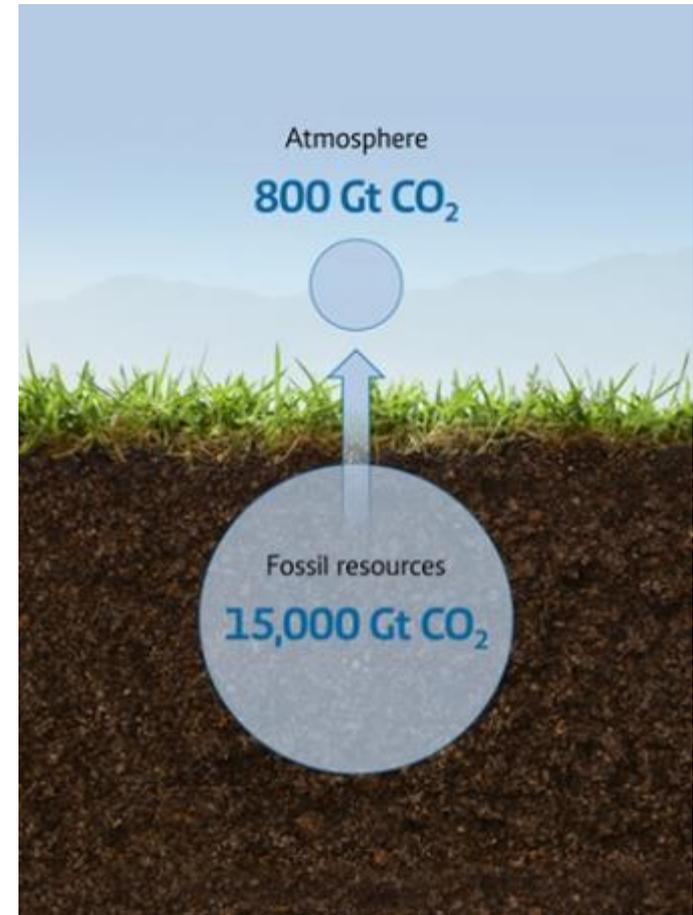
Wilkinson and Pickett 2009



Environmental degradation



Ambitious climate policy requires leaving the majority of fossil fuel reserves untapped.



GCP (2016)

Unbalanced relationships to power...

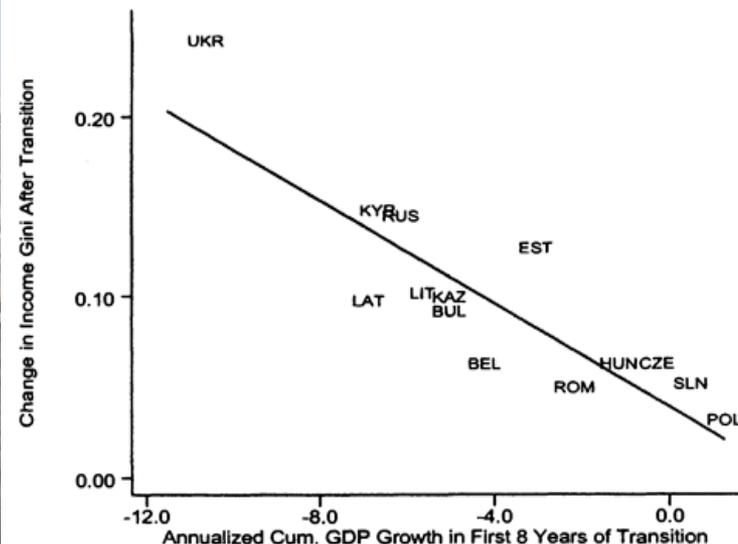
... in favor of large corporations and banks, at the expense of national governments



Quelle: Valenciano (own work) [CC BY-SA 4.0 (<http://creativecommons.org/licenses/by-sa/4.0>)],

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

Lack of rules and welfare



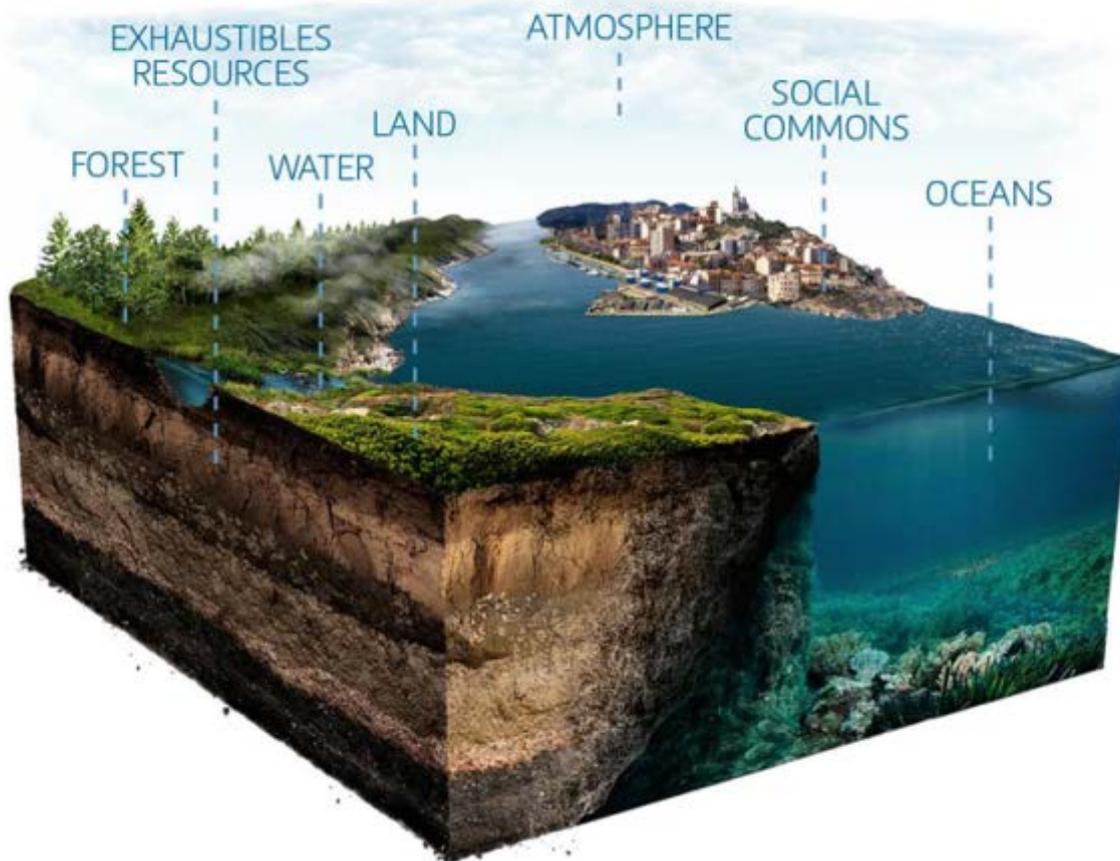
Source: <http://www.industrytap.com/wp-content/uploads/2013/02/beijing-smog.jpg> Source: Keane and Prasad (2002)

- Lack of rules: concerning the environment, concerning exploitation rents
- Private and social benefits not aligned
- Economic wealth created at expense of environment, higher inequality
- Material wealth is high, but social welfare is not

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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

Natural and social Global Commons



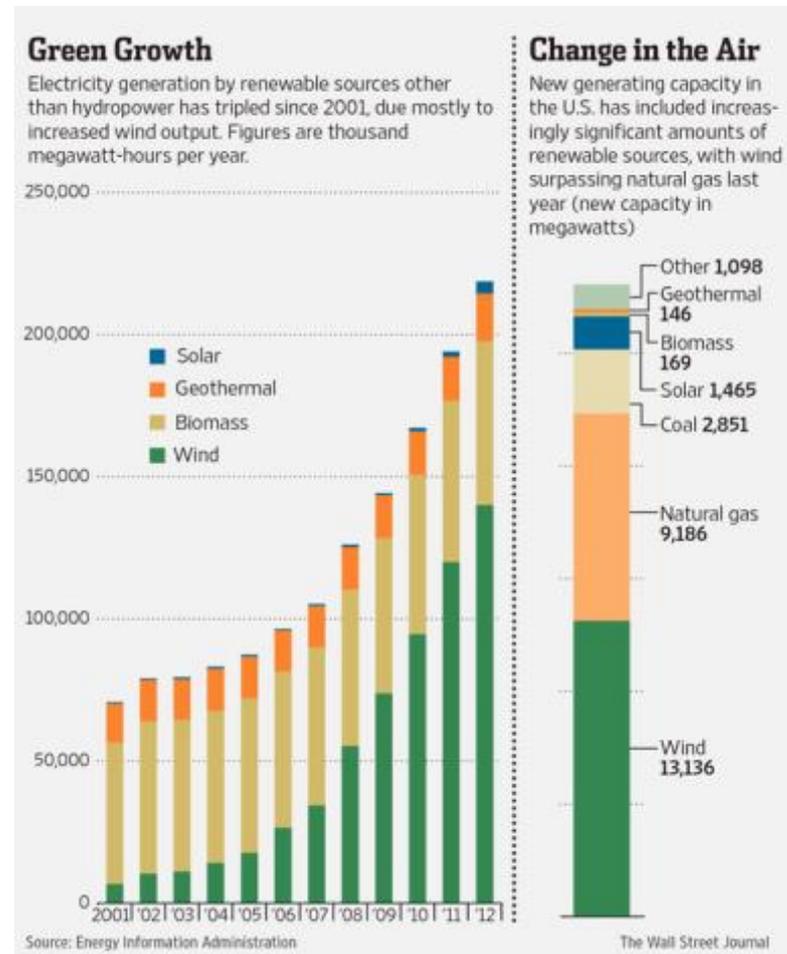
Globalization causes overarching environmental problems to worsen, which calls for international cooperation.

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

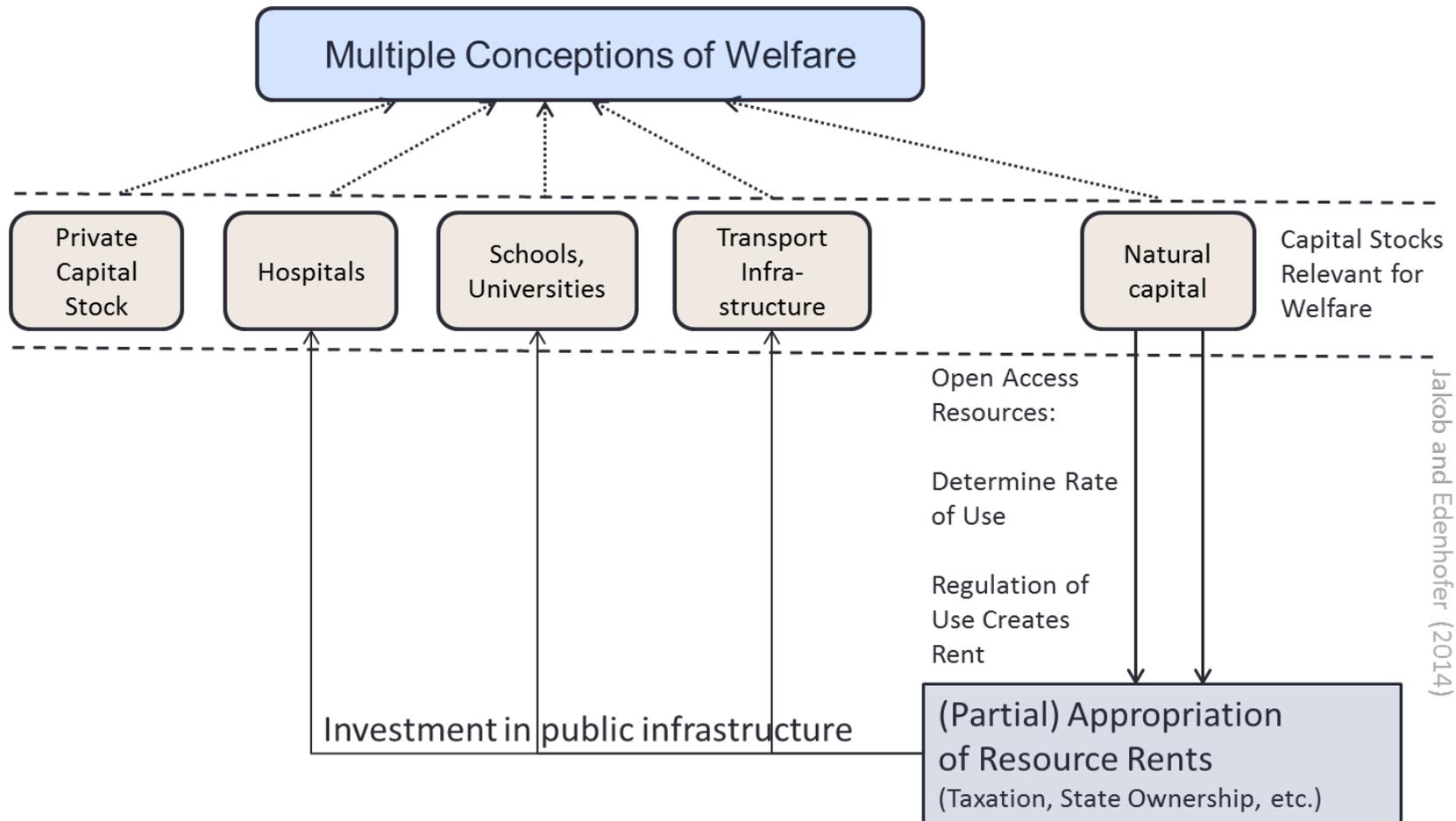


Markets with good rules create welfare

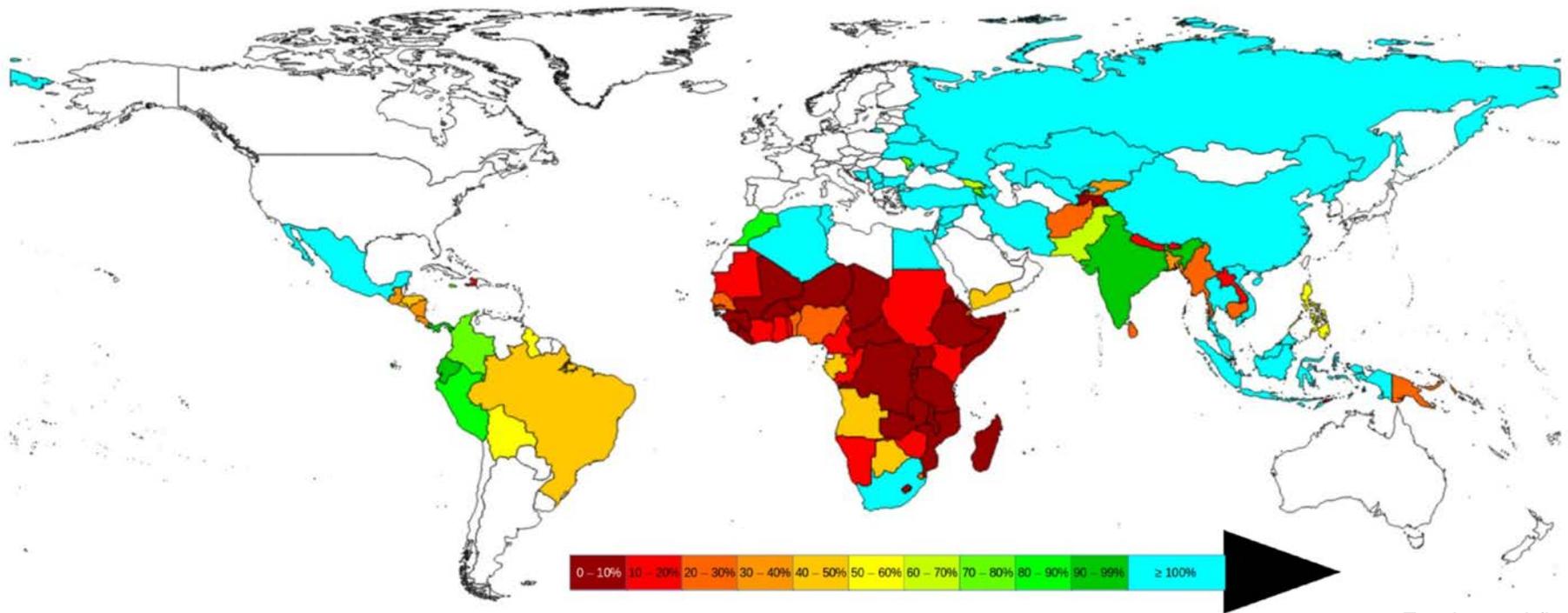
- Rules for liberating market forces working well
- Now needed: better rules for
 - Controlling environmental externalities
 - Fair distribution of wealth
- Market forces and fair rules solve problems
- Example: exponential growth in renewable energy deployment



Management of the Commons



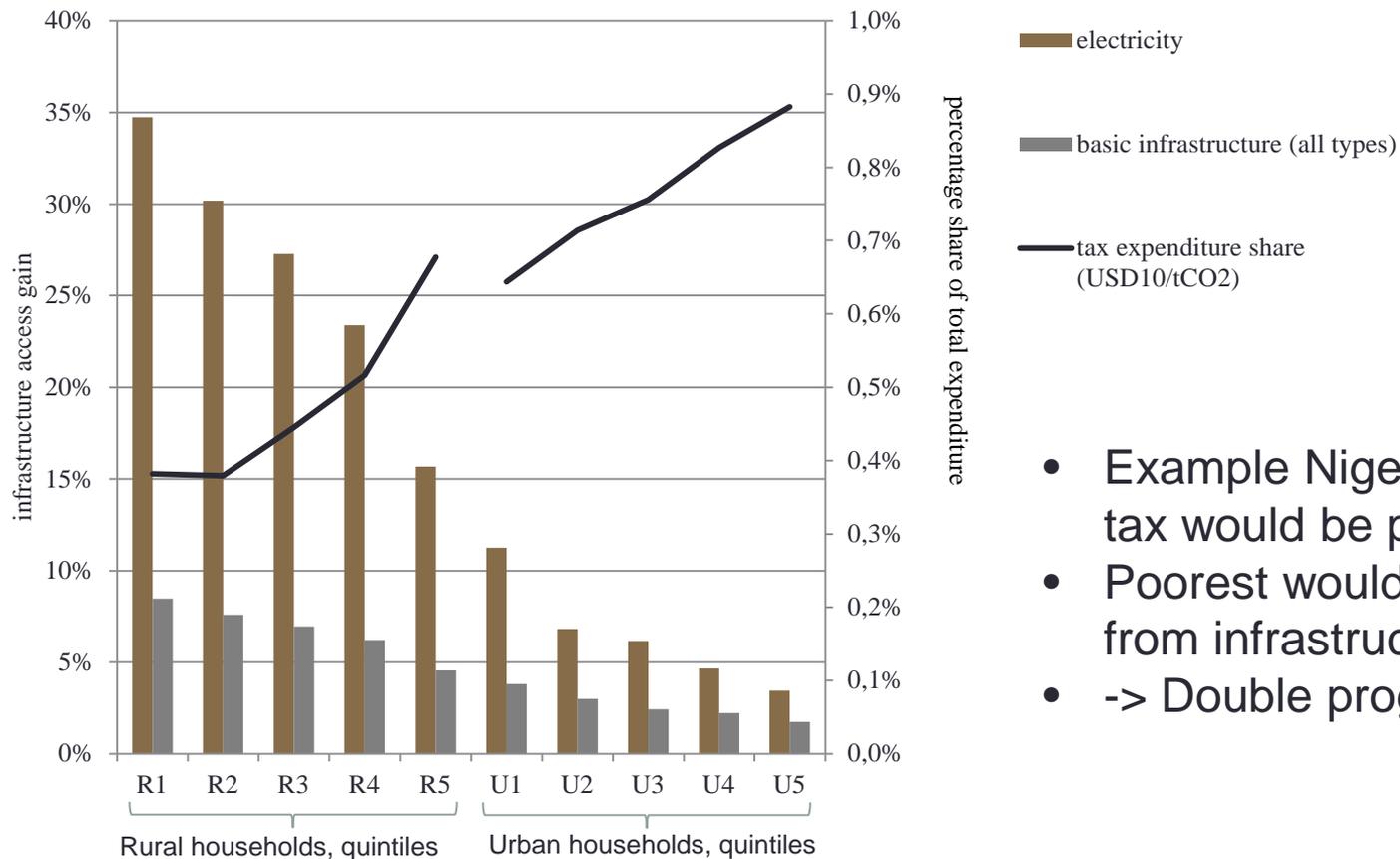
Infrastructure Investment



Franks et al (in prep.)

- Purely domestic carbon pricing revenues for 2°C target would be sufficient to finance infrastructure investment needs in many countries.
- Even higher potential if some redistribution across national borders.

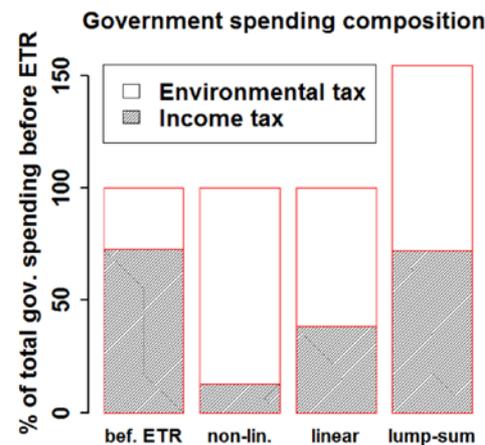
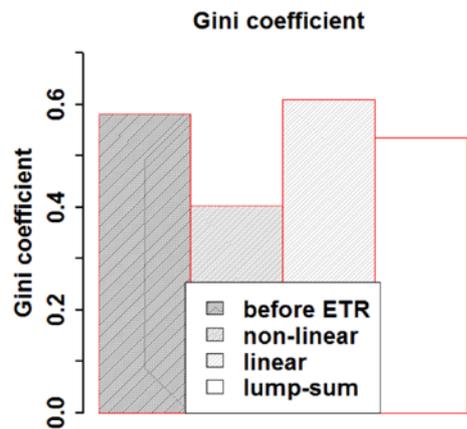
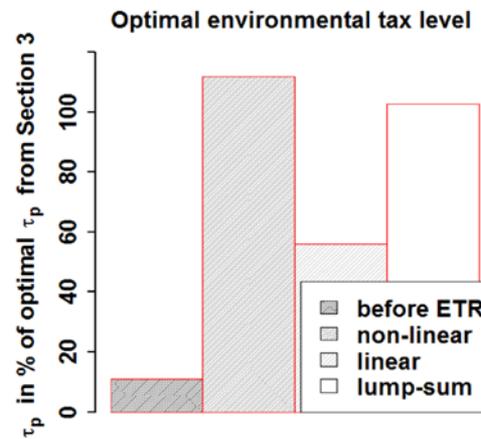
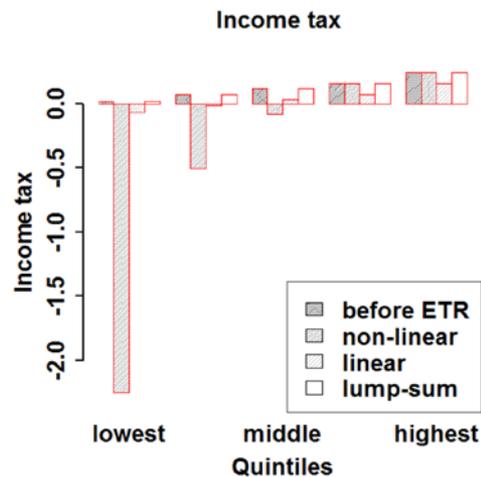
Infrastructure Investment



- Example Nigeria: Carbon tax would be progressive.
- Poorest would benefit most from infrastructure.
- -> Double progressivity

Droband, Jakob, Steckel (in prep.)

Adjusting Taxes



- Revenues from environmental taxes can be used to lower other taxes.
- The tax system can hence be adjusted in a way that it becomes more progressive.

The basis of a new Model of Prosperity

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

- 2. Access to infrastructure and public goods, especially for the poor**

- 3. Overcoming inequality**
 - Tax on inheritance
 - Tax on pensions
 - Environmental taxes that are socially bearable

The basis of a new Model of Prosperity

- Institutions are essential for fair and efficient outcomes, e.g. promoting the SDGs and curbing inequality.
- Role of science: deliver the underlying information and line out the option space, taking into account different social values (mapmakers).
- Policy makers need information on trade-offs and synergies between different policy objectives, especially in times of rising populism and post-factual politics.
- Deliberative democracy is essential to elucidate social preferences.

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