Three Narratives of Capitalism

(Inclusive) Transformation, Modernisation and Megatrends

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Triangle of transformation

Main challenge: Inclusive transformation
First step: Understanding capitalism as a complex system
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
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, Urbanization, Education.

https://www.ipsp.org/
What is capitalism?

**Capitalism** is an economic system based on three key institutions:

- private property rights,
- markets and
- firms

These institutions have been implemented differently in different countries leading to a wide variety of capitalist systems.

Capitalism can create positive or negative **externalities** that have an effect on both the environment and society. The balance of power between government, markets (including firms, private property rights) and civil society determines the degree to which these **market failures** can be remedied.
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Capitalism as the force underlying current prosperity

GDP per capita

Population in extreme poverty

Snower (2014)
Fair rules as the basis for development

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

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

Acemoglu et al. (2005)
Technological Change and Globalization

- Technological change
- Secure intellectual property rights
- Incentives for innovation
- Free trade

https://corporate.ford.com/company/history.html

http://www.geschaeftsreisekontakt.de/admin/plugins/print/print.php?itemid=4609
Low prices for exhaustible resources

- When innovation is rewarded, new extraction technology is developed
- Improved extraction technology keeps resource prices low

Stürmer and Schwerhoff (2016)
Within and between country income inequality of global inequality
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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
Increasing inequality

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

Share of top decile in total income

U.S. vs. Europe

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.
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
Lack of rules and welfare

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


Keane and Prasad (2002)
Inequality and social mobility

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

Inequality and class differences

More inequality, fewer class differences

Low income classes:

• resist more distribution
• prefer free markets
• oppose regulation
• favor tax cuts
• believe in small government

Conjecture: Egalitarianism is perceived as the attitude of loosers; dignity becomes more important than well-being.
Materialism and the loss of meaning

GDP per capita (2007) log scale

Meaning of Life

Oishi und Diener (2014)
The revolt of the white men

Landscape of societal values: hypothesis

- Material welfare
- Liberty
- Perfection/purity/sanctity
- Social order
- Equality
- Natural capital
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- **Education & self-realization**
- **Balance, opportunities**
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

Overcoming the economic and cultural divide simultaneously

Rising salience of non-economic issues in the party manifestos of thirteen Western Democracies, 1950-2010

Environmental degradation

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
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.
Infrastructure investment

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

Franks et al (in prep.)
Environmental taxes as just taxes

- Revenues accruing from environmental taxes can be used to lower other taxes.
- A reformed tax system can lead to a more equal income distribution.
- More redistribution allows for higher environmental taxes.

Klenert et al. (2016)
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**
Deliberative democracy: Towards “Epistocracy” – beyond “there is no alternative”

- Democracy is not just a voting machine!
- Key idea: explore alternatives in public debate
  - Science can provide reasonable maps; it can be conceptualized as a problem-solving learning process for societal problems

- Goals and means, facts and values are intertwined via their consequences
  - Beyond the usual positivist world view

- Objectivity possible (despite value dimension)
  - We can rationally discuss value-laden issues – in terms of direct effects, unintended side effects, and co-benefits
  - Yet, knowledge is always fallible
  - Co-production of knowledge required