Paradigm Shift: Three Narratives of Capitalism

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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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Capitalism as the force underlying current prosperity

GDP per capita

Population in extreme poverty

Snower (2014)
Institutions matter!

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

Acemoglu et al. (2005)
Within and between country income inequality of global inequality

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

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

1. Absolute poverty reduced by more than 50%: A
2. Global income inequality decreased: A, B
3. Increase in income inequality (within countries): C, D
4. Increased wealth concentration at the top: D

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

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

The share of the top decile in total income 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
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

<table>
<thead>
<tr>
<th>Despite low income</th>
<th>Cultural values</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No redistribution</td>
<td>• Opposing liberal lifestyle / LGBT agenda</td>
</tr>
<tr>
<td>• Free market</td>
<td>• Nationalism</td>
</tr>
<tr>
<td>• Deregulation</td>
<td>• Social order / against immigration</td>
</tr>
<tr>
<td>• Tax cuts</td>
<td>• Religious principles: sanctity / purity / dignity</td>
</tr>
<tr>
<td>• Small government</td>
<td>• Pro-death penalty / against abortion</td>
</tr>
<tr>
<td></td>
<td>• Anti-establishment</td>
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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.
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 tade, 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 included redistribution and took externalities seriously into account.

- A society that would see the consequences of acting – expressed through a price signal – would be a different society, even if the market economy and private property would be maintained. In fact, private property would be modified by rent taxation.