



POTSDAM INSTITUTE FOR
CLIMATE IMPACT RESEARCH

Paradigm Shift: Three Narratives of Capitalism

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New Economic Paradigm Workshop

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Three Narratives of Capitalism and Economic Growth

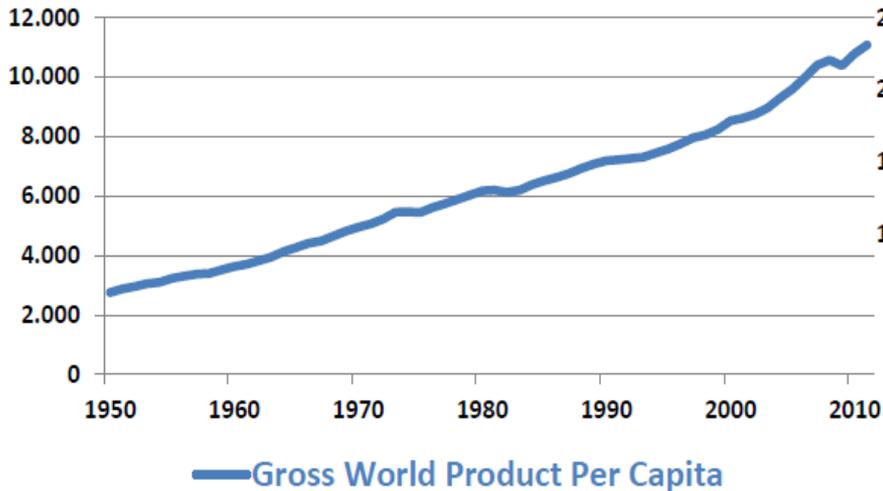
1. **Economic Growth as a Narrative of Liberation**
2. **Capitalism and Growth as a Narrative of Exploitation and Alienation**
3. **The Challenge of the Global Commons – Overuse of natural resources, Shortage of public infrastructure**

Three Narratives of Capitalism and Economic Growth

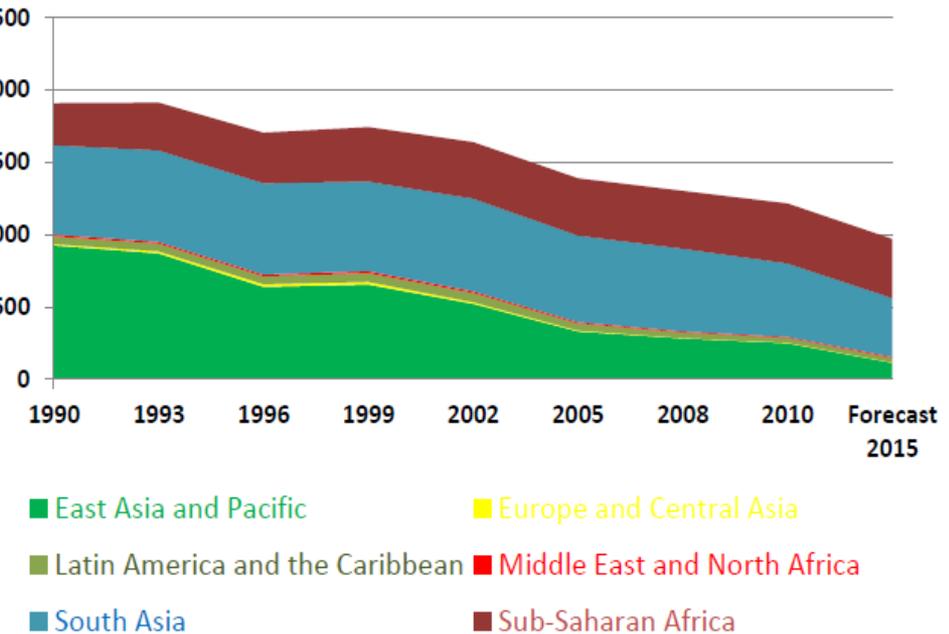
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Capitalism as the force underlying current prosperity

GDP per capita

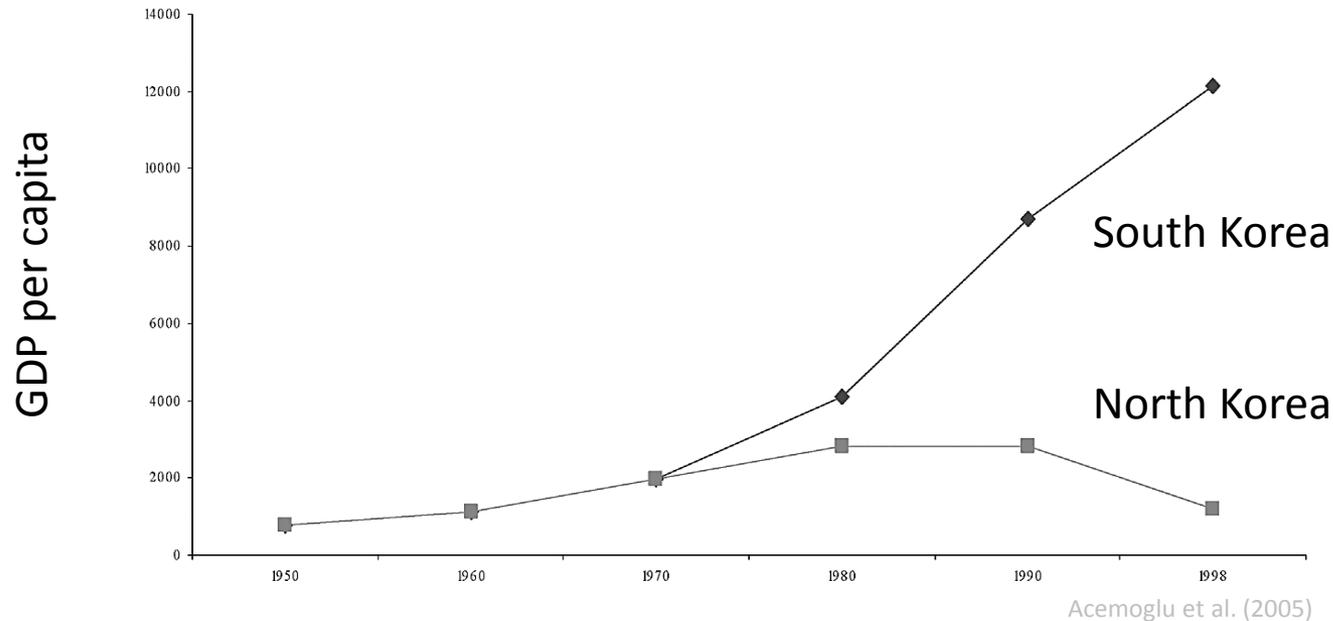


Population in extreme poverty



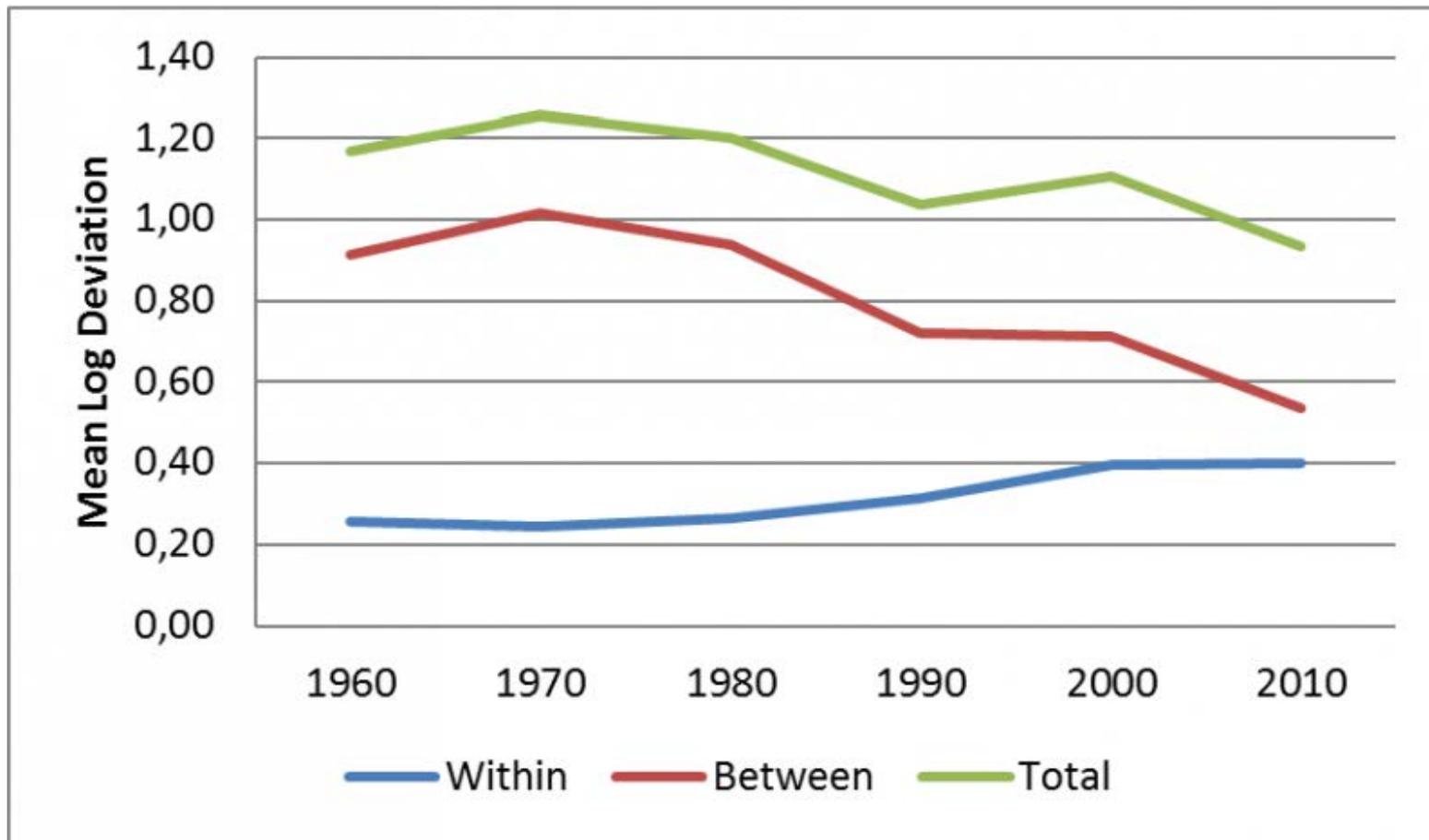
Snower (2014)

Institutions matter!



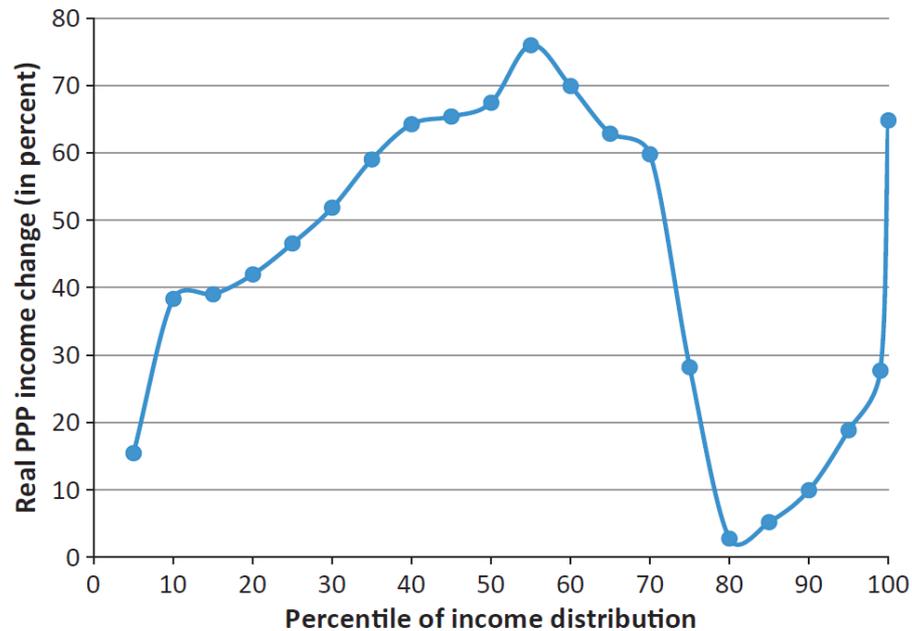
- Sound rules (**institutions**) unleash market forces
- Market forces make difference between Malthusian trap and growth

Within and between country income inequality of global inequality



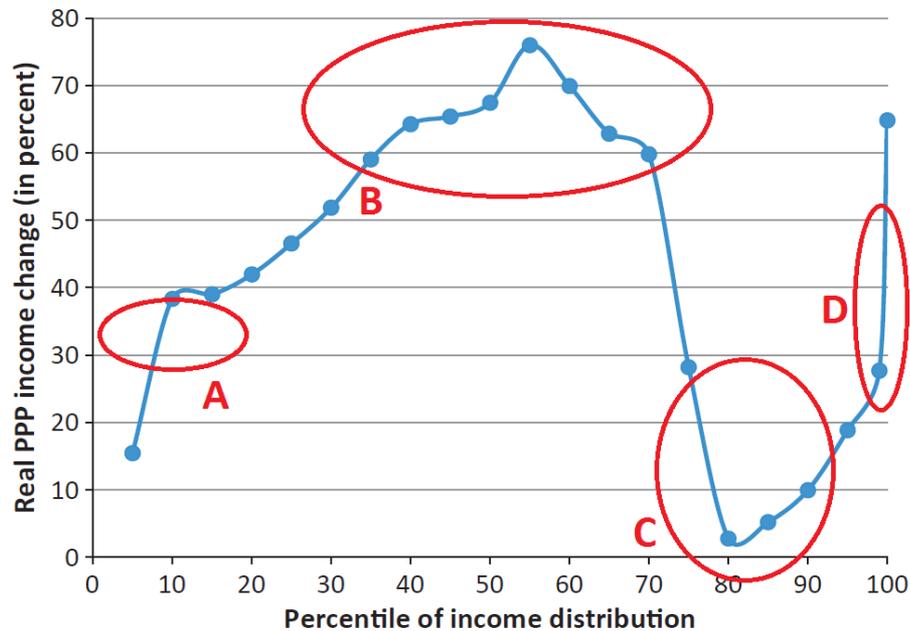
International Panel on Social Progress (IPSP), Chapter 3

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

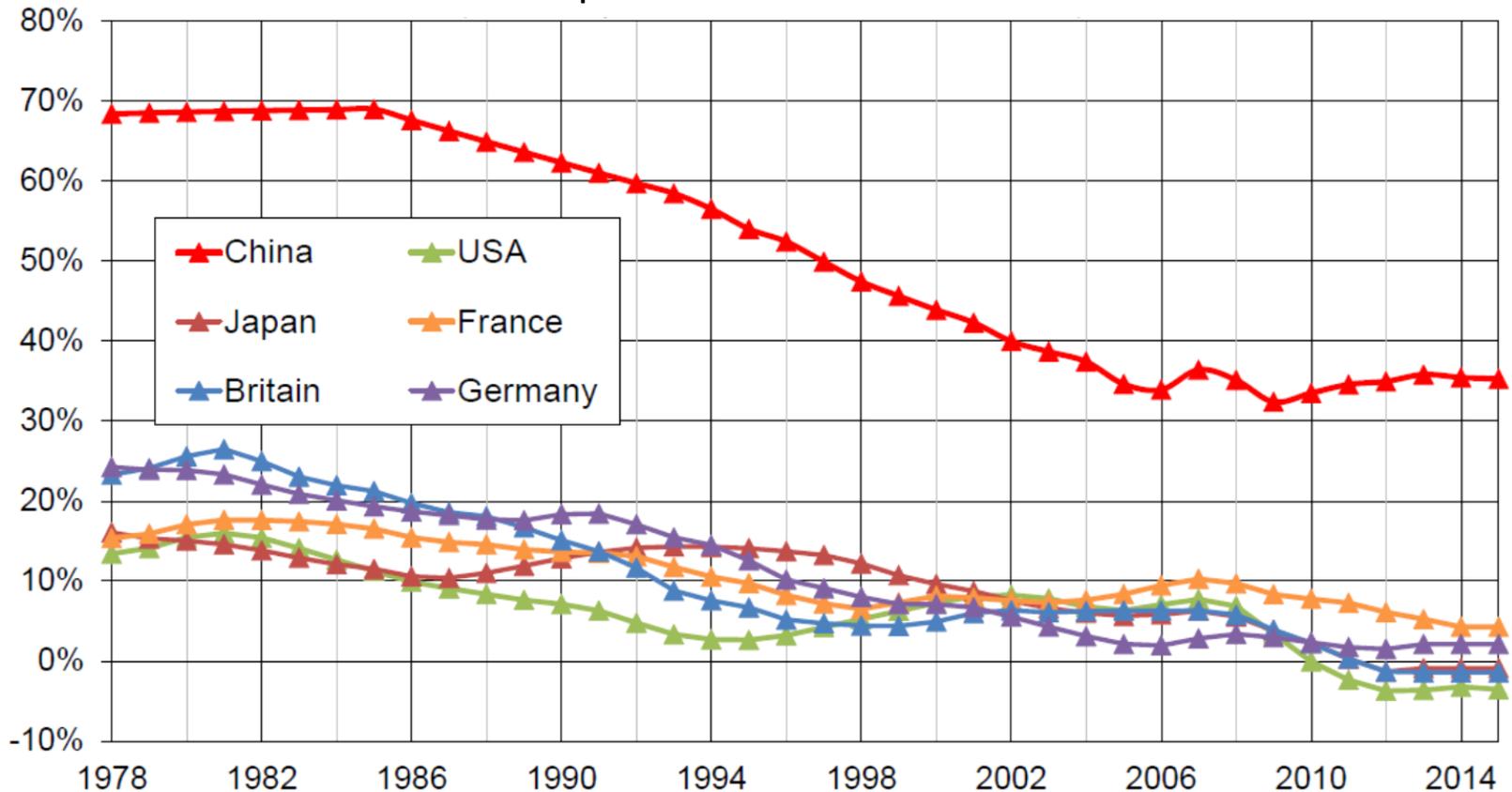


Valenciano (own work) [CC BY-SA 4.0 (<http://creativecommons.org/licenses/by-sa/4.0>)]

- 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

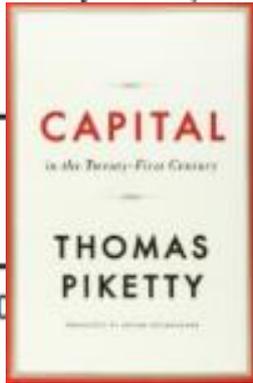
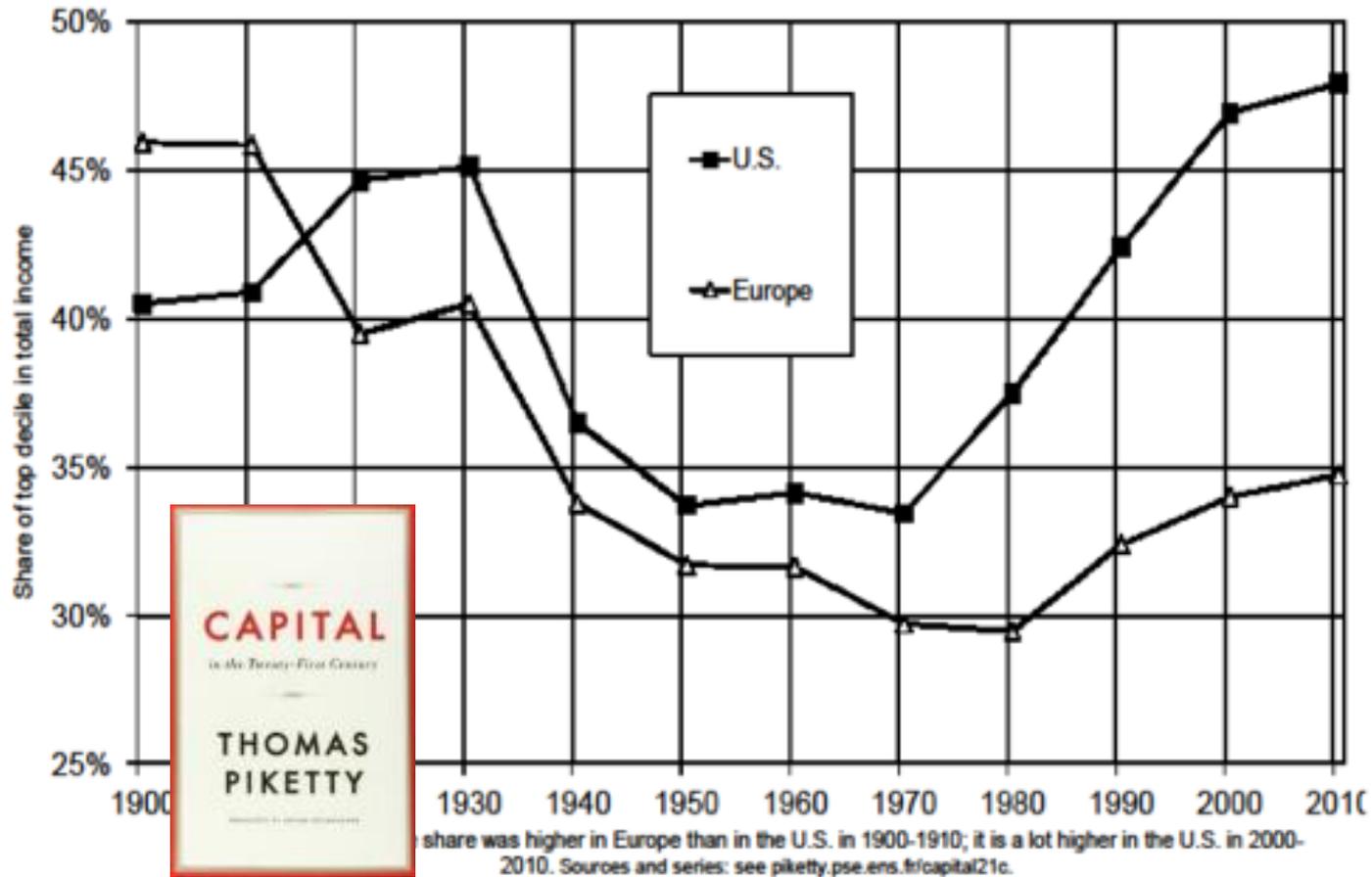


Share of net public wealth (public assets minus public debt) in net national wealth (private + public).
China: Piketty-Yang-Zucman (2016). Other countries: Piketty-Zucman (2014) and WID.world updates.

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

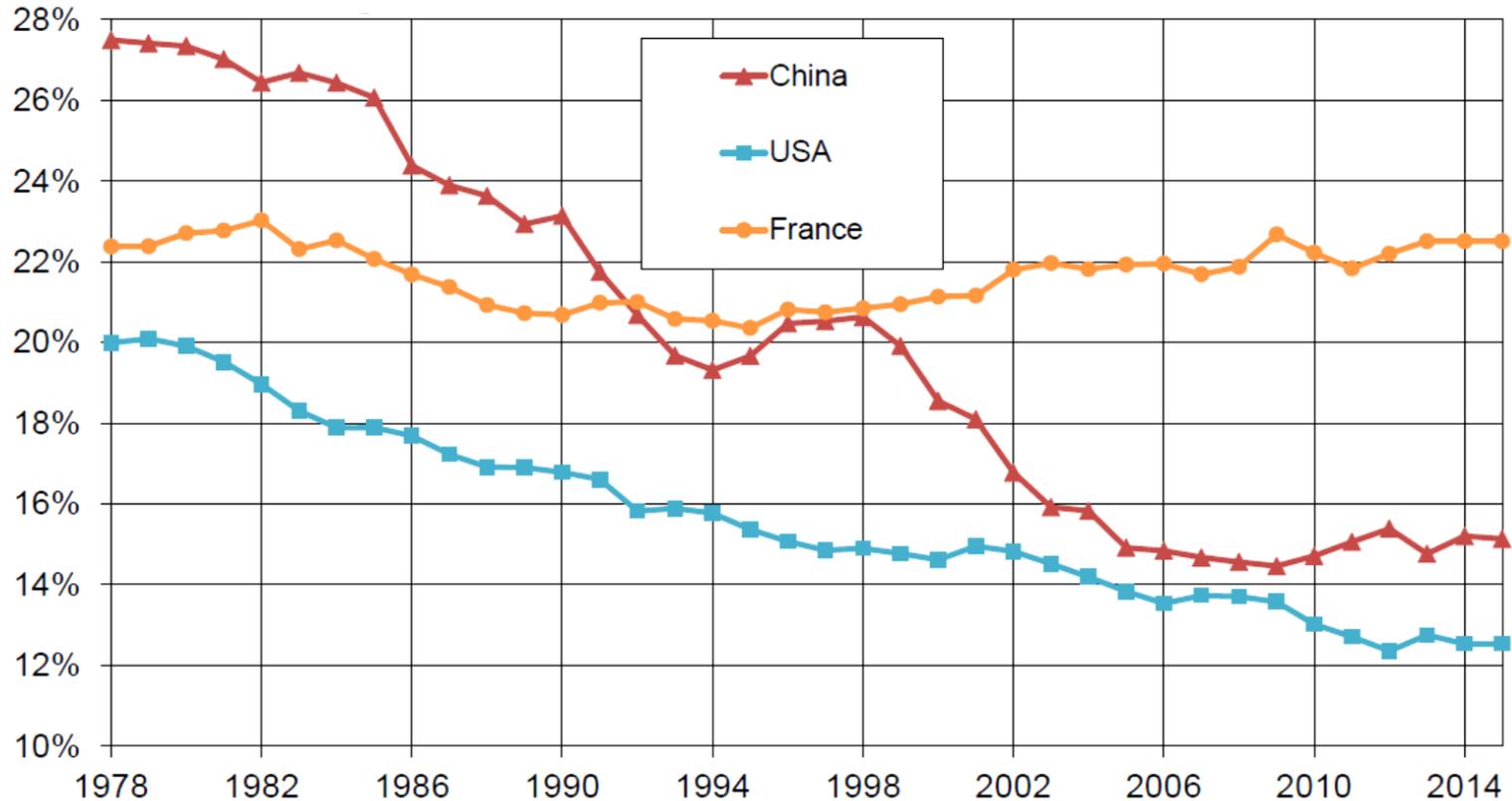
Increasing inequality within countries

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



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

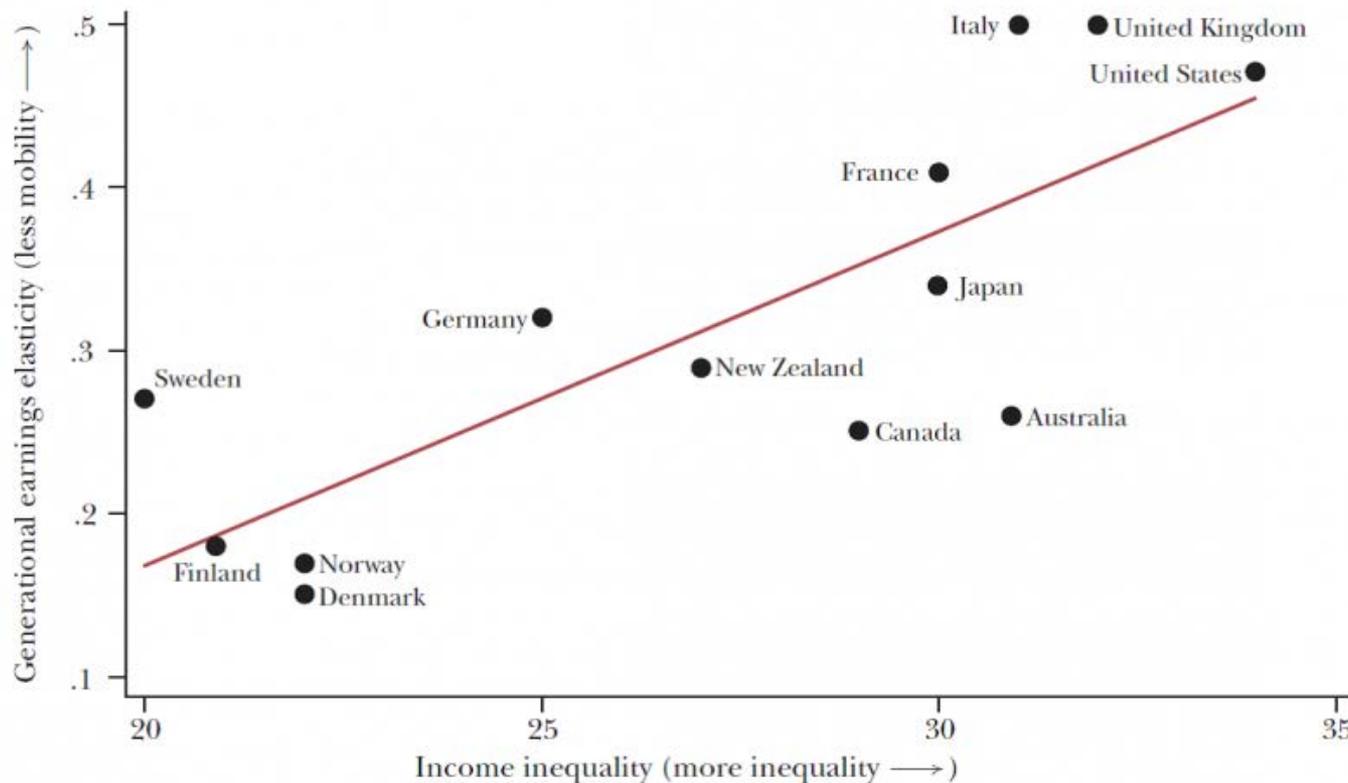


Distribution of pretax national income (before taxes and transfers, except pensions and UI) among adults. Corrected estimates combining survey, fiscal, wealth and national accounts data. Equal-split-adults series (income of married couples divided by two). USA: Piketty-Saez-Zucman (2016). France: Garbinti-Goupille-Piketty (2016). China: Piketty-Yang-Zucman (2016).

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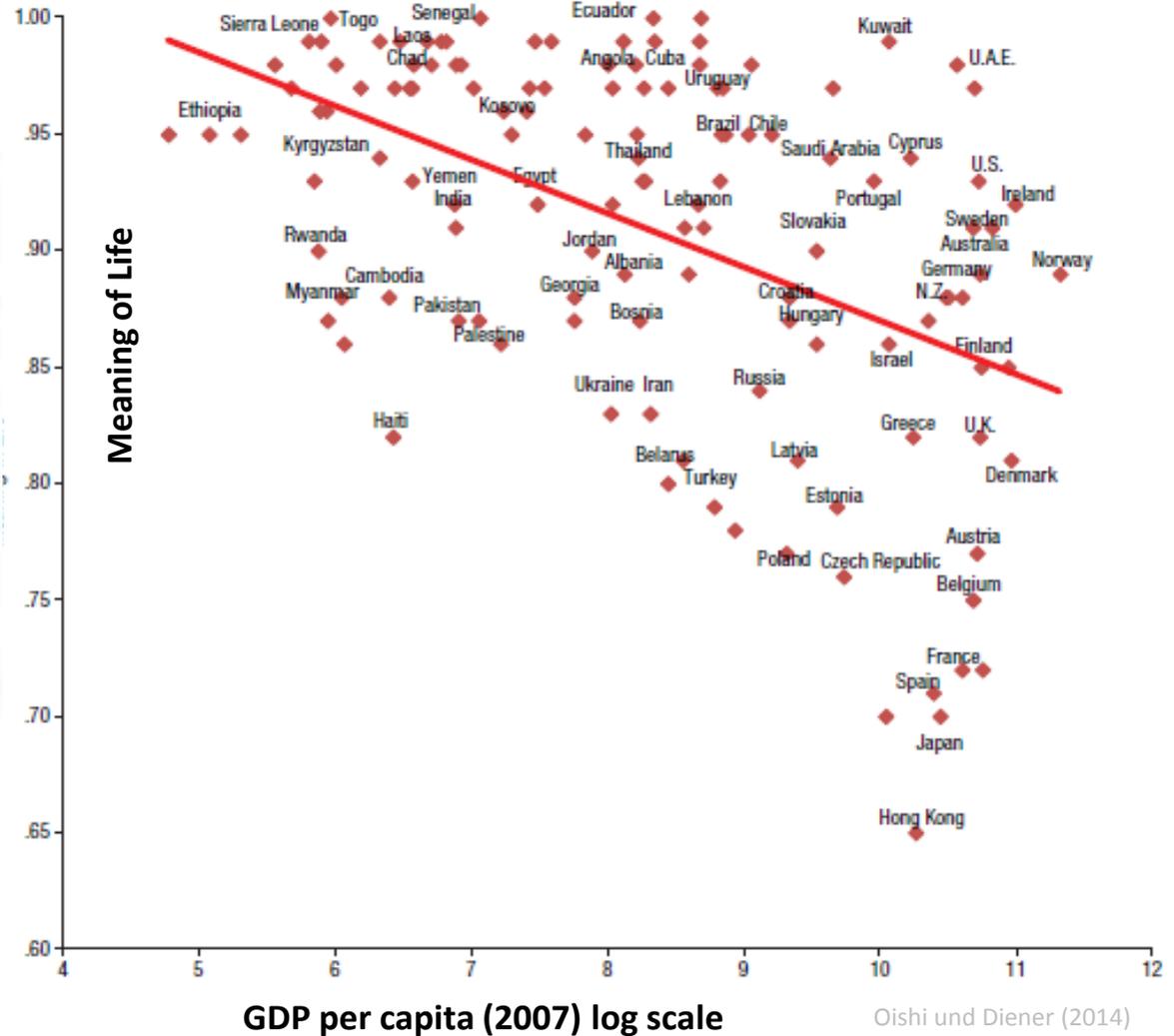
Inequality and social mobility

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



Corak, M. (2013). Income inequality, equality of opportunity, and intergenerational mobility. *The Journal of Economic Perspectives*, 27(3), 79-102.

Materialism and the loss of meaning



Oishi und Diener (2014)

The revolt of white (less educated) angry men

Despite low income

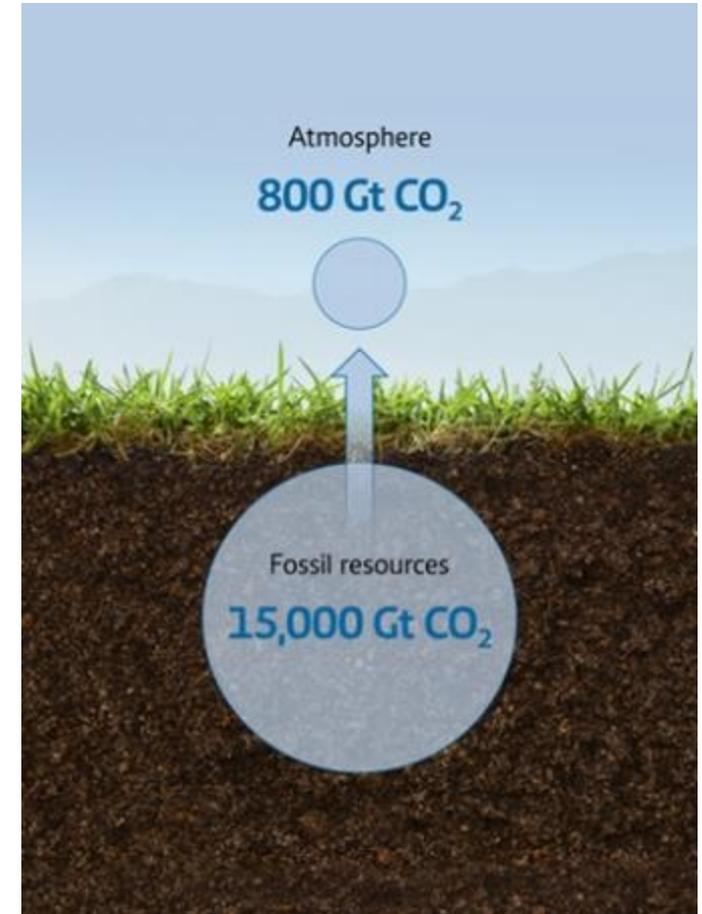
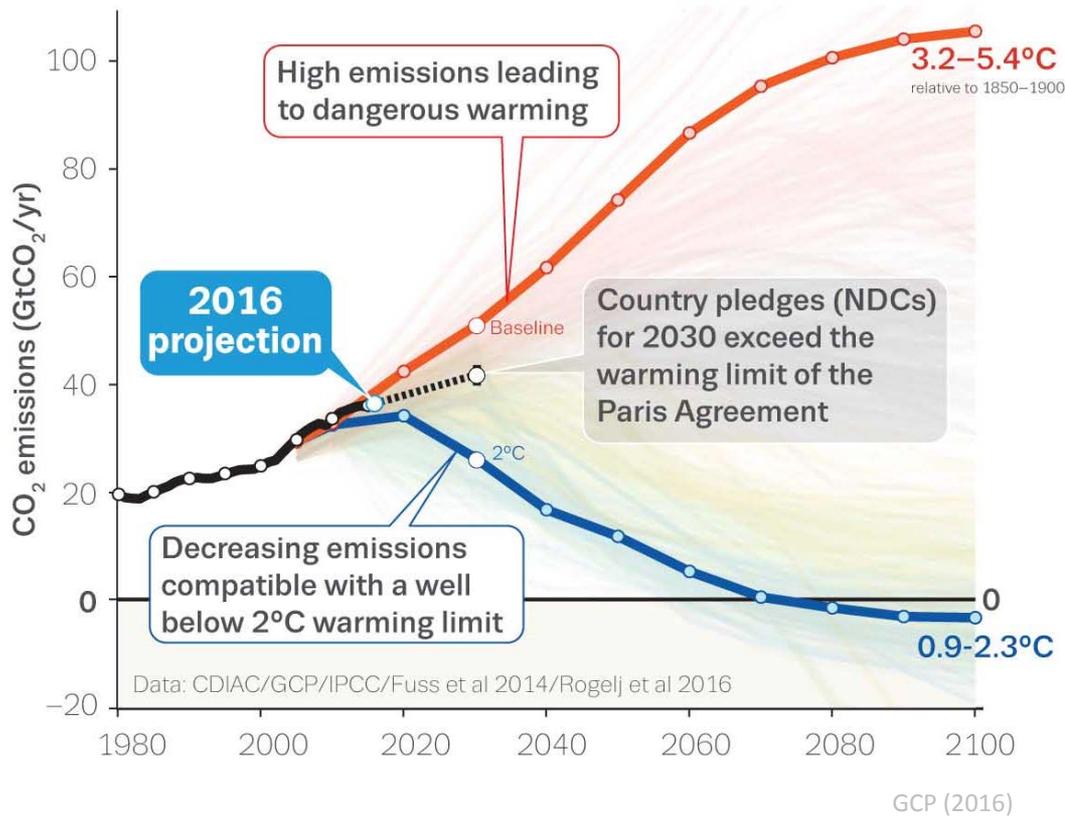
- No redistribution
- Free market
- Deregulation
- Tax cuts
- Small government

Cultural values

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

Inglehart, R., & Norris, P. (2016). Trump, Brexit, and the rise of Populism: Economic have-nots and cultural backlash.

Environmental degradation

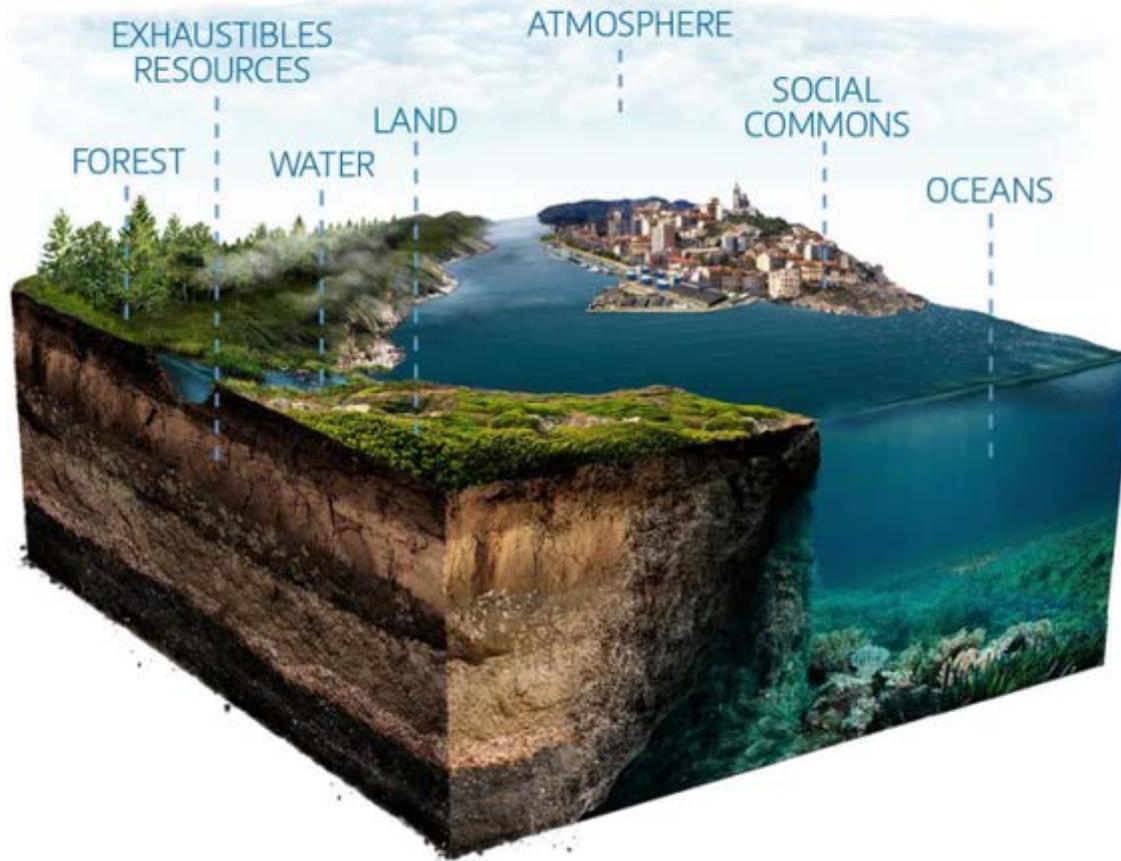


Ambitious climate policy requires leaving the majority of fossil fuel reserves untapped.

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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

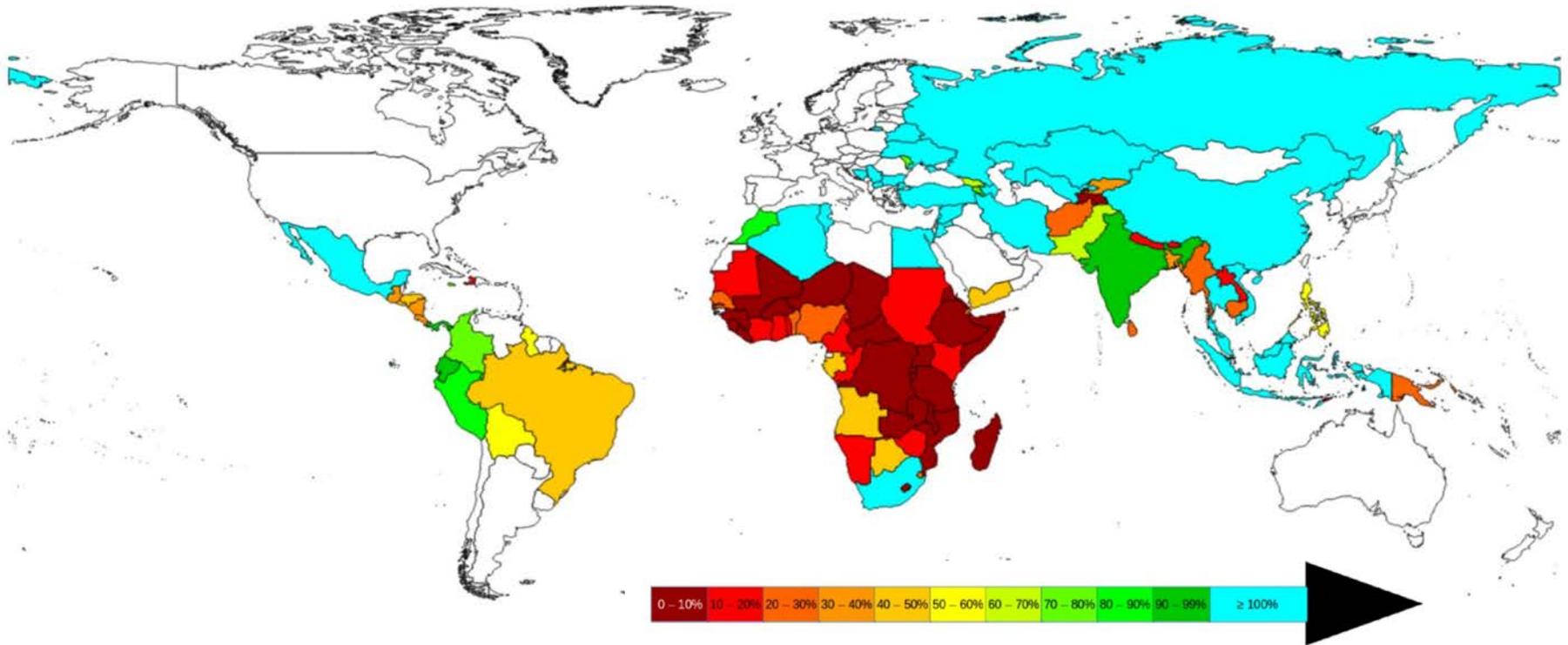


Globalization causes overarching environmental problems to worsen, calling for international cooperation.

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



Infrastructure investment



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 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 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 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.