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Rethinking reforms in times of slow growth and rising populism

Compensation during structural change and slow growth

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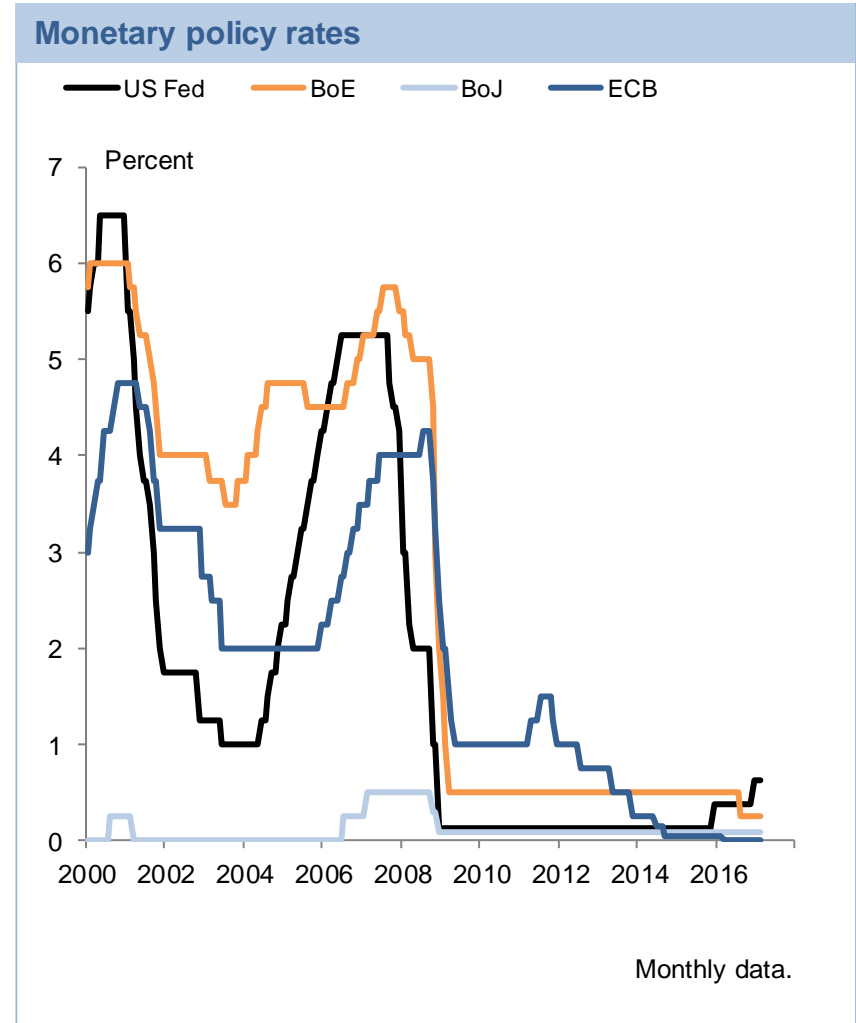
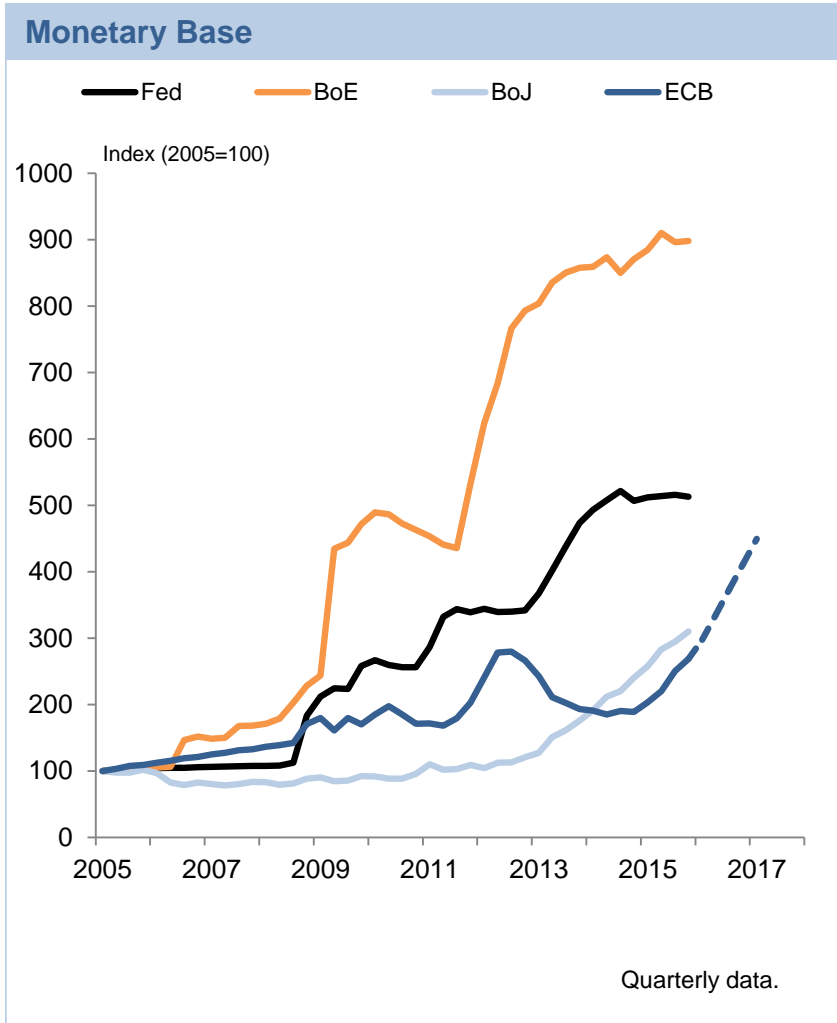
■ Different drivers

- » Capital stock deformation
 - Excessive credit creation in the run-up to the GFC/EDC
 - Financial crisis: Wealth illusions as flipside of obsolete capacities
 - Level shift in potential output (not a cyclical phenomenon)
 - ⇒ Reorientation of distorted production structures
- » Labor and product market regulations
- » Demographics
- » Technological progress

■ Overstretched macro-management

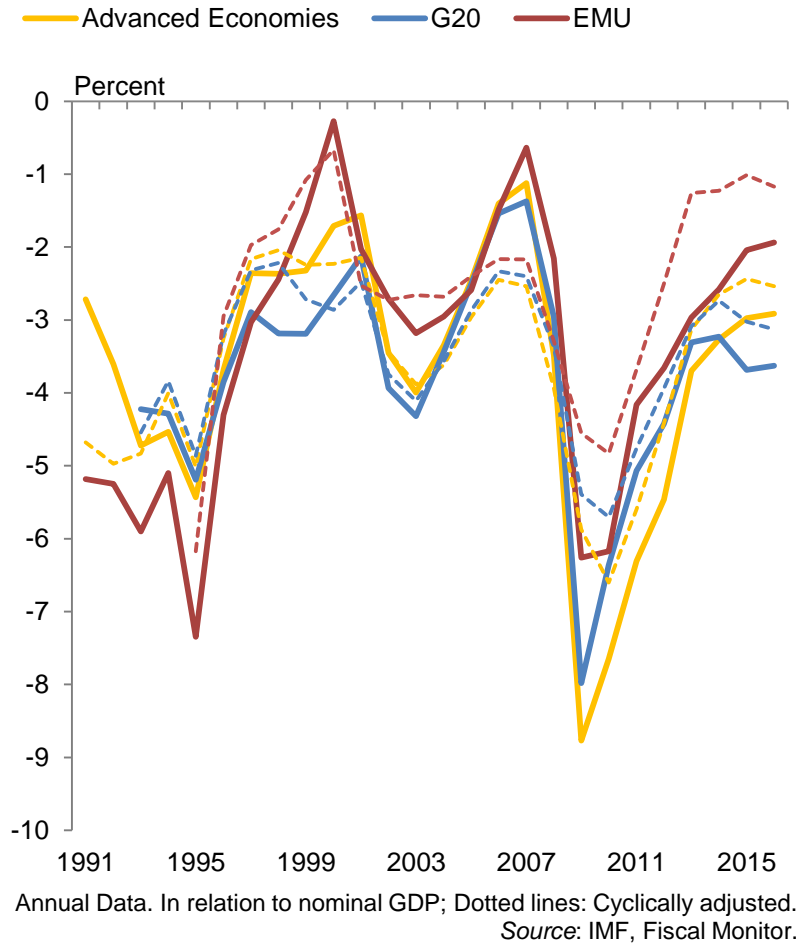
- » Monetary policy: Did (more than) enough
- » Fiscal policy: Sustainability issues

Monetary policy hits limits ...

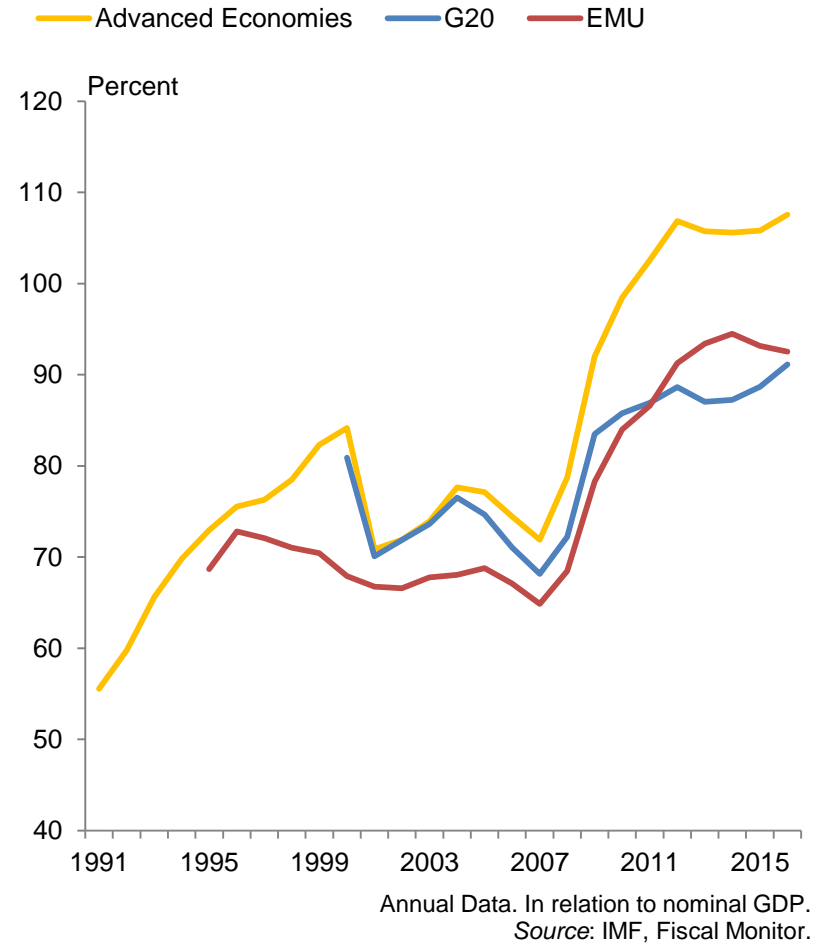


... as does fiscal policy

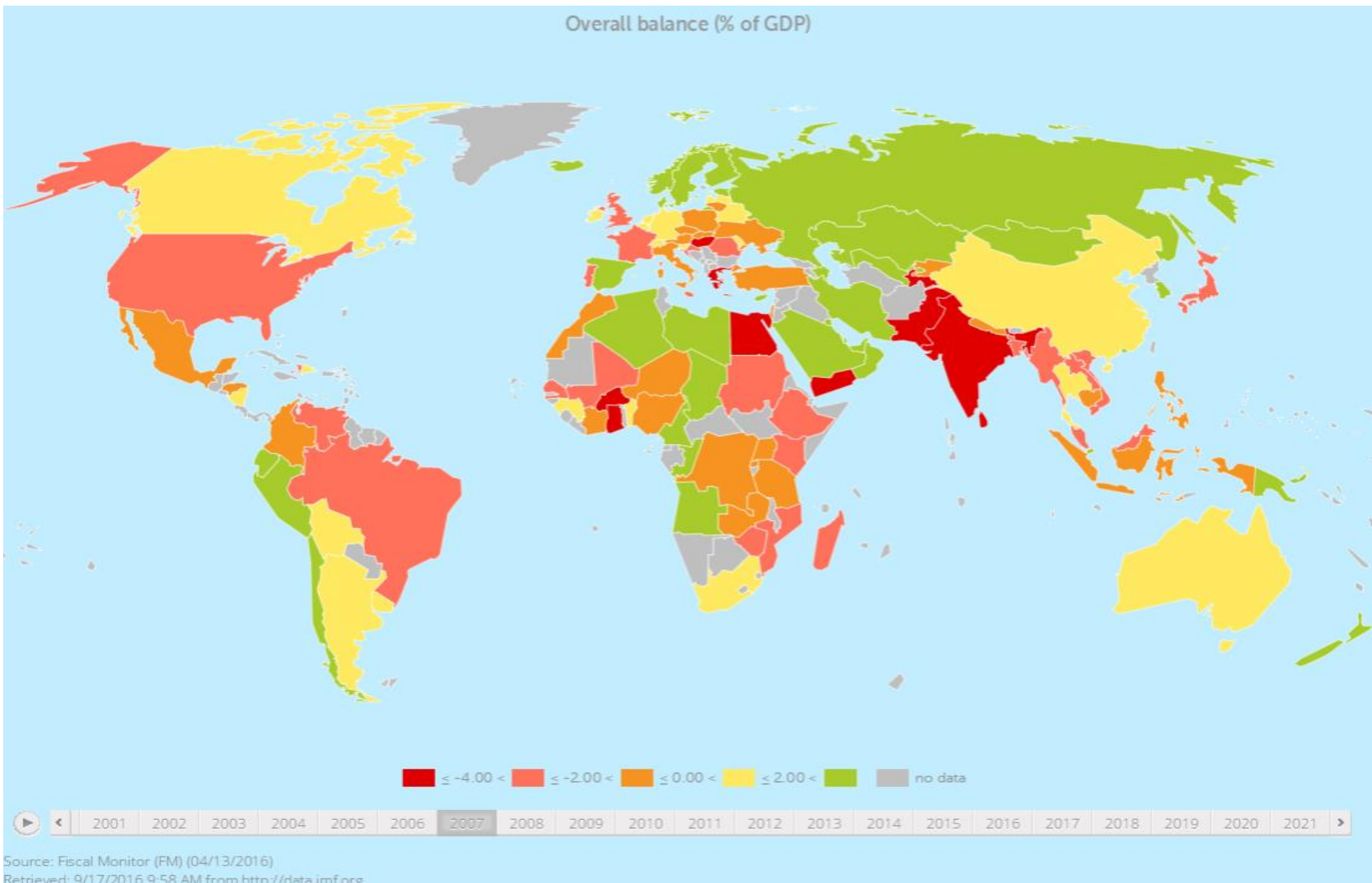
Net Public Lending



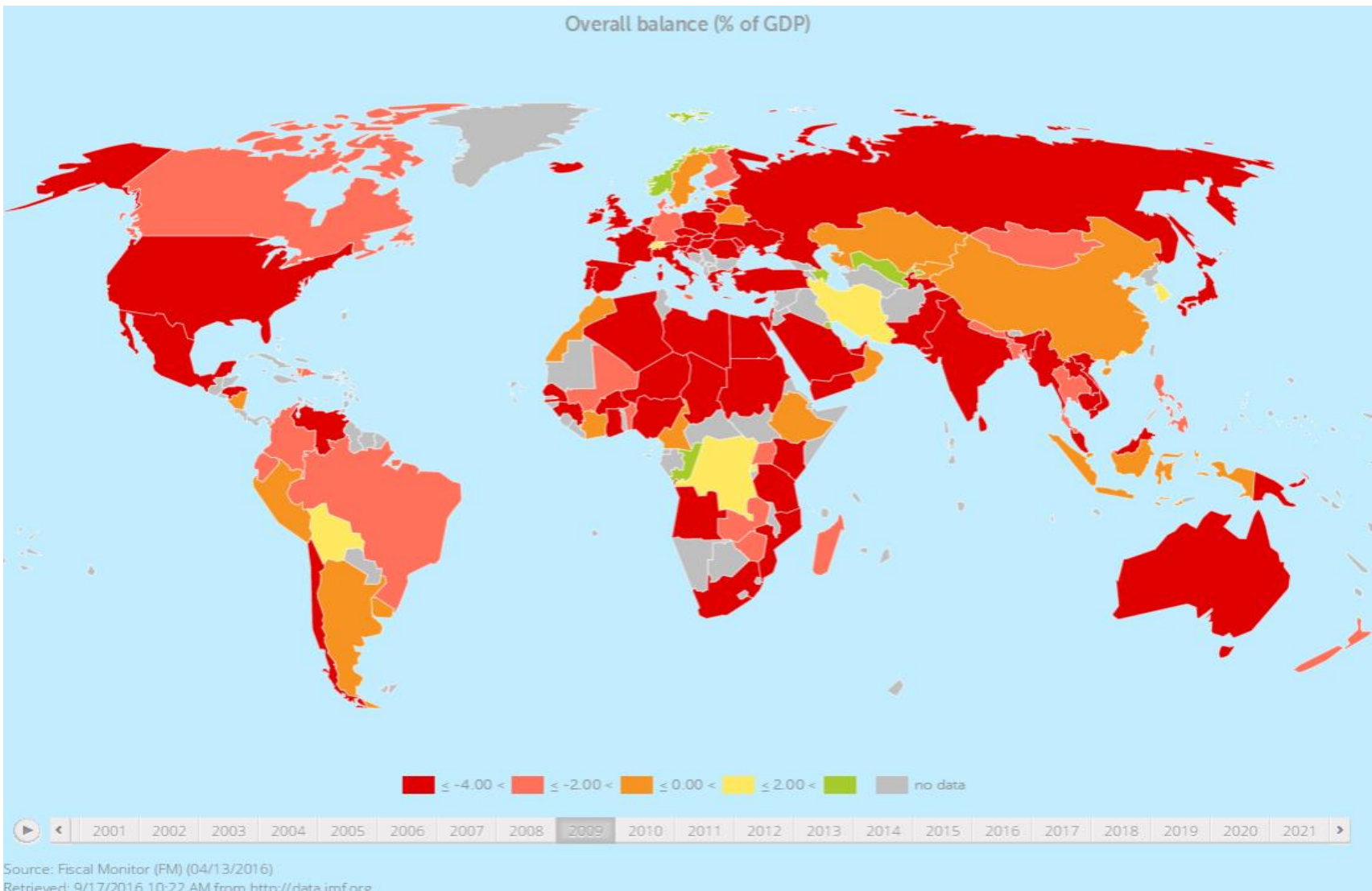
Gross Government Debt



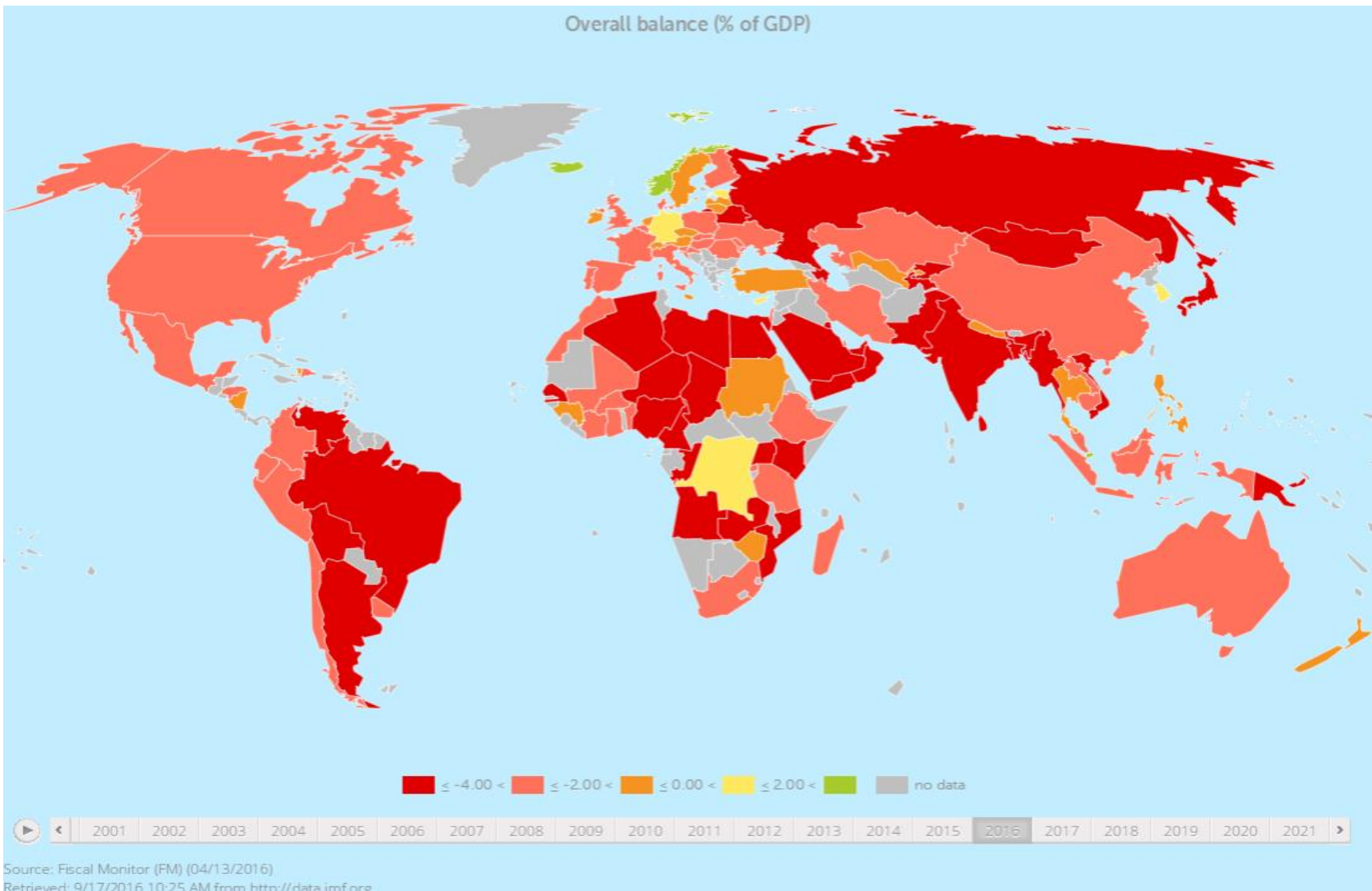
Fiscal stance 2007 (pre-crisis)



Fiscal stance 2009 (in crisis)



Fiscal stance 2016 (post-crisis?)



Compensating whom?

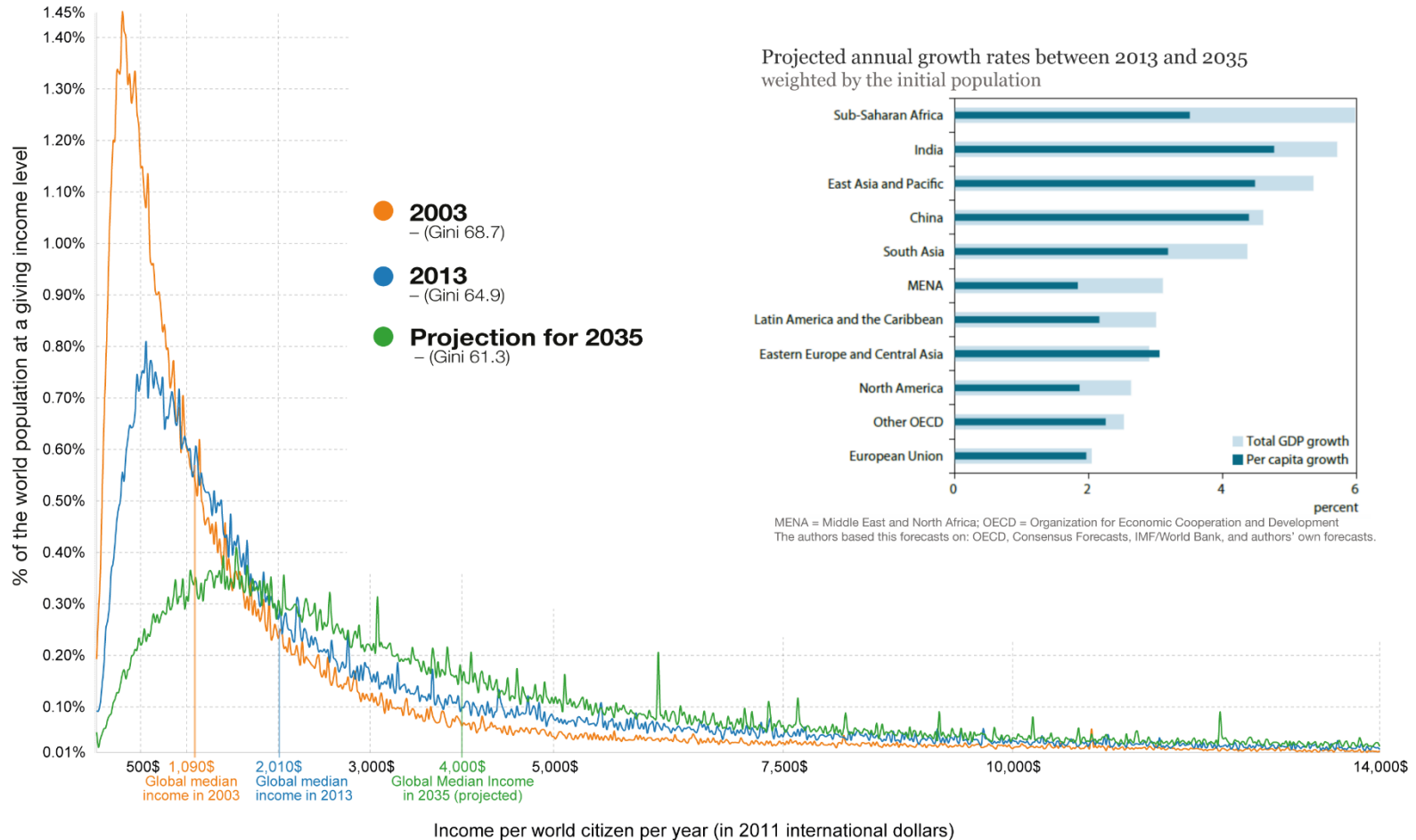
Losers of globalization or technological progress

- #1 poverty eraser: Capitalism
 - » Mass production ...
 - » ... for mass consumption
 - Income distribution: Global view
 - » Global convergence ...
 - » ... within-country divergence
 - Globally improved working conditions
 - Consumption possibilities
 - » Longer lifetimes
 - » Gains from globalization/technological progress
 - » Household composition matters
- ⇒ **Identifying losers is not trivial**

Global income inequality is shrinking ...

The global income distribution in 2003, 2013, and the projection for 2035

Incomes are adjusted for price changes over time and for price differences between countries (purchasing power parity (PPP) adjustment).



Source for all data: Tomáš Hellebrandt and Paolo Mauro (2015) – The Future of Worldwide Income Distribution, working paper. The interactive data visualization is available at OurWorldinData.org. There you find the raw data and more visualizations on this topic.

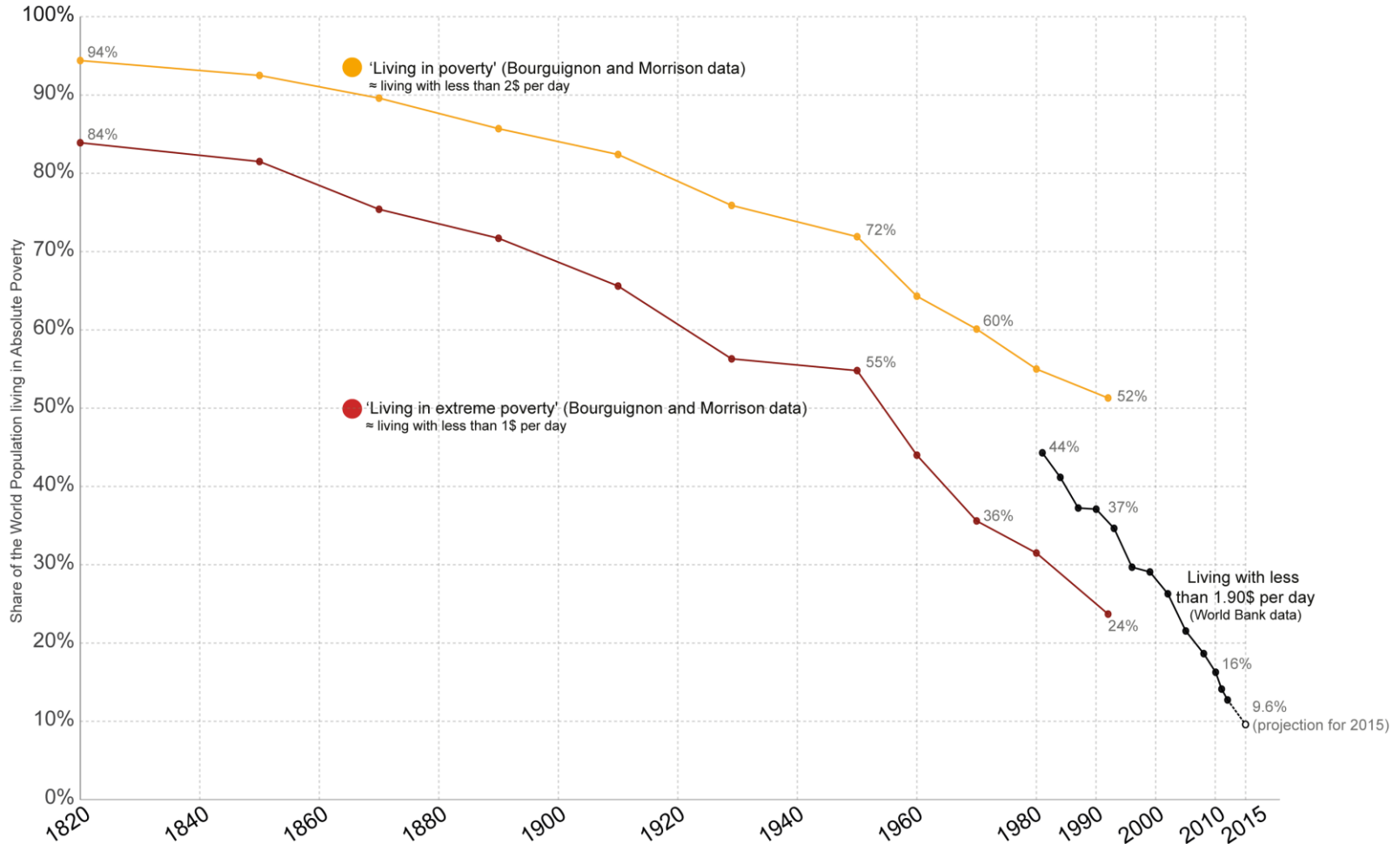
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... as is global poverty

Our World
in Data

Share of the World Population living in Absolute Poverty, 1820-2015

All data are adjusted for inflation over time and for price differences between countries (PPP adjustment).



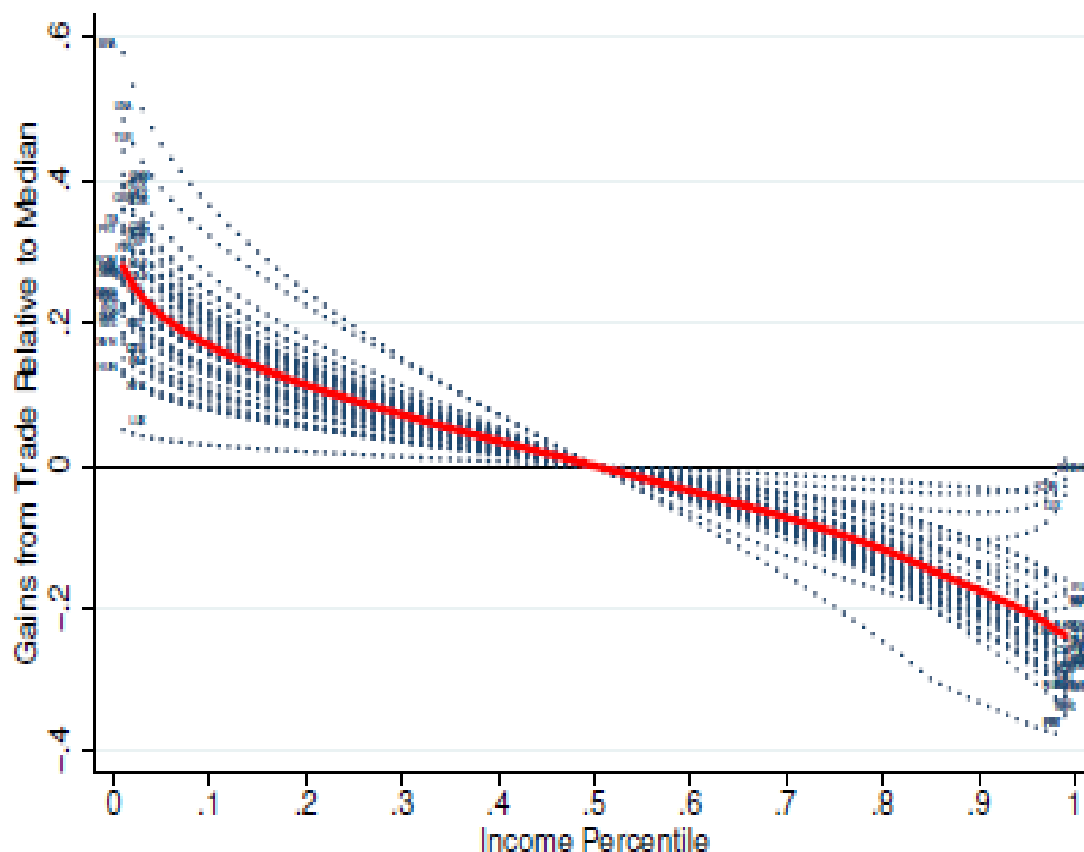
Data sources: 1820-1992 Bourguignon and Morrison (2002) - Inequality among World Citizens, In The American Economic Review; 1981-2015 World Bank (PovcalNet)

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Consumer perspective: Gains from global free trade

Figure 5: Distribution of Unequal Gains: Baseline Case



The deviations are relative to the median individual. The red line is the average across countries.

Source: Fajgelbaum, P. D., & Khandelwal, A. K. (2014). Measuring the unequal gains from trade. NBER WP 20331

- Low income households: higher expenditure share for tradable goods
- Global competition and division of labor make tradable goods more affordable
- World trade is mainly trade in mass production

■ Atavistic instincts

- » Solidarity, altruism
- » Aggression against outsiders
- ⇒ **Stabilizing small groups (families, tribes, clubs)**

■ Extended order: Markets (Popper, Hayek)

- » Exchange, contracts, money
- » Trust, reputation
- » Competition
- » Non-aggression, openness, voluntary cooperation
- ⇒ **Enabling anonymous societies (use of dispersed knowledge)**

⇒ **Fairness (justice) = Supremacy of abstract rules**

Key abstract rules in the market economy

- Respect for private ownership (property rights)
- Free choice of trading partner (worldwide)
- Accepting pecuniary external effects (= competition)
- Accountability (socially functional wealth positions)

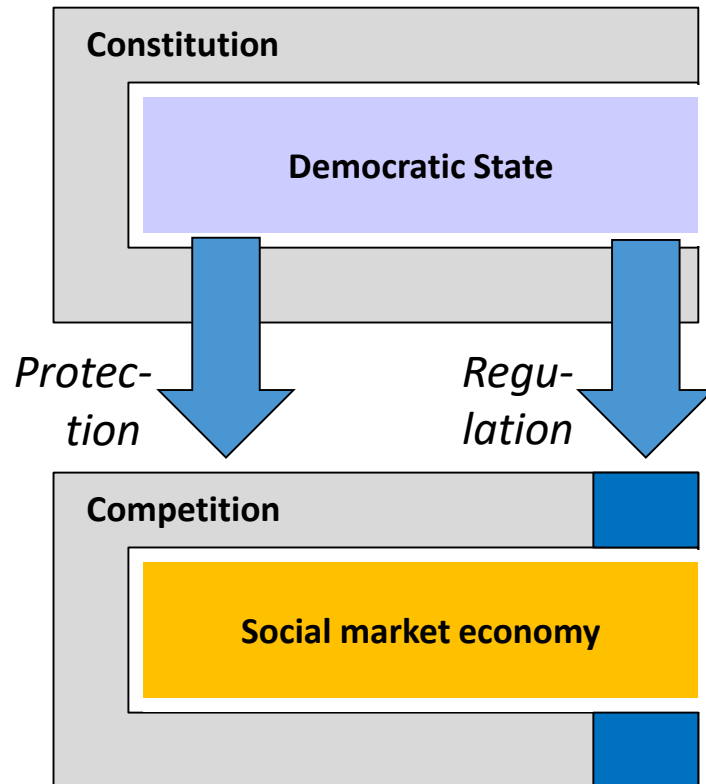
⇒ **Pattern prediction only**

Mercantilist atavism: „Buy German“

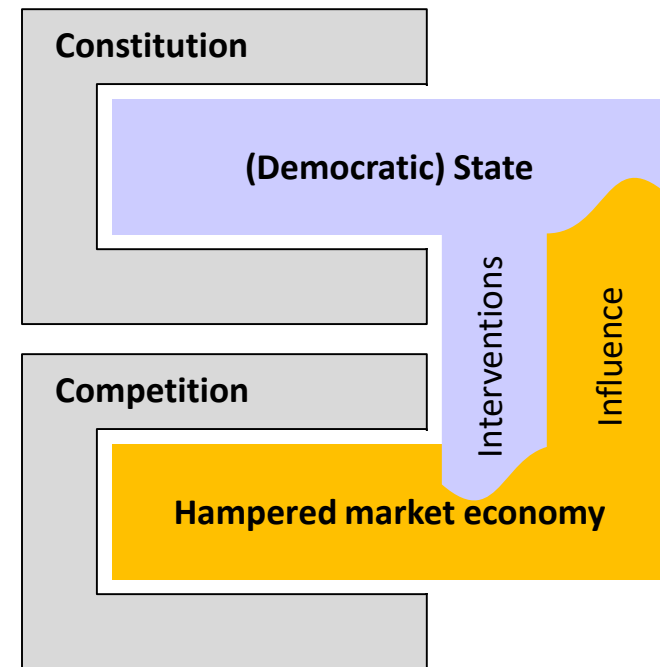


Risk of (compensating) interventionism: Gateway for rent-seeking and system demolition

Neoliberal system



Degenerate market system



Disruptive technologies?

- Capital stock as a structure
(unfinished entrepreneurial plans)

- Conservative/retarding element in free markets
 - » Sunk costs of incumbent technologies
 - » Premium for backward compatibility

- Technological progress
 - » Not exogenous ...
 - » ... but guided by preferences and scarcity
 - » Using existing resources (no mass unemployment)
 - » Opportunity cost \Rightarrow value productivity spill-overs

Structural change

uncomfortable \neq unfair

- Macroeconomic policies: Too much for too long
 - Poverty and inequality: Global and holistic view
 - Fairness: Supremacy of abstract rules, no comfort zone
 - Technological progress: Not systemically disruptive
- ⇒ **Strengthening competition, not compensation**
- » Cutting back privileges (= violation of abstract rules)
 - » Empowering the poor (no symptom curing)
 - » Avoiding rent seeking

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