

Austrian Institute | Zurndorf, 20. September 2019  
*Austrian Academy: Marktwirtschaft und Unternehmertum*

# Marktwirtschaft, Kapitalismus, Unternehmertum: Woher kommt eigentlich unser Wohlstand?

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University of Applied Sciences Europe, Campus Berlin*



# Institut für Weltwirtschaft (gegründet: 1914)



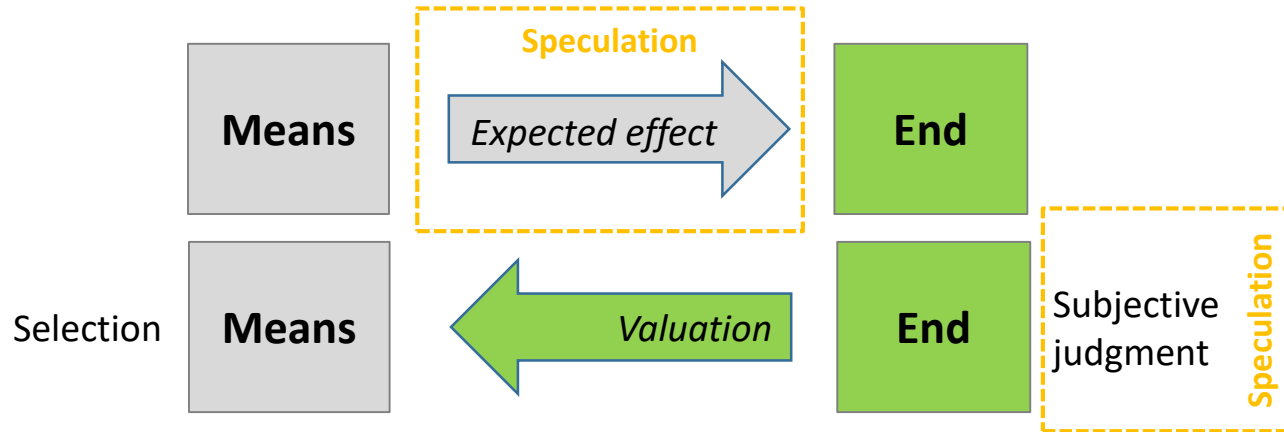
*Prognosezentrum*

# Menschliches Handeln und ökonomisches Denken

# Point of departure

Man acts.

# Means, ends, and valuation



- Reverse value imputation
  - » An end may not „sanctify “ the means, but it **values** it!
- Limited knowledge
  - » Action under uncertainty (= speculation)
- Rationality
  - » Humans do not purposefully act against their aims

**Final purpose of economic activity:**  
**Consumption goods**

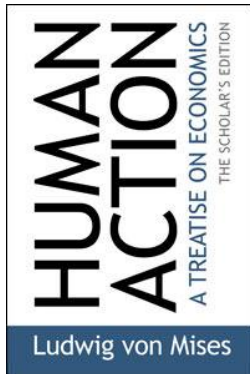
# Human Action

- Subjective uneasiness ⇒ **purposeful action**
- Action = Influencing circumstances of one's life
- Humans as universal entrepreneurs
  - » Decision maker
  - » Explorer (search for new means)



**Ludwig von Mises (1881 – 1973)**

Nationalökonomie – Theorie des Handelns und Wirtschaftens (1940)



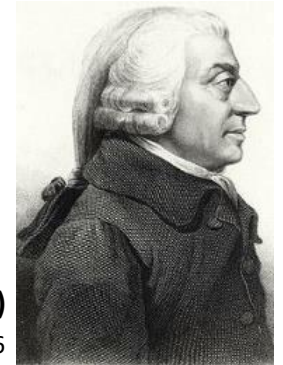
<http://mises.org/document/3250>

# Arbeitsteilung und Tauschvorteile (soziale Wirtschaft)

# Adam Smith: Theory of absolute advantage

	Working hours per ton of corn	Working hours per barrel of wine
Peter	2	5
Simon	2.5	4

- Peter
  - » 1 barrel of wine = 2.5 tons of corn
- Simon
  - » 1 barrel of wine = 1.6 tons of corn



**Adam Smith (1723—1790)**

An Inquiry into the Nature and Causes of the Wealth of Nations, 1776

# David Ricardo: Theorem of comparative advantage

	Working hours per ton of corn	Working hours per barrel of wine
Peter	2	5
Simon	1	4

- Peter
  - » 1 barrel of wine = 2.5 tons of corn
- Simon
  - » 1 barrel of wine = 4 tons of corn



**David Ricardo (1772—1823)**

On the Principles of Political Economy and Taxation, 1817

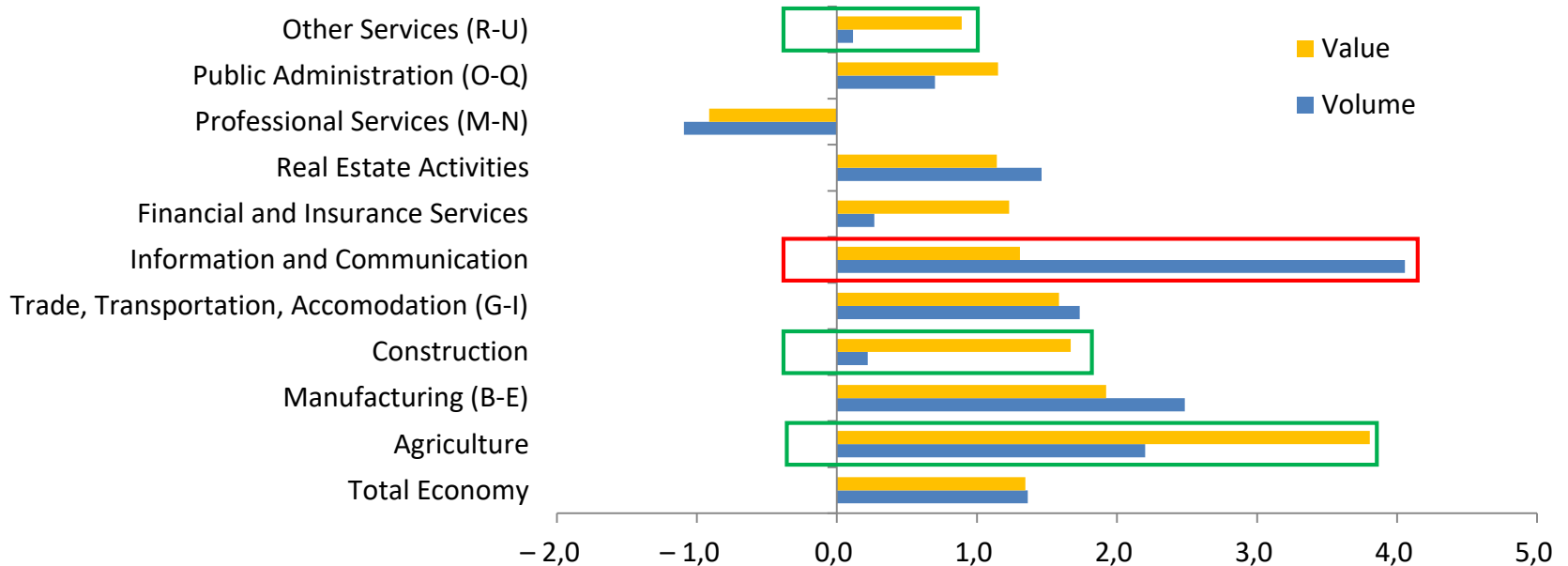
## Example: Men's haircuts



- 20 minutes per haircut (no progress over 200 years)
  - Zero productivity gains in volume terms ...
  - ... but substantial growth of barbers' real incomes
- ⇒ **Gains in value productivity due to growing opportunity cost of non-barbers**

# Value productivity vs. volume productivity

Labor productivity (value-added per hours worked), Germany



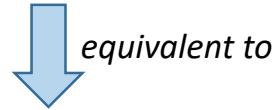
Average annual change (1992 to 2018).

Price adjusted (Volume: generic deflator, Value: private consumption deflator).

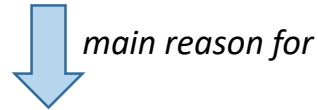
Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.2; IfW calculations.

# Ludwig v. Mises: Law of association

Theorem of comparative advantage



Principle of opportunity costs



Division of labor



Social economies  
(= law of association)

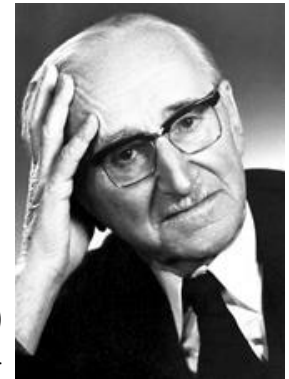
Division of labor  
(specialization)



Social coordination mechanism:  
*market order or central planning*

# Social coordination as a knowledge problem

- Economics and Knowledge (1937)
- The Use of Knowledge in Society (1945)
- The Meaning of Competition (1948)
- Competition as a Discovery Procedure (1968)



**Friedrich A. von Hayek (1899—1992)**

Nobel Prize Laureate 1974

# The market signal system

## ■ Profits

- » Revenues (value creation) > Costs (value destruction)
- » Net creation of value
- ⇒ Agent stays in the game, activity can be expanded

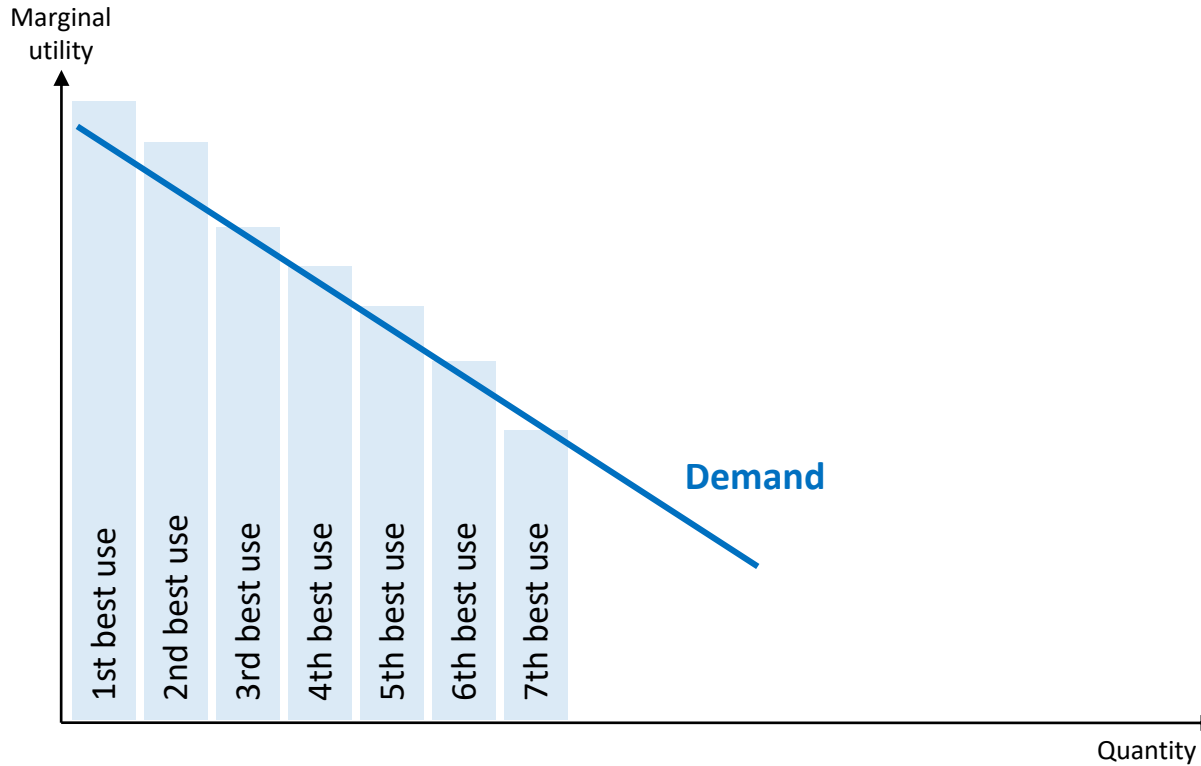
## ■ Losses

- » Revenues < Costs
- » Net destruction of value
- ⇒ Yellow card (warning): activity should be reduced/modified

## ■ Bankruptcy

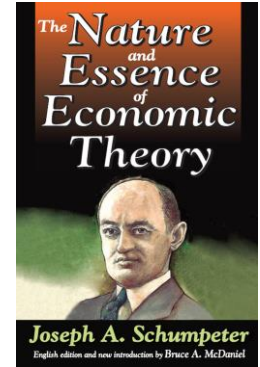
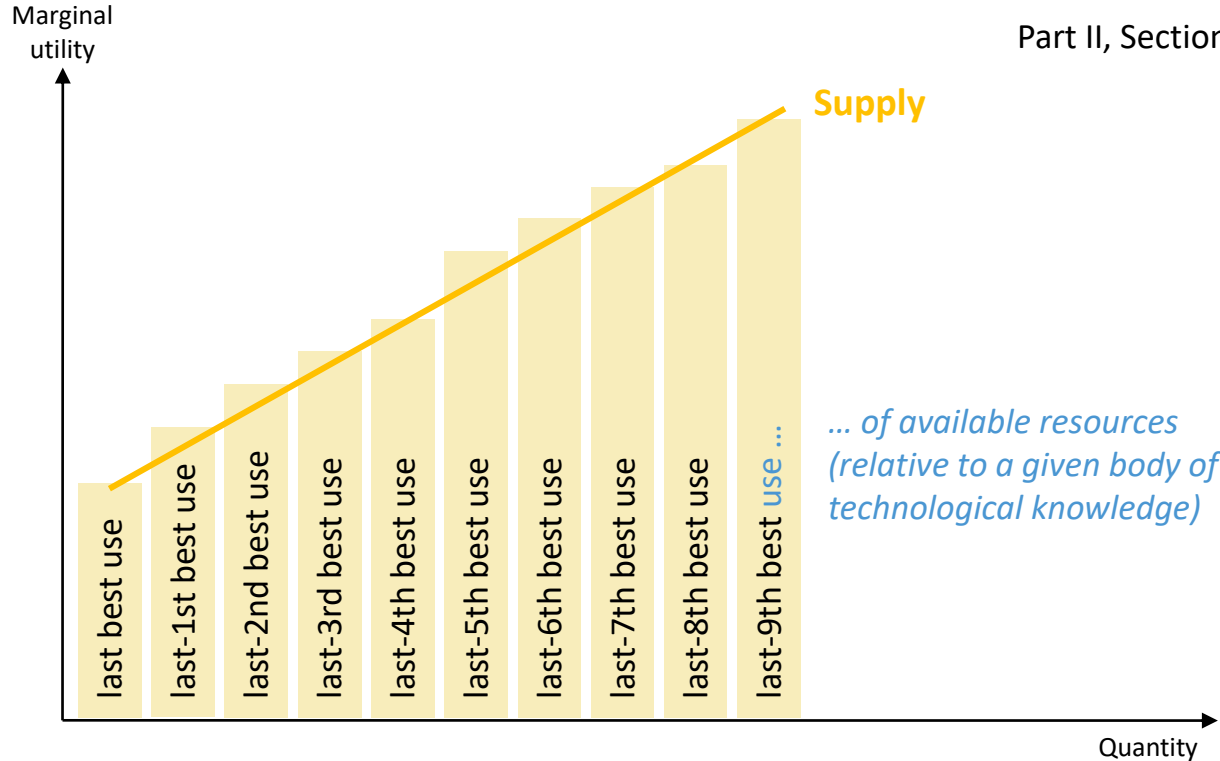
- » Revenues << Costs
- » Net value destruction ongoing/at large scale
- ⇒ Red card (sending-off): activity must stop (reallocation of resources)

# Demand side: Law of marginal utility



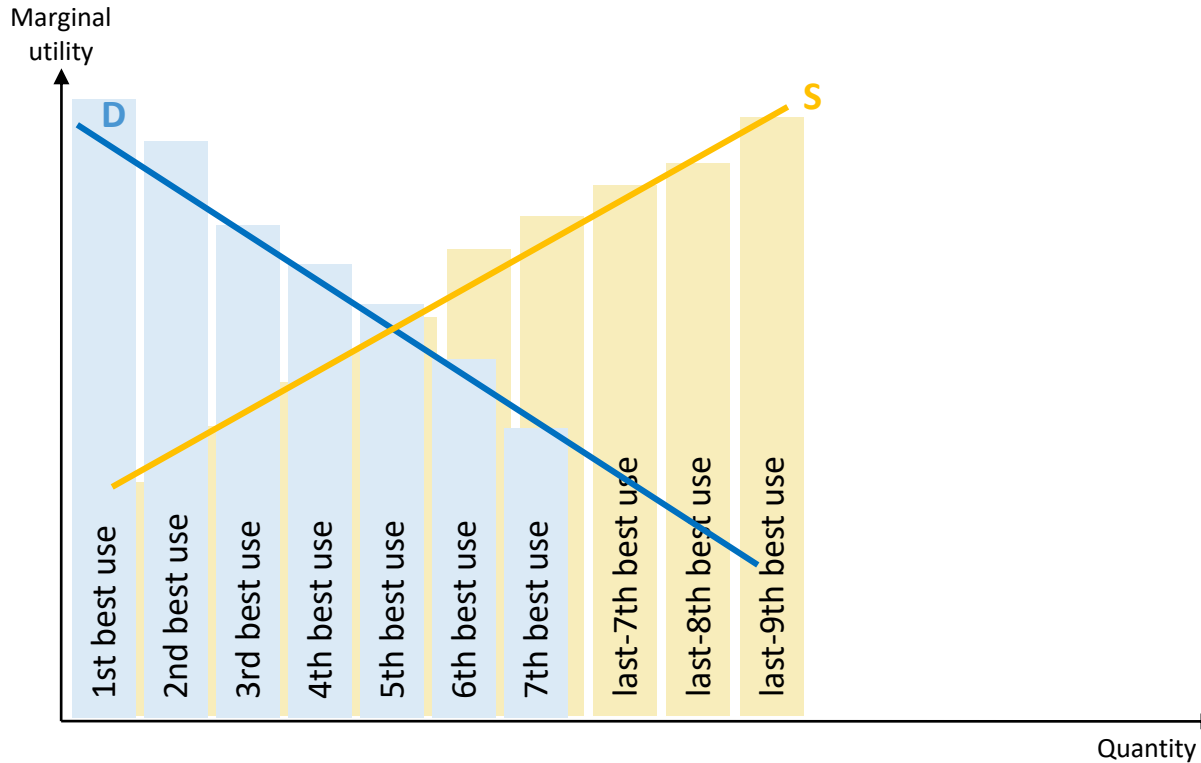
# Supply side: Universal social opportunity cost

Part II, Section II, Chapter 2

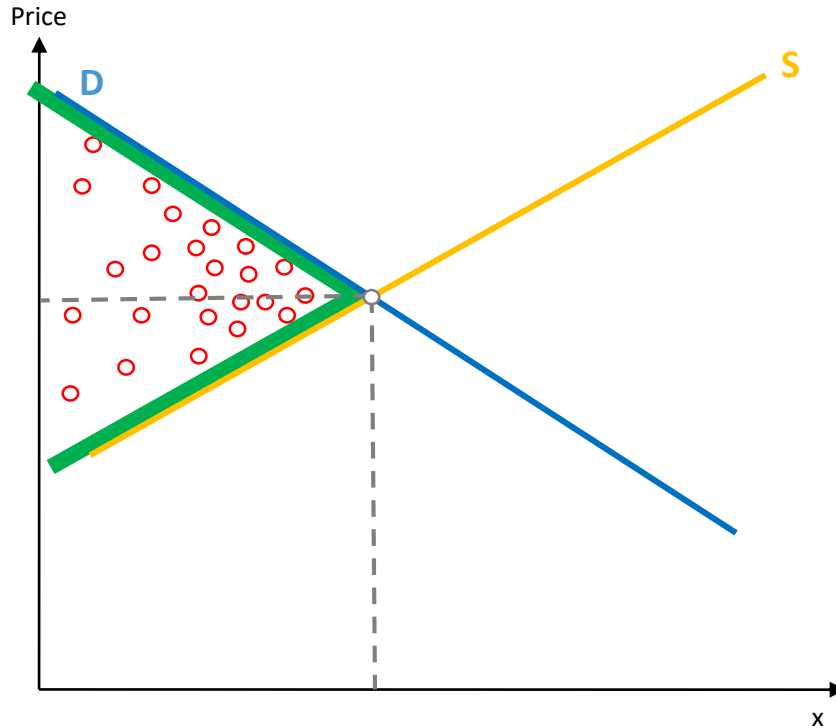


Schumpeter, A.: [Das Wesen und der Hauptinhalt der Theoretischen Nationalökonomie](#). Leipzig 1908: 213ff.

# Market coordination for resource allocation

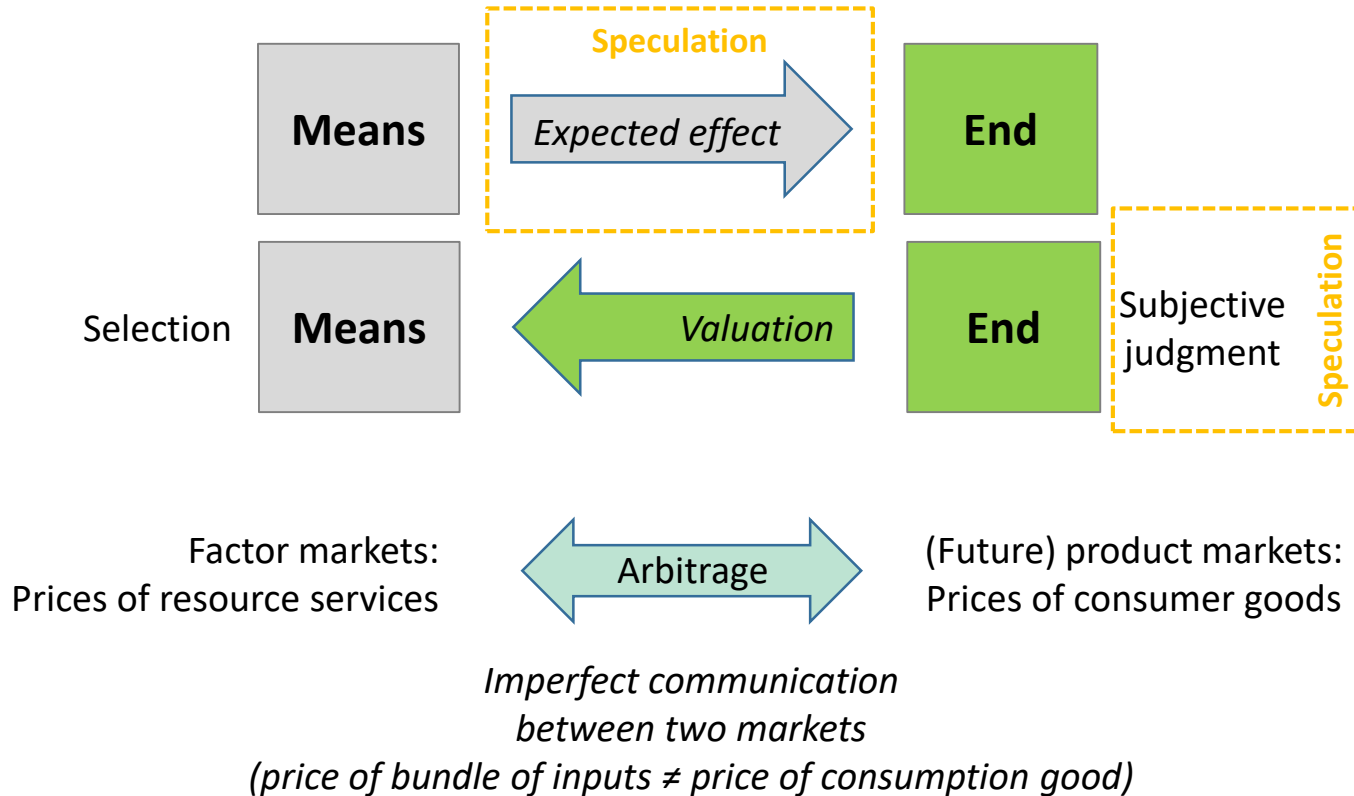


# Real world markets



- Short side of the market dominates
- Disequilibrium  
(arbitrage trends towards coordination)
- Equilibrium  
(full coordination)
  - » Maximum trade volume
  - » Maximum social welfare

# Entrepreneurship: Universal arbitrage

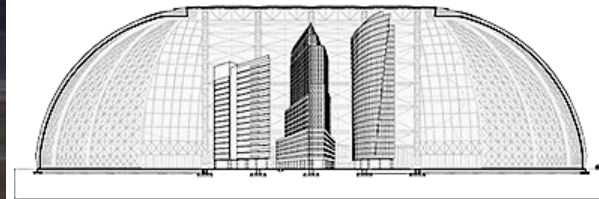
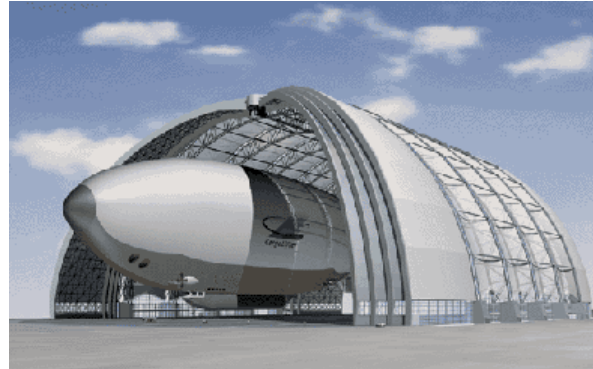


# Earnings in professional sports



- Cristiano Ronaldo
  - Annual salary (2018):  
30 million EUR
- ⇒ Cost of reproduction?

# Cargolifter: The plan ...



## ... and the outcome: Tropical Islands



# Cargolifter hangar ⇒ Tropical Islands hall

**Production cost:**  
78 million euro (1999/2000)



**Liquidation value:**  
17.5 million euro (2003)

# Kapitalismus und Wachstum

# Produktivität der Arbeit: Wohlstands- und Wachstumsfaktoren

- Natürliche Ressourcen
- **Wissen: Technologie**
  - ↓ *Sparen*
- **Kapitalausstattung: Werkzeuge**
  - » Sachkapital
  - » Humankapital

# Kapitaleinsatz und Arbeitsproduktivität



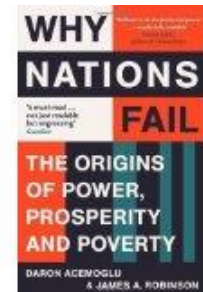
- Geringe Kapitalintensität



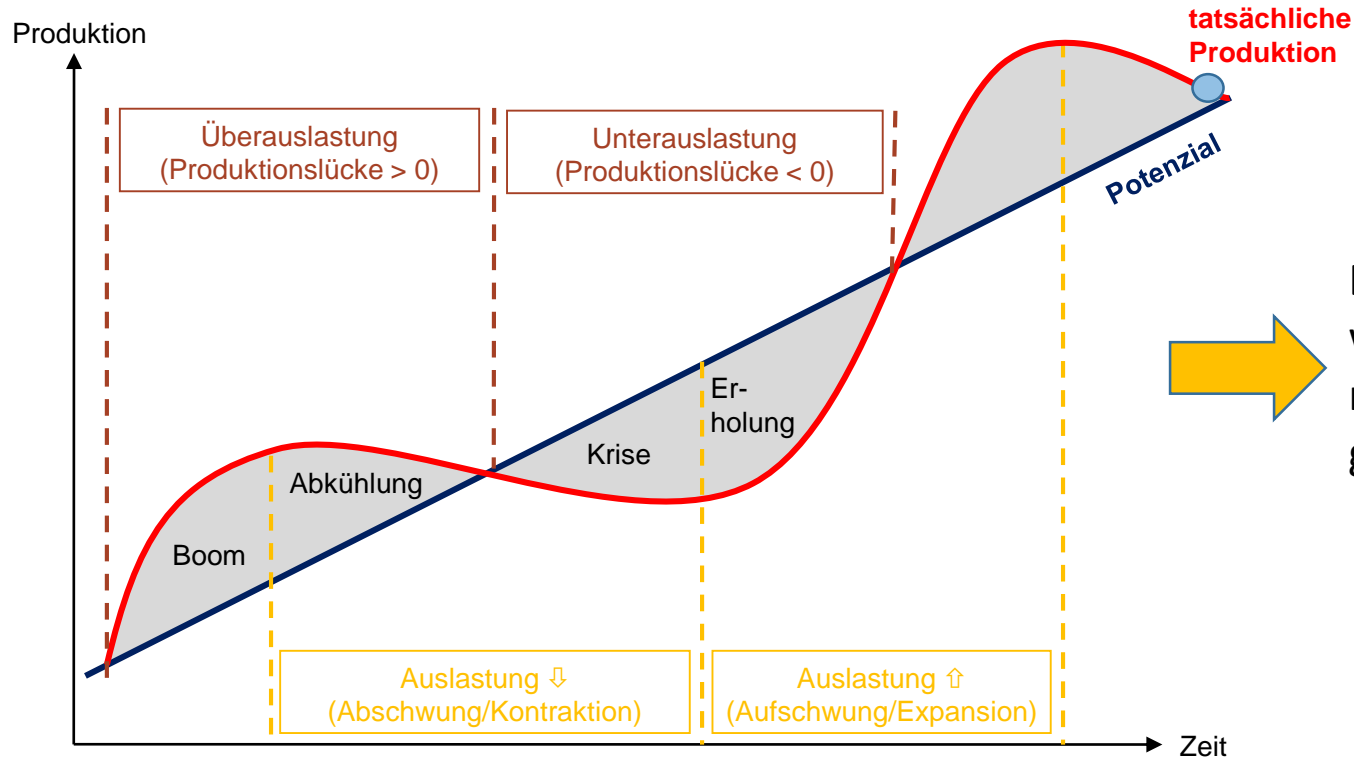
- Hohe Kapitalintensität
  - » Höhere **Bruttowertschöpfung** pro Kopf (trivial)
  - » Höhere **Nettowertschöpfung** pro Kopf (via „Naturkräfte“)

# Produktivität der Arbeit: Wohlstands- und Wachstumsfaktoren

- Natürliche Ressourcen
- **Wissen: Technologie**
  - ↓ *Sparen*
- **Kapitalausstattung: Werkzeuge**
  - » Sachkapital
  - » Humankapital
- **Institutionen: Soziale Koordination**
  - » Verfügungsrechte (property rights)
  - » Wirtschaftspolitischer Rahmen
  - » Politische Stabilität



# Wachstum vs. Konjunktur



Daueraufschwung  
weder möglich  
noch stabilitäts-  
gerecht

# Marktwirtschaft und offene Gesellschaft

# Fairness in complex open societies

## ■ 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)

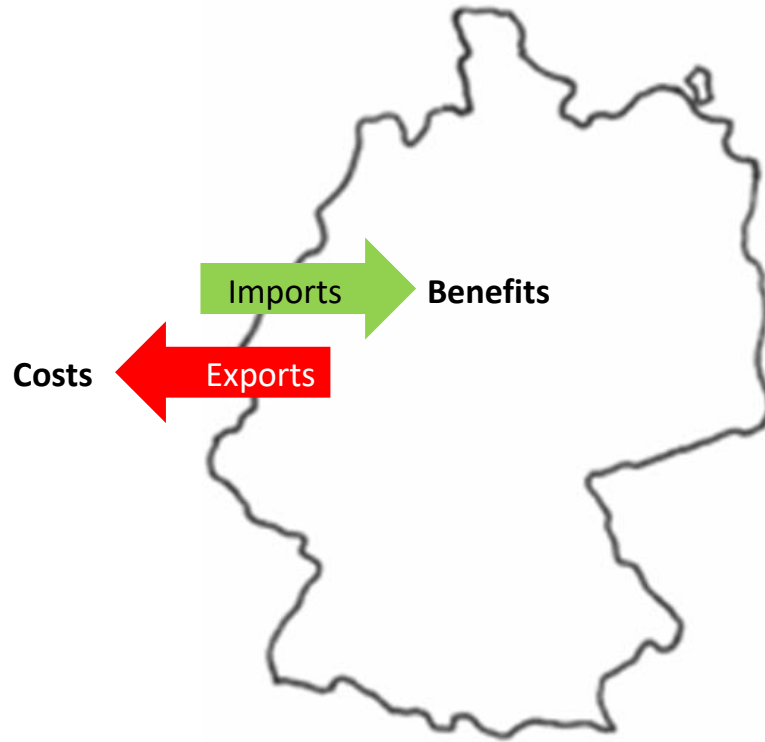
⇒ **Pattern prediction only**

# Freihandel und Globalisierung

# Insights from methodological individualism

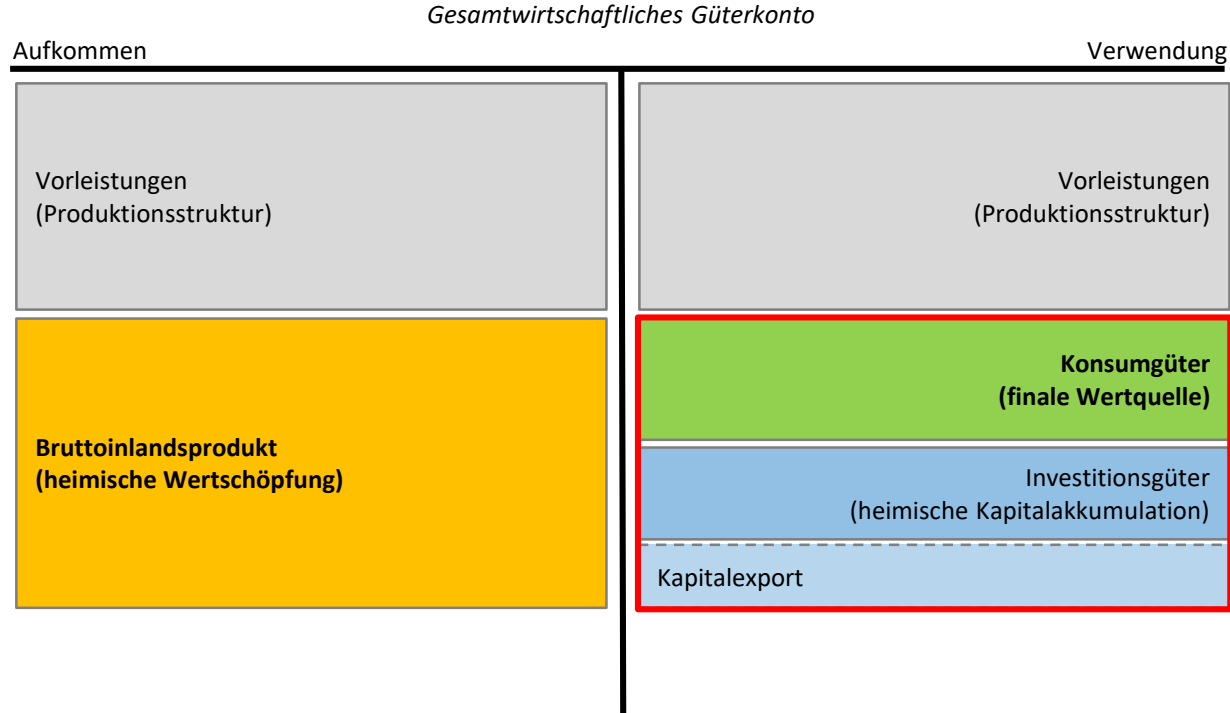
- Trade = exchange of goods or services
  - » Two-sided human interaction (social cooperation)
  - » Based on voluntary contracts (implies mutual benefits)
  - ⇒ **Net gains from trade for both parties (no zero-sum game)**
  
- Pitfalls from aggregation/collectivist perspectives
  - » Countries do not trade with each other, only individuals/firms do
  - » Countries do not compete with each other, only individuals/firms do
    - Competitiveness is a relative concept
    - Countries (economic areas) consist of multiple markets
    - Each market comprises both the supply side and the demand side
  - ⇒ **„Competitiveness“ not applicable to country level**

# Foreign trade



# Außenbeitrag: Wie ein Saldo die Wirtschaftspolitik verwirrt

# Irrtümer hydraulischer Makroökonomik



$$\text{BIP} = C + I + \text{Ex} - \text{Im}$$

# Globalization at work

# Poverty and inequality

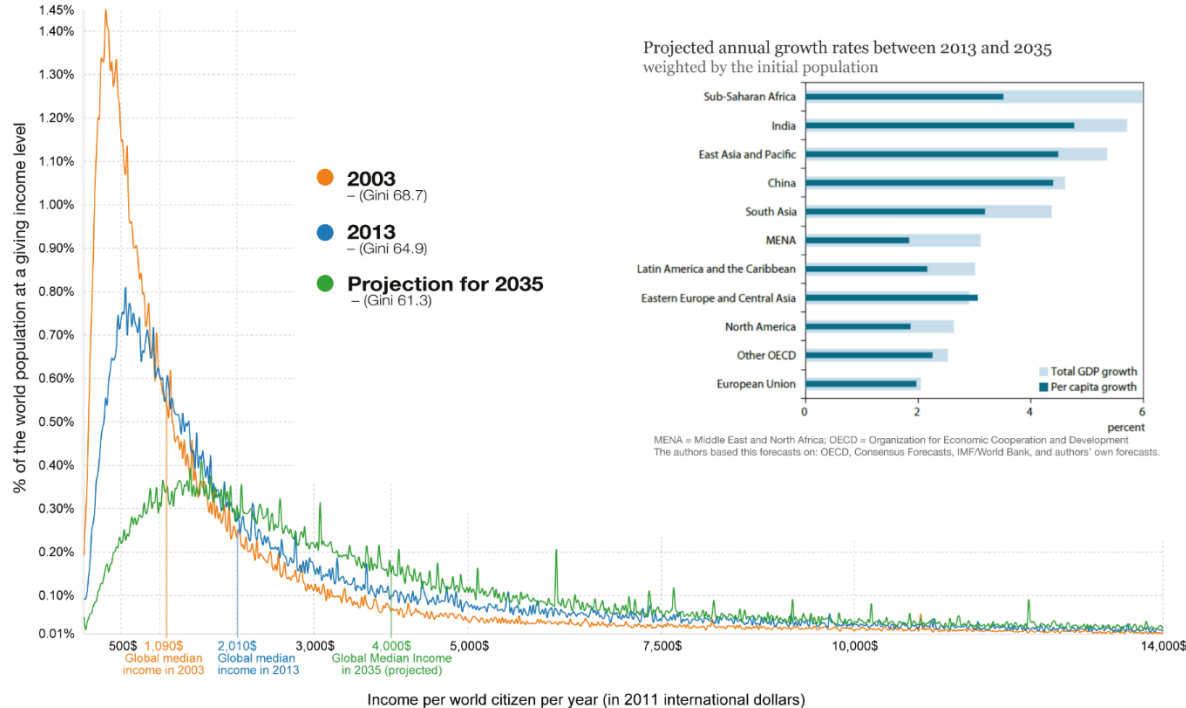
- #1 poverty eraser: Capitalism
  - » Mass production ...
  - » ... for mass consumption
- Income distribution: Global view
  - » Global convergence ...
  - » ... within-country divergence
- Globally improved working conditions
- Consumption possibilities
  - » Longer lifetimes
  - » Gains from globalization/technological 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](http://OurWorldinData.org). There you find the raw data and more visualizations on this topic.

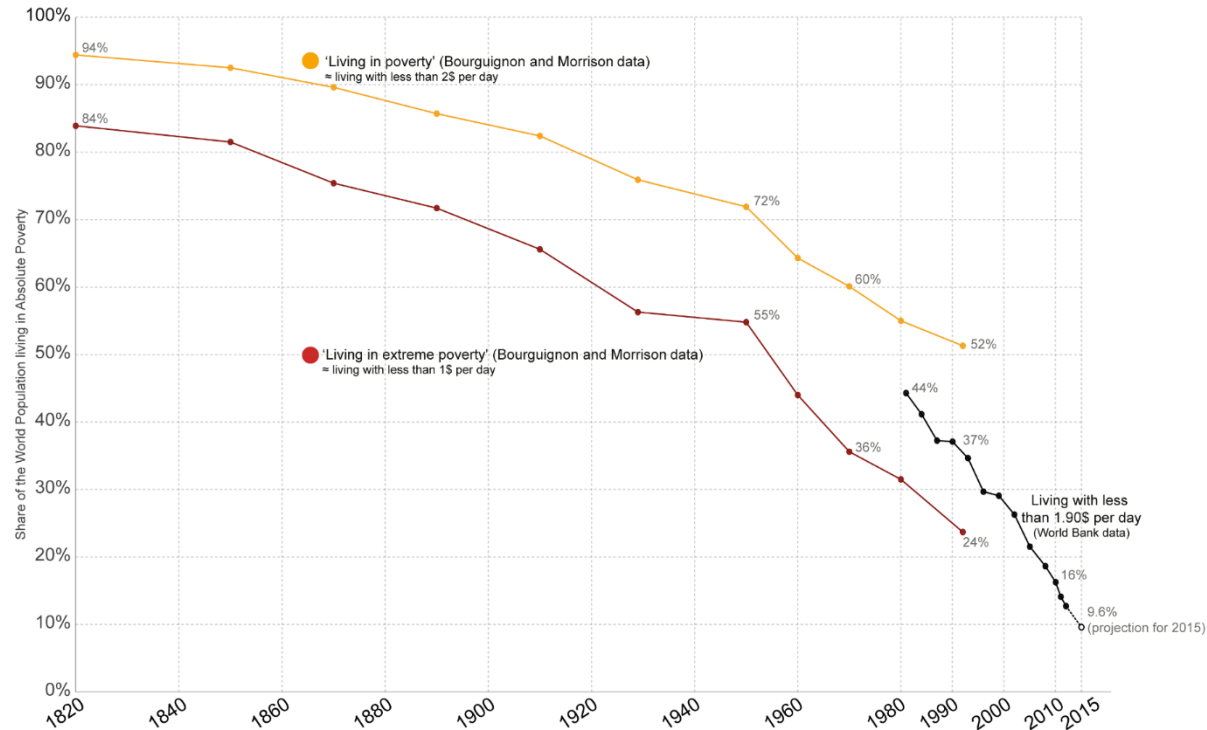
Licensed under CC-BY-SA by the author Max Roser.

# ... as is global poverty

OurWorld  
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).

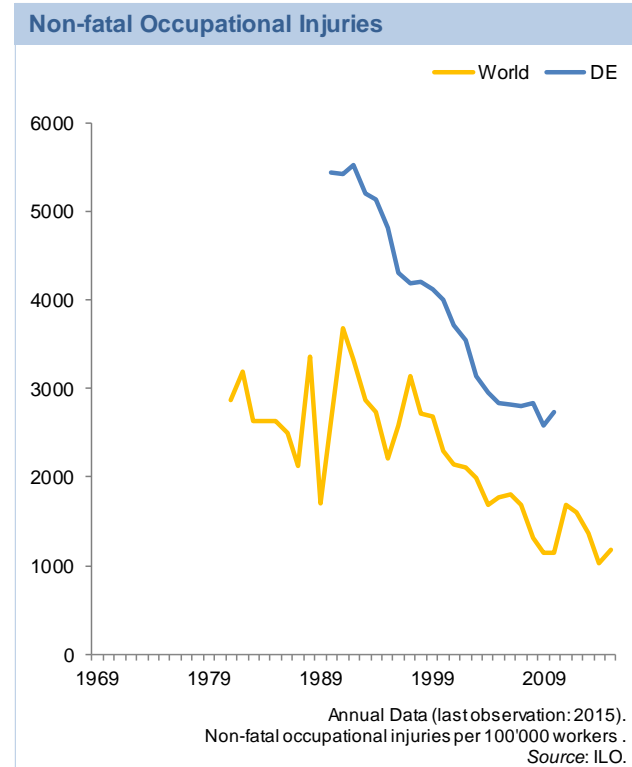
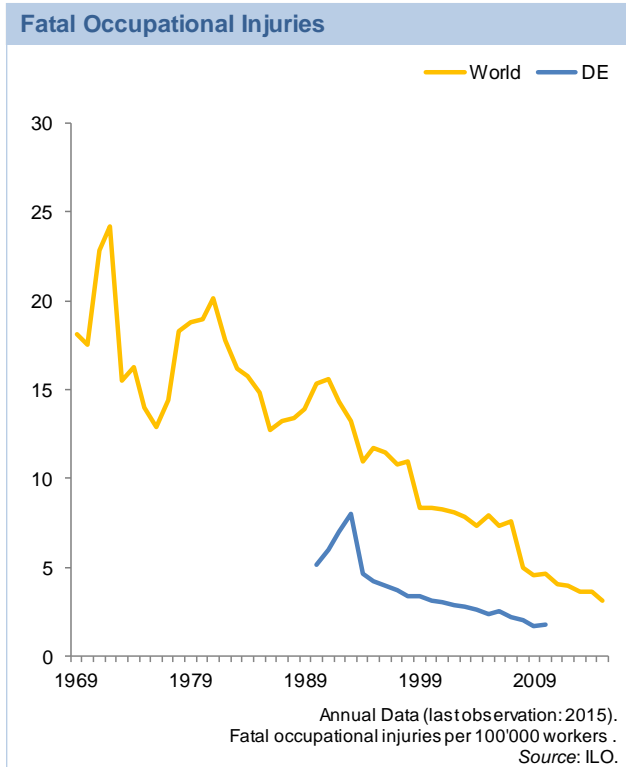


Data sources: 1820-1992 Bourguignon and Morrison (2002) - Inequality among World Citizens, In The American Economic Review; 1981-2015 World Bank (PovcalNet)

The interactive data visualisation is available at [OurWorldinData.org](http://OurWorldinData.org). There you find the raw data and more visualisations on this topic.

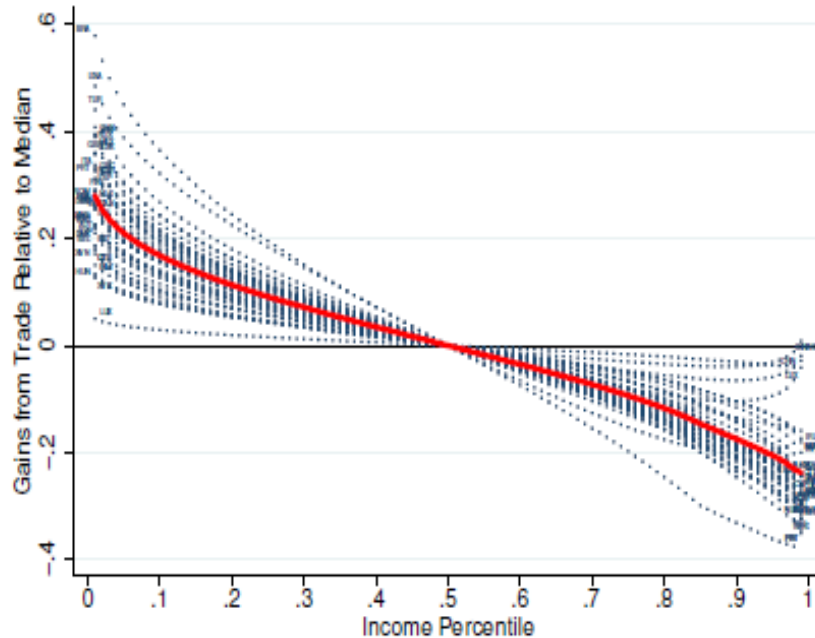
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# Working conditions: Occupational injuries



# Consumer perspective: Gains from global free trade

Figure 5: Distribution of Unequal Gains: Baseline Case



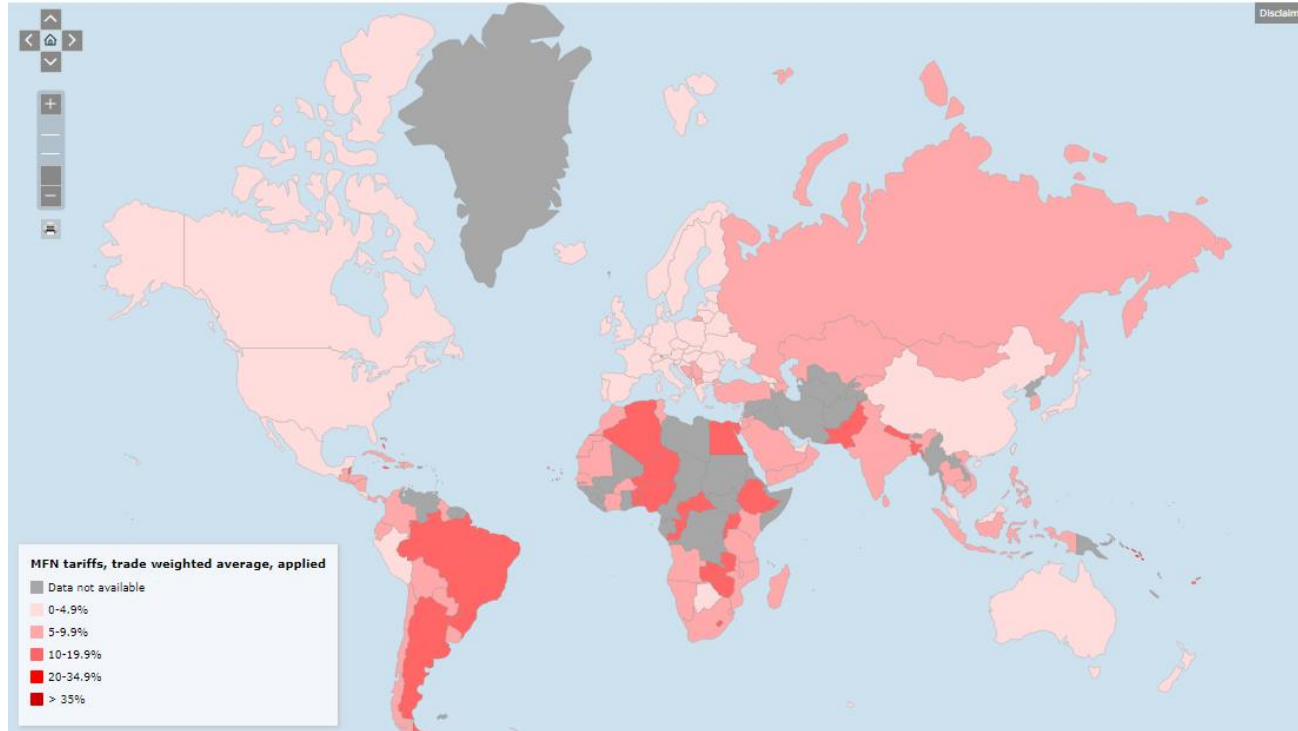
The deviations are relative to the median individual. The red line is the average across countries.

- 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

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

# Protectionism and “fair trade”

# The global tariff map

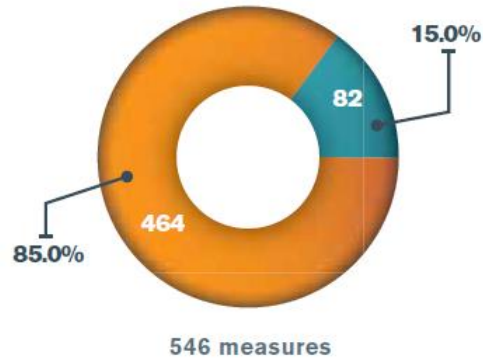


Source: [https://www.wto.org/english/res\\_e/statis\\_e/statis\\_maps\\_e.htm](https://www.wto.org/english/res_e/statis_e/statis_maps_e.htm)

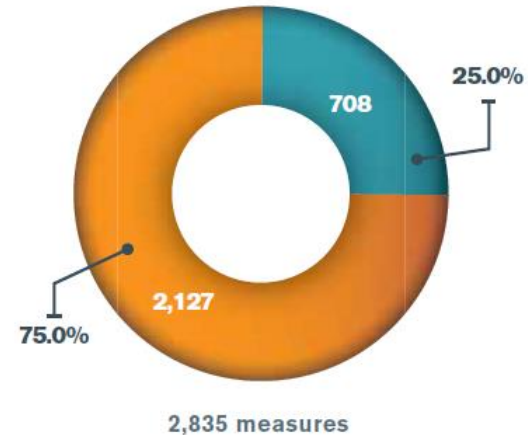
# Neo-protectionism via non-tariff barriers to trade

Stockpile of trade-restrictive measures initiated since October 2008

By mid-October 2010



By mid-May 2016



● Effectively eliminated measures      ● Stockpile of restrictive measures

Note: The stockpile of trade-restrictive measures also includes trade remedy actions.

Source: WTO, World Trade Statistical Review 2016.

# Kapitalprotektionismus made in Germany

Wirtschaft > Nützlich oder gefährlich? China auf Shoppingtour in Deutschland

01. November 2016

KUKA UND CO: CHINESISCHE ÜBERNAHMEN IN DEUTSCHLAND

## Der naive deutsche Michel lässt China machen



**Rezzo Schlauch**  
Parlamentarischer  
Staatssekretär a.D.,  
Rechtsanwalt und Berater  
Mayer & Kambli

+ MEHR

**Mit einer Mischung aus Naivität und Lethargie schauen deutsche Politiker und Unternehmen zu, wie China deutsche Technologieunternehmen aufkauft, meint Rezzo Schlauch. Die Folgen könnten verheerend sein.**

# Merkantilistischer Atavismus: „Buy German“



Free trade ... fair enough!

# 11 Irrtümer über Freihandel (< 7 Minuten)



If goods don't cross borders, soldiers will.

Otto M. Mallery  
Economic Union and durable peace (1943)

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