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Economic Growth, Inequality, and the Environment: Conceptualizing Their Relationship

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Big set of big questions

- Economic growth
 - Equality
 - Sustainability
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- Context:
 - Globalization
 - Technological innovation

Solution: new institutional frameworks





Big set of big questions

- Economic growth is a process
- Equality changes only slowly over time
- Sustainability is a process

- Context:
 - Globalization is a process
 - Technological innovation is a process

Solution:

new institutional frameworks change only very slowly over time

Indicates importance of time dimension and using history as “laboratory”





Economic Growth, Inequality, and the Environment: Conceptualizing Their Relationship

- Consensus has long been:
 - Economic growth => welfare
 - Economic growth is best measured as GDP per capita
 - Translates into welfare gains
- Also consensus on: how this economic growth was best realized
 - Technological innovation
 - Open, competitive markets driving capital investments and technological innovation
 - Abstract forces (technology, the market) drive progress
- Negative externalities (inequality, ecological damage) will be remedied by ongoing economic growth

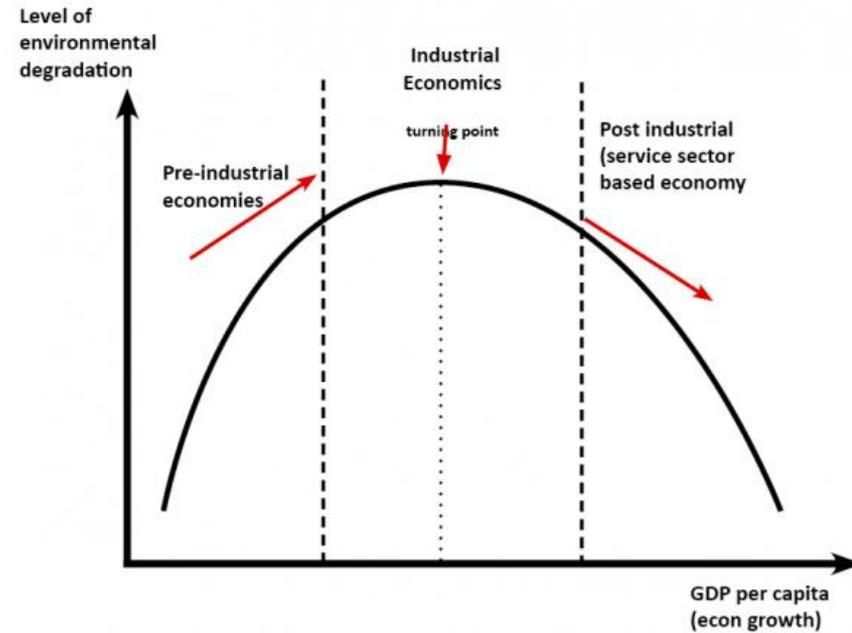




Kuznets curves

Assumption: economic growth eventually leads to:

- Reduction of inequality
- Reduction of pollution and ecological damage (Environmental Kuznets Curve)



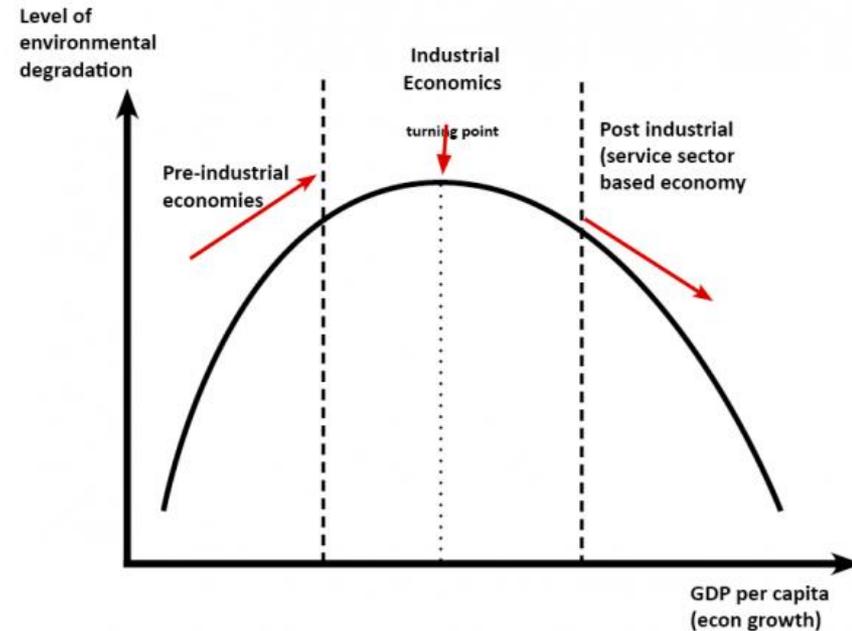
Kuznets curves

Assumption: economic growth eventually leads to:

- Reduction of inequality
- Reduction of pollution and ecological damage

Turns out to be both incorrect:

- Was only speculation by Kuznets
- No empirical proof for long run
- Causality is unclear
- Economic growth also in the long run often goes along with rising inequality and ecological damage





New realistic views: role of institutions

- Institutions (rules of the game and associated organizations) determine outcomes
- Institutions are formed by people, social actors
- Economic growth can go along with sustainability and equality depending on the institutional framework in which it is generated
- But institutions do not develop in order to solve a problem, but develop in a very slow and path-dependent process in a conflict between social actors
- Brings wealth and power into the equation





New realistic views: role of wealth

Wealth is formulated through institutions (property rights, protection by third party) and made profitable through institutions (e.g. lease system)

Wealth is land/natural resources + capital

Wealth offers decision-making power over land/natural resources

Wealth offers (direct and indirect) political influence

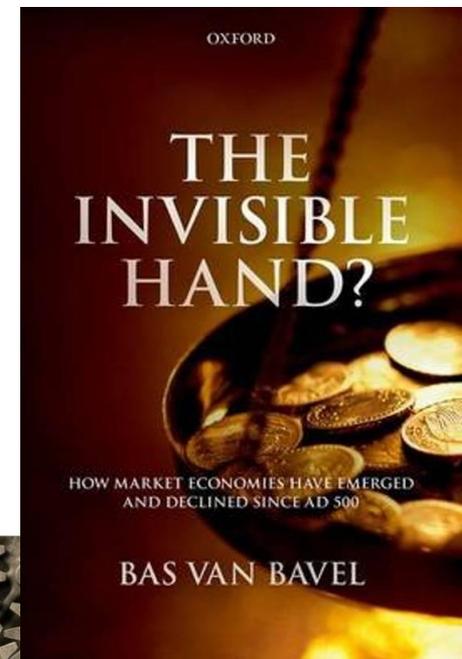
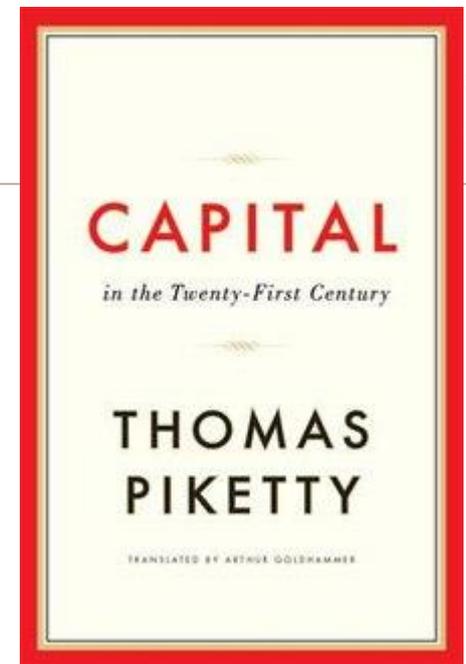
Wealth + political influence offer chance to adapt institutions





Wealth: tendency to accumulate

- Wealth grows quicker than income (Piketty)
- Large wealth concentration because of luck (paper with Wageningen colleagues)
- Both particularly apply to market economies (competition, flexibility, opportunities for accumulation)
- Further wealth concentration because of lower transaction costs for large wealth
- Wealth concentration further enlarged by scale-enlargement
- Empirical evidence for wealth concentration: historical market economies and present ones





Effect of accumulation of top wealth on use of natural resources

- Use is based on interests of wealth owners
- Particularly within system of private, exclusive property rights in a market economy
- Short-term profits more important than long-run sustainability
- Likely leads to over-use of resources / maximization of monetary profits
- Profits are privatized, negative externalities are socialized
- Further enhanced by influence of wealth owners on political decision-making





Historical perspective

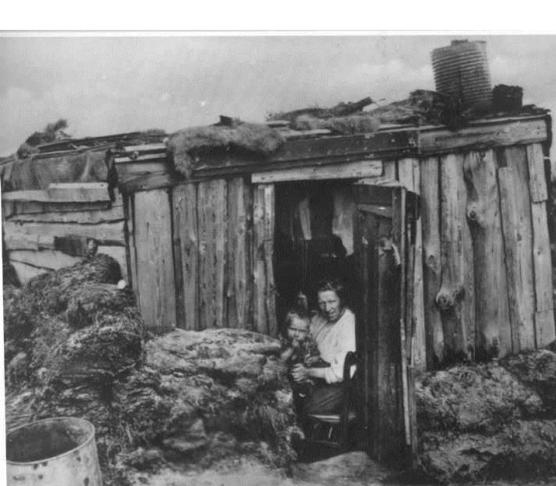
- This is not new
- Historical societies also struggled with this
- They found solutions:
 - Institutional restrictions on wealth accumulation
 - Institutional restrictions on use of wealth
 - Institutional frameworks / allocation systems outside the market:
associations, communities, commons
 - In the late Middle Ages in the Low Countries: very successful
 - Organized at the local and regional level
 - Offered relatively high levels of wellbeing and sustainability





Scale enlargement in the early modern period

- State formation: destruction of local and regional organizations
- Rise of supra-regional markets for goods, land, labour and capital
- Erosion and marginalization of local non-market organizations
- Accumulation-restricting institutions were eroded
- Scale-enlargement also promotes wealth accumulation
- Result: very high levels of wealth inequality in 18th and 19th centuries
- Very low levels of average wellbeing and sustainability





New wave of organization at the national level

- 20th century: new social organizations
- Rise of the democratic national state
- Regulation and taxation: now at national level
- Legislation to limit pollution
 - State not automatically beneficial, but in balanced societal context it was
 - [By the way: this was what Kuznets observed]





Now eroded by globalization

- National legislation surpassed
- Race to the bottom in taxation
- Global markets make (financial) wealth highly mobile
- Scale enlargement also pushes up wealth accumulation
- Wealth inequality reaches new heights
- Influence of wealth in society and politics reaches new heights (Trump, Murdoch, Zuckerberg, ...)





Solutions?



- Institutional solutions have to be found now at global level
- Need to be sustained by coordination systems outside the market
- Need to be sustained by local and regional allocation systems for land, labour and capital

- Cannot be offered solely by the market
- Cannot be offered by the state
- Drag each down in a negative spiral

- Need to be found in an mixture of allocation systems

- Can only be built on a massive wave of social movements

