



Capitalism, Poverty, and Growth

Capitalism

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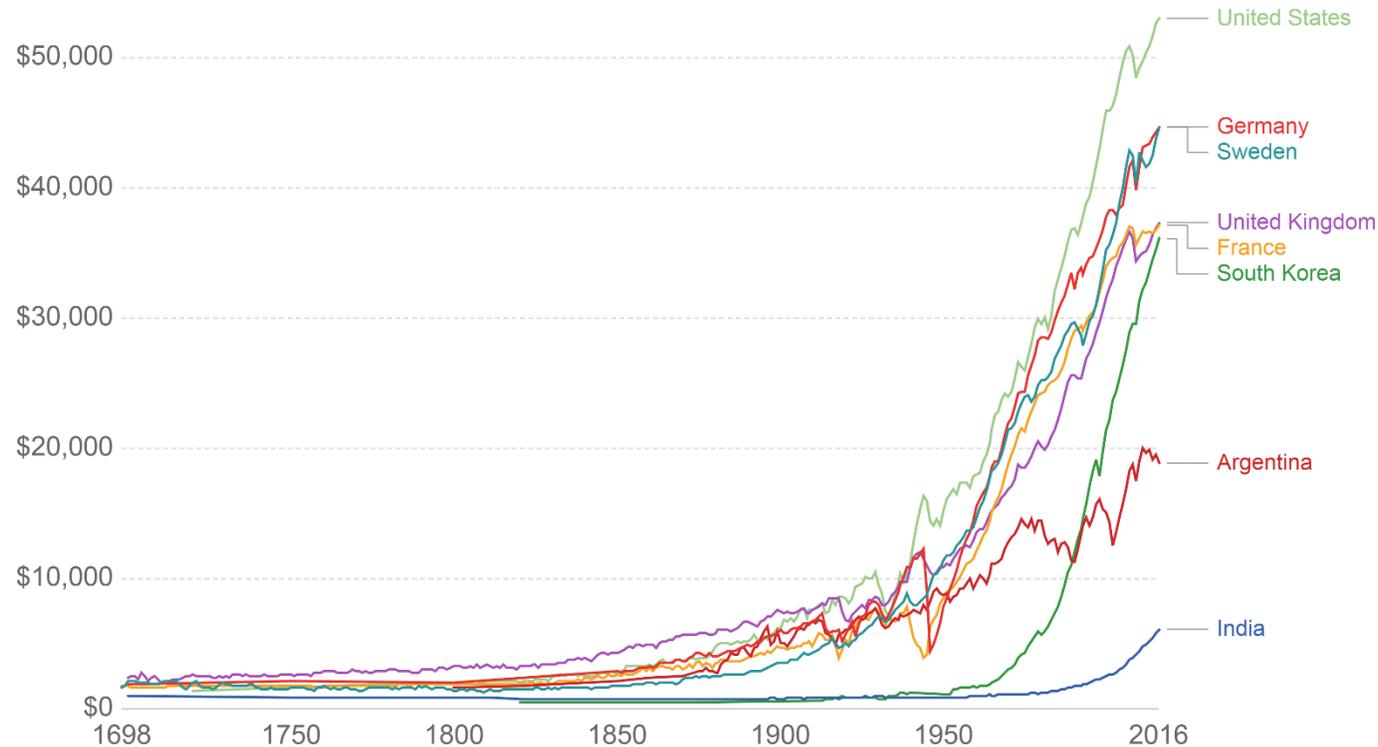
1. **The growth argument**
2. Libertarianism and social justice
3. Charity as a solution to poverty

Capitalism: The Good Graph

GDP per capita

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.

Our World
in Data



Source: Maddison Project Database (2018)

OurWorldInData.org/economic-growth • CC BY

Note: These series are adjusted for price differences between countries based on only a single benchmark year, in 2011. This makes them suitable for studying the growth of incomes over time but not for comparing income levels between countries.

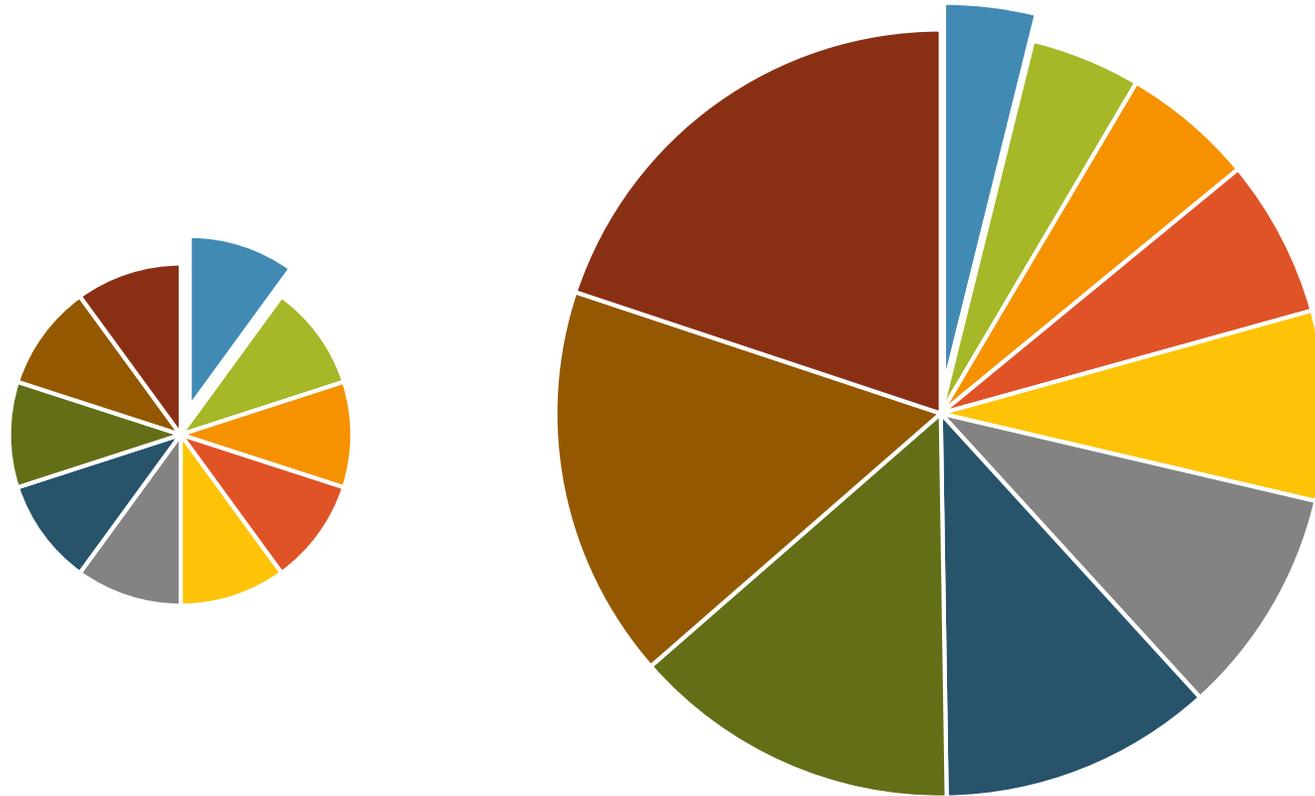
The Argument in a Nutshell

Of the tendencies that are harmful to sound economics [...] is to focus on questions of distribution. In this very minute, a child is being born to an American family and another child, equally valued by God, is being born to a family in India. The resources of all kinds that will be at the disposal of this new American will be on the order of 15 times the resources available to his Indian brother. This seems to us a terrible wrong [...]. But of the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. **The potential for improving the lives of poor people by finding different ways of distributing current production is *nothing* compared to the apparently limitless potential of increasing production.**

(Robert Lucas, “The Industrial Revolution: Past and Future”)

The Main Idea

Capitalism creates the bigger cake, with bigger slices for everyone, even if another system might create a more equal cake

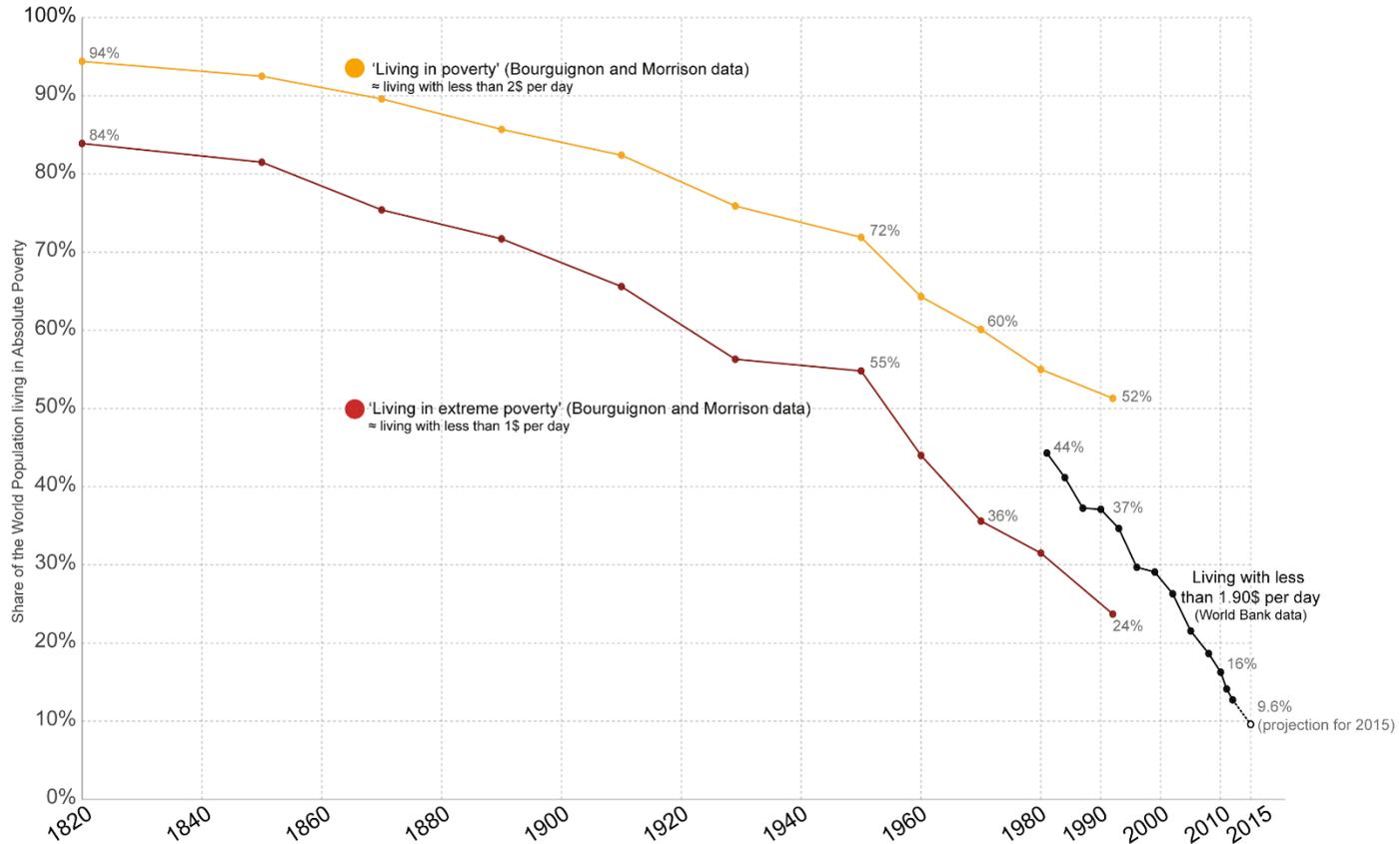


Extreme Poverty over Time

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)

The interactive data visualisation is available at OurWorldinData.org. There you find the raw data and more visualisations on this topic.

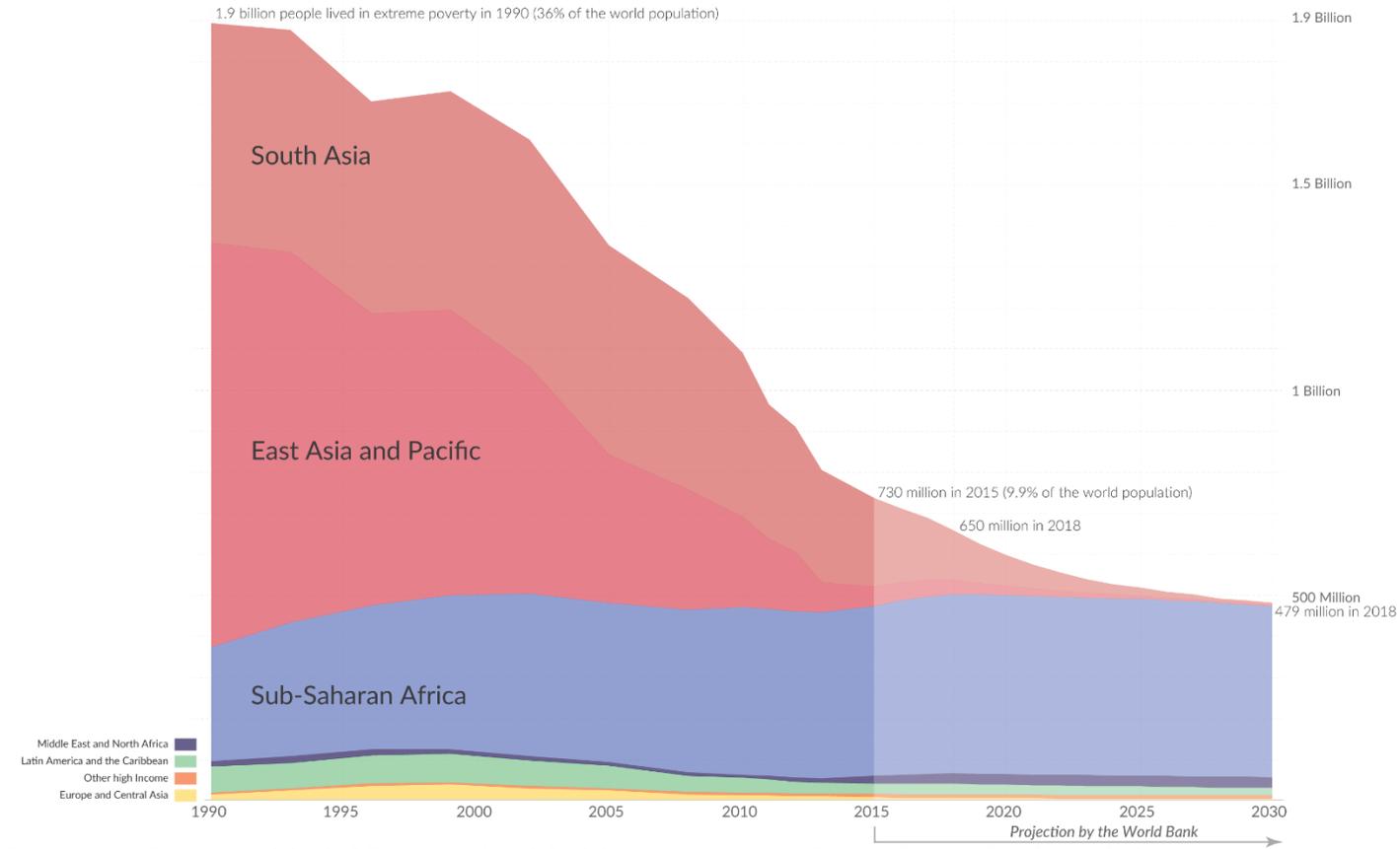
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Extreme Poverty over Time

The number of people in extreme poverty – including projections to 2030

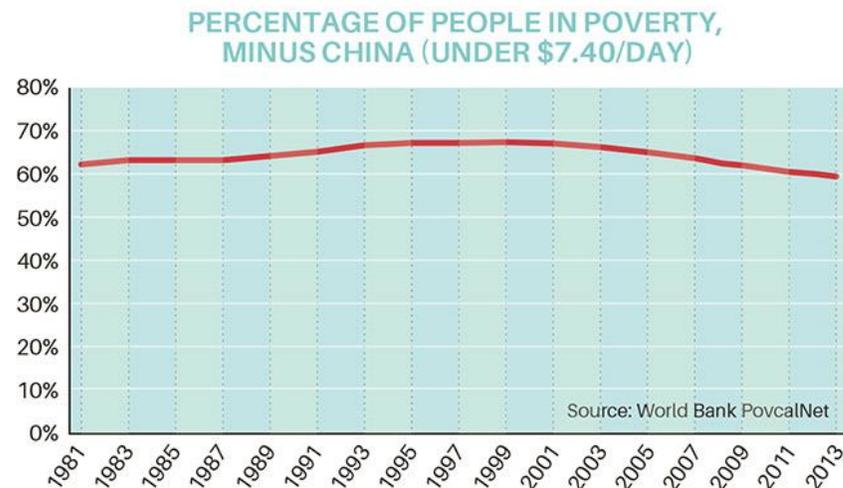
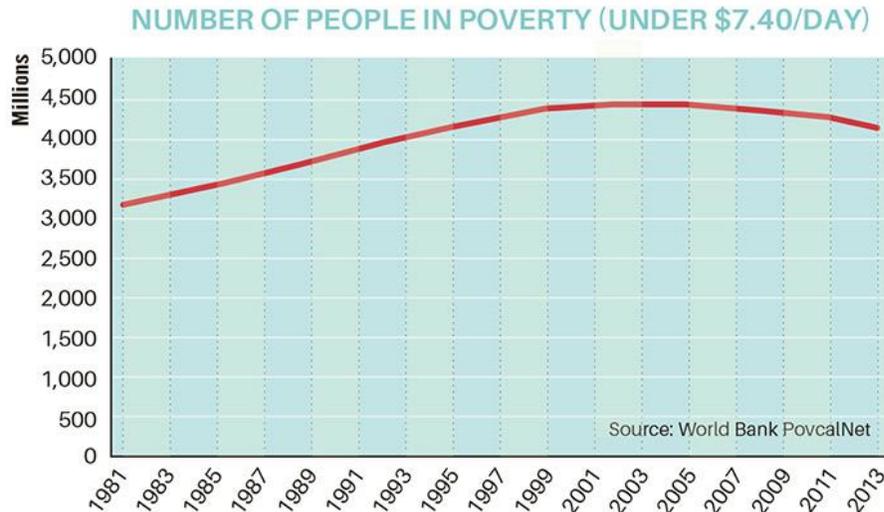
Extreme poverty is defined by the 'international poverty line' as living on less than \$1.90/day. This is measured by adjusting for price changes over time and for price differences between countries (PPP adjustment). From 2015 to 2030 the World Bank's projections are shown.

Our World
in Data



Data source: World Bank data from 1990 to 2015. The projections from 2015 to 2030 are published in the World Bank report *Poverty and Shared Prosperity 2018*. This is a visualization from OurWorldinData.org, where you find data and research on how the world is changing. Licensed under CC-BY by the author Max Roser.

Some Questions for the Data (Pickel)



- These are only monetary numbers, and do not capture all that is important
- “Extreme poverty” rests on a very low threshold (\$1.90/day)
 - ❑ If we move to a higher-threshold notion of poverty, much of the gain disappears
- Is *capitalism* really responsible?
 - ❑ Most of the gains come from China and East Asia—hardly models of (neoliberal) capitalism
 - ❑ In the peak period of deregulation and globalisation (1980s and 1990s) poverty increased

Further Questions

- For a full picture, we would need to look at other sources of data
- It is not enough for there to be progress over time. Capitalism must be responsible for this progress
 - ❑ Showing this requires going beyond the data
- Even if capitalism is responsible for growth, what kind of capitalism?
 - ❑ E.g., East Asian countries rejected the neoliberal consensus
 - ❑ What about social welfare capitalism vs laissez-faire capitalism?
- What if growth stops or slows down?
 - ❑ “The limits to growth”
 - ❑ “Secular stagnation”
 - ❑ Is continuous growth possible in the long term?

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2. **Libertarianism and social justice**
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“Bleeding-Heart Libertarianism”

- **Classic Libertarianism** (Nozick, Rothbard): we should choose capitalism because it is the only system that respects natural property rights
 - ❑ Greater equality might be good and desirable—but they are not required by justice
 - ❑ Justice is exhausted by Nozick’s three principles of justice
- **Bleeding-Heart Libertarianism** (Zwolinski): we should choose capitalism because it is the system that respects natural property rights *and* best promotes social and distributive justice
 - ❑ Greater equality, poverty-reduction, and welfare-maximisation are components in justice—as are classic property rights and freedom
 - ❑ Capitalism is best at promoting social and distributive justice in this sense (this is an [empirical claim](#))
 - ❑ (Another way to put the point: if you accept Rawls, you should endorse capitalism!)

Bleeding-Heart Libertarianism



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SOCIAL JUSTICE, LIBERTARIANISM

Bleeding Heart Libertarianism

At least in the world of academic philosophy, libertarians are not known for their sympathy to the ideas of social or distributive justice. Hayek famously wrote that social justice is a "mirage" and an atavistic relic of impulses that arose in an earlier, primitive form of human society. Robert Nozick, who most academic philosophers still take to personify libertarianism, similarly held that the term

The Happy Coincidence

What is primary in bleeding-heart libertarianism: property rights or social/distributive justice?

- **Option 1: Property rights**
 - ❑ Then the position just collapses back into classic libertarianism
 - ❑ No very deep concern for social justice
- **Option 2: Social/distributive justice**
 - ❑ Is the position then really “libertarian”?
 - ❑ What if hard choices have to be made?
- **Option 3: Neither is, we must strike a balance**
 - ❑ Something similar to Sen’s utilitarianism of rights?
 - ❑ How can such a balance be struck in a principled way?

Questions

1. Is bleeding-heart libertarianism a coherent position?
2. Is it true that capitalism tends to best promote social and distributive justice?
3. Can we justify the focus on absolute (rather than relative) shares?

Relative versus Absolute Poverty

“The ‘poor’ in developed liberal democratic countries are by historical and world standards, fantastically rich. A person living at the poverty line in the United State is (before any welfare payments have been made) still among the top 14% of PPP-adjusted income-earners alive today. Debates about internal redistribution are thus about transferring income from the ultra-rich to the merely rich.”

(Brennan, “Libertarianism after Nozick”)

- What should we do about global poverty? Some libertarian answers:
 - ❑ Charity
 - ❑ Open borders/free immigration
 - ❑ Foreign aid might be self-defeating (in the long run)

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Justice and Government

“The Fallacy of Direct Governmentalism” (Brennan)

1. A certain outcome (e.g., reduction in poverty) is required as a matter of justice.
2. It is the task of the state to promote the outcome.
3. The state should promote the outcome directly.

Brennan: (2) does not follow from (1), and (3) does not follow from (2).

Questions

1. Is charity a reasonable alternative to a (state-provided) welfare net? If not, why not?
2. Are the mutual-aid societies which Zwolinski describes a reasonable alternative to a (state-provided) welfare net?

Further Reading

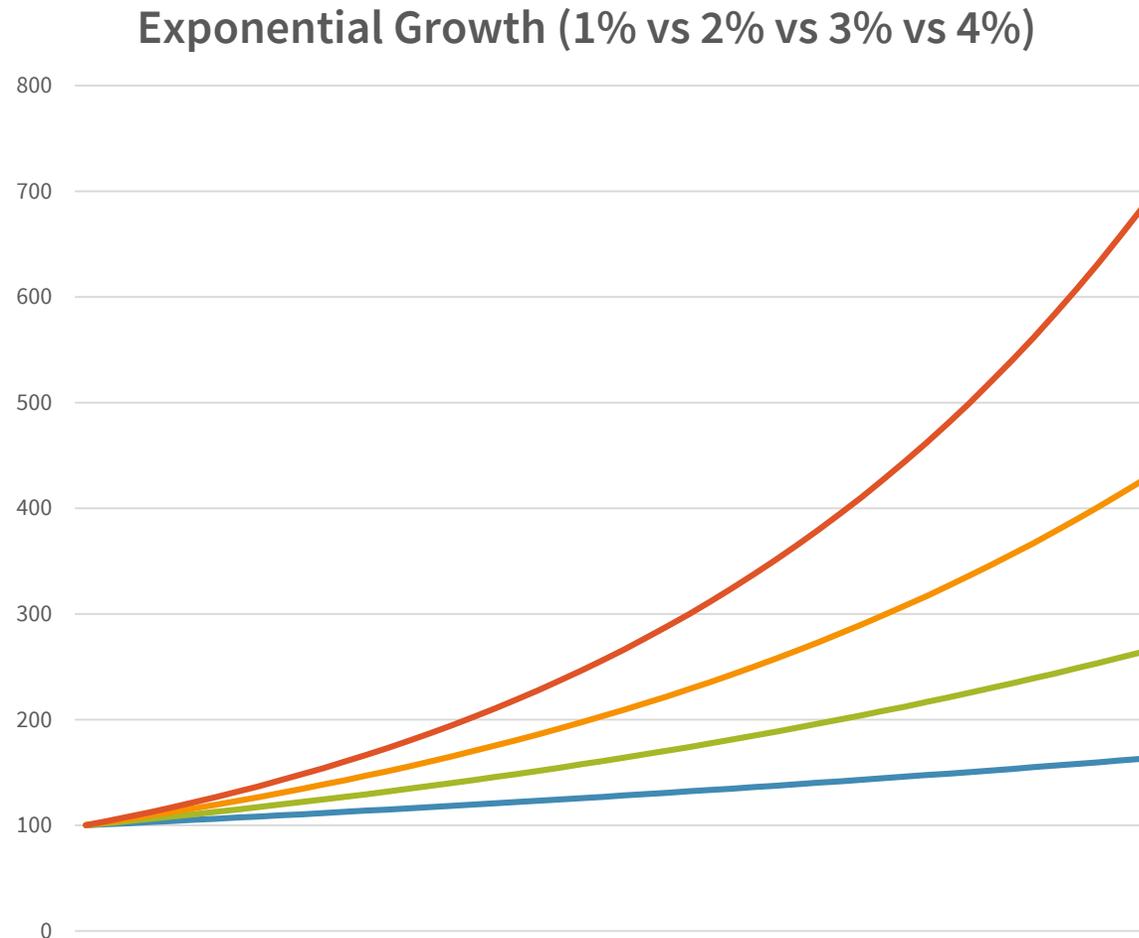
- Burkeman, “[Is the world really better than ever?](#)”
- Hickel, “[Progress and its discontents](#)”
- Konczal, “[The conservative myth of a social safety net based on charity](#)”
- Brennan, “[Libertarianism after Nozick](#)”
- “[Bleeding Heart Libertarians](#)” blog



Summary

- ❖ A standard economic argument for capitalism is that it is the best method for fighting poverty
- ❖ The evidence for this claim must be carefully interpreted
- ❖ Bleeding-heart libertarians claim that capitalism is preferable on the grounds that it best promotes social/distributive justice
- ❖ Defenders of capitalism claim that non-centralised systems (like markets) or voluntary systems (like mutual-aid societies) often work better than states

Cowen on Compounded Exponential Growth



- Small differences in growth rates, if compounded, can make huge differences over time
- We should not only be concerned with distributive justice now, but also in the future (**no** time discounting)
- Thus: if the choice is between more distributive justice now (at the cost of growth) or more growth and a bigger cake later, we should choose the second

The Great Divergence



The Economist

A debate in economic history: why did economic growth take off in England, rather than elsewhere? What explains England's success?

- **Capitalism-friendly ("Eurocentric") answer:** because of English legal-political system and institutions, protection of property rights, etc.
- **Capitalism-sceptical answer ("California school"):** because of favourable natural resources, colonialism, and luck