

Online appendix to Bowles and Carlin, “Shrinking Capitalism,” *American Economic Review Papers and Proceedings*, May 2020.

<i>Policy paradigm</i>	<i>Normative foundations (Level 1)</i>	<i>Provenance of normative foundations</i>	<i>Economic model (Level 2)</i>	<i>Provenance of economic model</i>	<i>Emblematic policies (Level 3)</i>	<i>Vernacular economics (Level 4)</i>
<b>Classical liberalism</b>	Order, rule utilitarianism, liberty, autonomy (contra social hierarchies and paternalism), equal dignity	Hume, Smith, Paine, Bentham, J.S. Mill.	Division of labor, specialization, competitive markets, comparative advantage, private property; precursors of mechanism design; cardinal utility	Mandeville, Hume, Smith, Ricardo, Bentham	Free trade, anti-monopoly, complementarity of state-provided infrastructure and private investment	“It is not from the benevolence of the butcher, the brewer, the baker that we expect our dinner, but from their regard to their own interest. ... Nobody but a beggar chooses to depend on the benevolence of his fellow citizens” Additivity of “moral sentiments” and material interests
<b>Keynesian social democracy</b>	Solidarity, security, fairness	Tawney, Beveridge B. Webb, S. Webb, T.H. Marshall	Aggregate demand, paradox of thrift, solidarity wages, theory of the second best	Pigou/ Marshall, Keynes, Robinson, Kaldor, Meidner/ Rehn	Demand management, tax, transfer and public goods redistribution, egalitarian supply-side policies	Well-paid workers sustain demand. Saving is prudent for a family but not for a government when the economy is in recession.
<b>“Neo liberalism”</b>	Negative (formal) freedom, procedural justice	Von Mises, Hayek, Nozick, Gauthier	Self-interest (individuals & government officials) and competitive markets. No interpersonal comparisons of utility. Pareto criterion.	Marshall/Walras, Buchanan, Becker, Friedman	Laissez-faire, school vouchers, “negative income tax”	“The government that governs best, governs least.” Labor unions are special interest groups. “There is no such thing as “society”. You get what you pay for.
<b>A new paradigm in the making</b>	Undominated social relations, voice, equal dignity, community, sustainability	Harrington, Dahl, Sen, Pettit, Van Parijs, Anderson	Social preferences and power in principal agent models; economy as an element of the biosphere; identity economics; increasing returns, declining costs and multiple equilibria; networked economy; enhanced mechanism design. Cardinal utility.	Marx, Schumpeter, Coase, Hayek, Akerlof, Stiglitz, David, Ostrom	Wealth redistribution to support justice and inclusive innovation. Home price insurance to reduce risk exposure; Workplace rights and voice. Competition <i>for</i> the market via corporate governance reform. Substantial weakening of IPR.	Cooperation works. Success of open source software and the kidney exchange. Complementarity of “moral sentiments” and material interests (e.g. in addressing climate change).

**Table 1. Paradigms in political economy.** Influential paradigms comprise an integrated set of normative foundations, an economic model, emblematic policies, and characteristic way of everyday discussions of the economy, which we term its vernacular economics. Entries are illustrative, not exhaustive of course. Economic developments or events undermining the first three paradigms are: for classical liberalism, the emergence of the hierarchical capitalist firm, growing inequality and the Great Depression; for Keynesian social democracy, stagflation, supply side constraints and the limitations of restricting policy to a one dimensional state vs market dimension; and for “neoliberalism” climate change, growing inequality, and the global financial crisis of 2007-8.