Ekonomi-tek Volume / Cilt: 3 No: 1 January / Ocak 2014, 1-12

Some Observations on the Global Economy and ICE-TEA 2014

Ercan Uygur[*]

Abstract

The aim of this essay is to share a few of my observations on the global economy, especially as they relate to several of the presentations and discussions at the recent Fourth International Conference on Economics of the Turkish Economic Association (ICE-TEA 2014). In this context, my main concern is with the world economy's stability and prospects for low or no growth in the years ahead. Side issues here encompass income and wealth distribution and the savings of the poor. Among the interesting papers heard at this conference was one that explained the relationship between income and employment on the one hand and religiosity on the other. Another examined the relationship between income/growth and education on one side and terrorism on the other. Yet another one dealt with the evolution and survival of capitalism. My brief reviews of these and other invited papers appear herein. The essay also provides information on the topics of the sessions and the participants in this conference.

JEL codes: D3, J1, K4, O1, O5

Keywords: Global stability and growth, religiosity, poverty, terrorism, state of economics

[*] President, Turkish Economic Association. ercan.uygur@gmail.com

1. Introduction

The Fourth International Conference on Economics of the Turkish Economic Association (ICE-TEA 2014) was held on October 18-20, 2014 in Antalya, Turkey. Below, I briefly state several of my observations on global economic developments and refer to related discussions at the conference. For the most part, this essay is a reiteration of the points outlined in my speech at the conference's opening session.

Like the earlier ones[1], this conference was supported by the International Economic Association (IEA). We are thankful to have the IEA's support and for its continuing partnership with us. Although the President of the IEA was unable to attend due to health problems in his family, both the former and the present Secretary Generals—Joan Esteban and Omar Licandro—attended the conference as invited speakers, and we were delighted to have them among us.

ICE-TEA's theme this time was **"Global Stability and Growth and the State of Economics."** Implicit in this title was our perception that the global crisis of 2008 is still not behind us; in fact, it appears to be lingering on in certain corners of the world economy, bringing with it omens of instability and fragility ahead.

In our previous international conferences, stability, volatility, growth, and recession tended to be the keywords cropping up in the papers and abstracts submitted. The same was observed in this conference. This was to be expected, given that conference themes have often centered on contemporary problems of the global economy.

Even further back in time, when the TEA came into existence, it saw its mission as researching solutions to the devastating effects being experienced by Turkey of the Great Depression that started in 1929. With that history as a backdrop, it seemed all the more fitting for us to debate the current risks to global stability and growth and suggest solutions to the fault lines running through the profession of economics nowadays.

The aim of this essay is to share a few of my observations on the global economy, especially as they relate to several of the presentations and discus-

[1] The first ICE-TEA was organized in 2006 in Ankara. Later, in 2008, we organized the IEA's 15th World Congress in Istanbul. The second ICE-TEA was held in 2010 in Girne, Northern Cyprus, and the third in 2012 in Çeşme-İzmir. Titles, programs, and other details of the earlier conferences can be found at the conference website: http://teacongress.org/2014-Congress-Past-Conferences-ipages-en103.cgi

sions at the recent Fourth International Conference on Economics of the Turkish Economic Association (ICE-TEA 2014). In this context, my main concern is with the world economy's stability and prospects for low or no growth in the years ahead. Side issues here encompass income and wealth distribution and the savings of the poor. In Section 2 below, I set forth my view of the outlook for the global economy. Section 3 consists of a review of an invited paper to the conference on the relationship between income and employment on the one hand and religiosity on the other. Another invited paper, which examines the relationship between income/growth and education and terrorism, is covered in Section 4. In Section 5, the savings of the poor and Thomas Piketty's arguments on wealth distribution are briefly evaluated. Section 6 provides notes on other invited papers of the conference. Section 7 concludes the essay with information on the sessions and participants.

2. Concerns about Global Stability and Growth

For some time now, we have been fretting about the prospect of a prolonged period of no or low growth in such areas as the European Union (EU) and Japan. Because this has been a non-employment-generating period, we have not found acceptable the scenario put forward by, for instance, the IMF,[2] which has foreseen strong growth in the US coexisting with huge swathes of the industrialized world mired in a no-growth muddle. We have known from the recent experience of the global crisis that there was no de-coupling whatsoever in the global economy. There is no reason why there should be one at present or in the near future.

This extended no-growth stretch in the EU is also showing deflationary tendencies that have, in turn, stoked social and political tensions in the region. Arguably, a massive shift is underway towards nationalism, radicalism, and religiosity, especially in those countries with significant ethnic and religious minorities.

Since the alarming plunge in petroleum prices, Russia and other oil-producing countries have been expected to join the list of non-growers for the foreseeable future. These countries face adjustment costs of not only lost incomes and jobs but also new fragilities arising from currency depreciation and external imbalances. It remains to be seen whether such hard times prove contagious to other developing markets. More political and social tears in the fabric of society may also be in the cards, on the back of the rising nationalism, radicalism, and religiosity spreading throughout Europe.

---

[2] See, for example, IMF (July 2014).

3. Stability, Growth, and Religiosity

At ICE-TEA 2014, Joan Esteban, along with his two co-authors, Levy and Mayoral, presented a provocative paper on the role played by religiosity and individual liberties in making political choices and in affecting income and employment. Esteban, Levy and Mayoral (2014). With standard assumptions for individual preferences, their model indicates that labor supply and income are lower for religious individuals in the presence of liberties.

This paper also contains an empirical part that draws on data from European Social Surveys (ESS) that were conducted in 34 countries (in the even-numbered years) during 2002-12 on individual attitudes and attributes. The sample mostly comprised EU member states, but Israel, Russia, Switzerland, Turkey, and Ukraine were also included. Among the 34, Turkey is the only country that is predominantly Muslim. After econometric estimations, the authors find that: (i) work effort is negatively related to religiosity, becoming more so as personal liberties head upward, and, likewise, (ii) income is negatively related to religiosity, and this effect, too, is amplified by the degree of liberty.

I should note that the issue of the effect of income and employment on religiosity and individual liberties—in other words, the simultaneous relationships among the variables mentioned—are not taken up in the paper. Note also that religiosity is expressed as an index derived from the principal components of three variables obtained from the ESS. The three variables are: (i) monthly frequency of praying, expressed as the number of days of praying in one month; (ii) self-reported religiosity; and (iii) religious attendance, as measured by the monthly frequency of attendance at religious services.

What implications can be derived from the findings of Esteban, Levy, and Mayoral for developing countries in general and for Turkey in particular? Can we infer, for instance, that secularism contributes positively to long-term growth and employment? Does less religiosity lead to higher labor-force participation, higher employment, and higher incomes? The paper hints at the answers to these questions being “yes.” However, the reader is cautioned with a statement in the empirical part that the estimation results should be interpreted as correlations, not as causalities.

4. Stability, Growth, and Terrorism

Another stimulating invited paper, presented by Walter Enders for the team of Enders, Hoover, and Sandler (2014), addressed the changing nonlinear relationship between income and terrorism. By making use of data for the 1970-2010 period from “International Terrorism: Attributes of Terrorist

Events" (ITERATE) and the "Global Terrorism Database" (GTD) records, the authors looked into the relationship between real per capita GDP and terrorism. We learned that domestic and transnational terrorist attacks are more concentrated in middle-income countries and that concentration shifted to lower-income countries in tandem with the mounting influence of Islamic fundamentalist and nationalist/separatist terrorists in the early 1990s.

Apparently, the composition of terrorist groups changed over time; in the 1970-92 period, left-wing groups were in the ascendant, whereas in the 1994-2010 period the Islamo-terrorists held sway. The number of terrorist incidents soared in the late 1990s and especially in the 2000s. One noteworthy finding was that once a certain threshold per capita GDP has been reached, terrorists and their supporters must sacrifice much in the way of opportunity cost. As income improves, potential grievances weaken and government expenditures can serve more varied interests.

Equally enlightening was the discovery that education levels of terrorists are positively correlated with per capita GDP; also, education often bolsters terrorist attacks at an intermediate-income level by encouraging operatives with sufficient human capital to join terror organizations. But these positive correlations are only observed up to a certain level of both GDP and education. After a certain level of per capita GDP, opportunity-cost considerations will curb these skilled adventure seekers' enthusiasm.

What lessons does this paper hold for developing countries—and for Turkey? First, the risk of terrorism might be higher for developing countries that cannot follow a sustainable growth path and fall into a middle-income trap. Similarly, if the overall level of education of the population cannot be raised steadily and instead gets "stuck," then again the risk of terrorism afflicting that society is higher.

5. Savings of the Poor, Wealth Distribution, and the Future of Capitalism

Along with global instabilities and slow growth, a main preoccupation of ours has been the persistent negative savings of the poor and the resultant shrinkage of their wealth. The data in the table below show the savings rates, defined as a proportion of disposable income, of the households as a total in the first column, and of the income groups in Turkey and Australia in quintiles in the other columns. Note that the poor have sizable dissavings, with the lowest income group having negative savings rates of no less than 25% in both countries. Understandably, the high income groups have sturdy positive savings rates, making the total household-savings figure positive.

Table 1. Household Savings Rates in Turkey and Australia, Savings as a Proportion of Disposable Income, %

TURKEY	TOTAL	1. 20%	2. 20%	3. 20%	4. 20%	5. 20%
2010	7.3	-30.3	-14.8	-3.6	3.7	24.2
2011	7,5	-31.2	-14.4	-3.3	4.9	23.7
2012	7.3	-24.1	-11.9	-5.1	6.2	21.7
AUSTRALIA						
2009-10	17.7	-25.8	-0.3	9.7	18.0	35.0

Source: Turkey: Household Budget Surveys, Turkish Statistics Institute.
Australia: Australian Bureau of Statistics

I want to emphasize here that it has been the severe dissaving of the poor coupled with the high positive savings rates of the rich that has presented us with the situation we now have in many parts of the world: a gross distortion of wealth distribution. This is another way of expressing the findings of Thomas Piketty; the data are supportive of his results. Piketty argues that, particularly when the economic growth rate (g) is low, wealth tends to accumulate in the hands of the wealthy owners of capital rather than the meagerly earning hands of the laboring class due to the rate of return on capital (r) exceeding growth (g). Thus, with $r > g$, there is greater wealth inequality over time. (Piketty, 2014, Parts I and II).

Piketty goes on to say that the global economy, particularly Western economies like France, the UK, and the US, is becoming one of "patrimonial capitalism." Under such a system, the economy is more and more dominated by inherited wealth, causing the global economy to grow at lower rates, despite regular technological advances, which Piketty dismisses as the mere "caprices of technology." Therefore, capitalism needs root-and-branch reform, to be carried out by galvanized governments seeking to set matters right by, as just one example, introducing taxes on wealth. Failure to act decisively will threaten the very existence of the democratic system.[3]

For his part, David Colander weighed in at ICE-TEA 2014 on the overarching issue of capitalism and its survivability. His paper appears in this issue of *Ekonomi-tek*. The basic thrust of it is that capitalism has always been characterized by pragmatism on the part of its participants. A case in point is

[3] In this context, my proposition for Turkey is to promote savings in poor households through tax-preferred savings accounts, largely education-related. Reports by the OECD and others indicate that participation in such accounts, especially by low- and middle-income households, tends to be substantial.Thus, not only are the savings of the poor encouraged , but education is also improved at the same time. Such policies also help to foster more equitable and inclusive growth (see Uygur, 2011).

the history of how early entrepreneurial capitalism gave way to an "adult" system of corporate managerial capitalism. This pragmatic trait has allowed it to evolve—and survive and even flourish—in order to adapt to whatever regulatory climate it happened to be operating under. Thus, capitalism has a long and healthy future ahead of it as it evolves into other necessary forms.

6. Other Conference Sessions and Issues

Other invited papers at the conference that sparked commentary were those on the issues of wealth and income distribution, economic crises, and global stability. Below, I touch on a few of those that were available to me or that I could listen to.

Stephen Turnovsky, by way of a neoclassical model of an open economy with two goods, one locally produced and the other imported, spoke about the impact of tariff reductions on wealth and income inequality in a growing economy in which agents accumulate both physical capital and international bonds. His paper also contains numerical simulations (Rojas-Vallejos and Turnovsky, 2014).

Graciela Kaminsky, in her presentation, took us through crises and sovereign defaults in Latin America from 1820 to 1931. She noted that systemic crises are a different breed altogether, with the international drying up of liquidity always found at their core. Kaminsky urged that European leaders draw the cautionary lessons from Latin American economic history as they try to sort out their ongoing crisis (Kaminsky, 2014).

Omar Licandro's paper centered on a neoclassical "innovation-driven growth model", which he used to analyze the effects of trade liberalization. In an oligopolistic environment, his model implies that trade liberalization leads to lower markup levels and dispersion, tougher selection of companies, and more innovation. The model is calibrated with US aggregate and corporate-level data, and the results agree with the implications of the model (Impullitti and Licandro, 2014).

Distinguished panels were also on hand at our conference. At the opening session, Minister of Finance Mehmet Şimşek and Central Bank Governor Erdem Başçı held forth on both global and Turkish economic issues and policies. Central Bank Deputy Governor Turalay Kenç organized a fascinating discussion on Global Financial Instability and Central Bank Policies. Treasury Deputy Undersecretary Cavit Dağdaş was responsible for the panel on The G20 Agenda for Growth: Latest Approaches for Long-Term Investment.

Yılmaz Akyüz of the South Center, as part of the joint UNCTAD-South Center panel and its organizer, received attention for his remarks on Key Policy Issues for Developing Countries. He said that emerging economies, especially those that are heavily dependent on foreign capital, have become more vulnerable to spillovers from global financial cycles. He warned of the dangers awaiting such countries that believe they have placed strong enough buffers around their economies to insulate them from external shocks. In fact, reactive steps pursued in the past in response to recurrent financial crises, such as more flexible exchange-rate regimes, big build-ups in international reserves, and shifting currency risks to foreign investors and lenders, do not add up to a magic bullet providing immunity from the international whirlwind. The next (and overwhelming) one may be triggered, for instance, by the normalization of monetary policy in the US. Crisis intervention in such cases would need to diverge from past practices. Unfortunately, the multilateral system is still lacking adequate mechanisms for orderly and equitable resolution of massive external shocks.

Another member of the same panel, Lim Mah Hui, informed us that the impressive economic growth experienced in East Asia had also brought with it worsening inequality, both in personal income and functional income distribution. Focusing on the export-led growth models of five East Asian economies, namely China, Korea, Malaysia, Taiwan, and Thailand, he explained how export-led growth in the past had been enough to counteract weak domestic demand. However, with export markets faltering amid the slack in the global economy, growth is now constrained. Some of these countries have tried resorting to energizing their economies by promoting the taking on of personal debt, with an eye toward reviving up retail sales. This is not going to work, however, not with the region's ailments of falling wage shares and worsening inequality. To succeed on that front, governments in the region will first have to restructure their distributive regimes.

Also on the panel was Yuefen Li, whose specialty was Timely and Fair Sovereign-Debt Restructurings. In the wake of seemingly successful debt restructurings over the past decade, many supranational institutions and distinguished academics had come around to the complacent view that the existing *ad hoc* system for sovereign rescues would continue to work. Ironically, during the same period, lawsuits brought by so-called vulture funds against highly indebted countries multiplied, with the upshot being that many national deadbeats were forced to pay back their commercial creditors in full. Indeed, recent US Supreme Court rulings—in favor of hedge funds that had sued Argentina for payment of its defaulted bonds from the year 2001—carry huge global and systemic implications, representing as they do a setback for the concept of sovereign-debt restructuring.

Our unhappiness with the less than ideal state of economics in general nowadays was implicit in the title we chose for ICE-TEA 2014. This discontent also extends to the deficiencies in economics education, misguided approaches in governmental policies, and the neglect of environmental issues. Accordingly, two panels were initiated by the Turkish Economic Association: one on Economics Education, headed by myself, and the other on Climate Change, the Environment, and Development, organized by Erinç Yeldan.

On economics education, Geoffrey Hodgson addressed the widespread belief that the latest world financial crisis would end up reviving the discipline of economics by exposing the limitations of current economic theory and policy and thus discrediting them. However, he saw less cause for hope that economics and economics education would be redirected into more constructive and relevant channels. This was the fault of major institutional and cultural barriers to the reform of the profession. Among those he mentioned were obsolete disciplinary boundaries, deep specialization at the cost of synthetic vision, and a cult of metrication and formalization.

The same panel featured Mushtaq Khan, who talked on Institutional Economics and the Challenge of Development. He criticized conventional institutional theories for not correctly identifying the types of governance that have actually driven economic dynamism in developing countries like those in East Asia; nor were these theories of much use in determining the real sources of today's governance problems in developing countries. Conventional wisdom defines "good governance" as the enforcement of stable property rights, the removal of corruption and rent seeking, and the operation of accountable and democratic rule. Of course, these are desirable objectives in and of themselves, but they are not immediately achievable in most of the developing world. The challenge of teaching institutional economics in developing countries should involve consideration of a much broader set of economic and political-economy theories; it will also require wide-ranging exposure to different historical trajectories of development.

The panel on Economics Education also had me attempting to answer three questions at the same panel: 1) How was the predictive performance of the academic, national, and multilateral institutions before and during the Great Recession? The recession was, for the most part, unforeseen; in fact, wrong predictions abounded, most of them based on overly optimistic DSGE-type models—even after the economic contraction had started. 2) How did the economists react to this poor predictive performance? a) The majority conceded that they had failed to see the disaster coming, so there were indeed lessons to be learned by all. b) A handful of economists correctly forecast the financial crisis and the resulting recession, but they were ignored by the mainstream. c) Others actually argued that they had no responsibility to issue alerts on impending economic storms. 3) How did the financial crisis and the recession after it affect economics education? There have been heated debates about universities' curricula in this area, but little has changed, not only in the advanced countries, but also in the developing world.

Erinç Yeldan's take on Economics Education was newsworthy. First, he pointed to toxic economic texts and toxic economics as the real cause underlying the global crisis that started in 2008. To be sure, excessive financialization and worthless mortgage-based assets had played their parts as well, but secondarily so. Second, he called mainstream policy prescriptions "false" for their reliance on an unrealistic ideological foundation. This consisted of a fantasy in which rational expectations and the business cycle underlay perfectly competitive markets, complete with nice and smooth, convex technologies, 100% foresight, and full information sets available. He maintained that the current financial bubble was being driven upward by household debt and private credit and was not explicable by models of the representative agent operating in a perfect-foresight world with full information and optimizing on a lifespan-consumption path. Furthermore, he labeled as misconceived any policy recommedations that were inspired by neoclassical trade theory, itself based on static comparative-advantage calculations.

7. Concluding Comments

At ICE-TEA 2014, a total of 241 invited and contributed papers were given in a total of 63 sessions. Of these, 54 sessions were contributed, and nine were invited. In terms of topics, 22 sessions were devoted to growth and employment issues, while 10 concerned themselves with monetary and financial challenges.

This year's conference was truly an international forum for worthwhile presentations and discussions, with 327 registered participants from 23 countries spanning five continents: Asia, Australia, Europe, North America, and South America.

Many of the participants voiced the feeling that the conference was being held at a critical juncture, given the continuous flow of bad economic news emanating from almost every corner of the globe—not to mention the geopolitical risks unfolding in areas worryingly close to the Turkish border.

Here, I am using the term “critical juncture” in the sense defined by Acemoglu and Johnson (2012, pp. 116-122): “Critical juncture is a major event or confluence of factors disrupting the existing economic or political balance in society. … On the one hand, it can open the way for breaking the cycle of extractive institutions and enable more inclusive ones to emerge…. During critical junctures, a major event or confluence of factors disrupts the existing balance of political or economic power in a nation. These can affect only a single country. Often, however, critical junctures affect a whole set of societies.”

References

Acemoglu, Daron and James A. Robinson, (2012), Why Nations Fail. New York: Crown Publishers.

Colander, David, (2014), "Capitalism as a Complex Evolving System," *Ekonomi-tek,* 3 (1) January, pp. 13-22.

Enders, Walter, Gary A. Hoover, and Todd Sandler, (2014), "The Changing Nonlinear Relationship between Income and Terrorism," *Paper presented at the 4th International Conference on Economics of the Turkish Economic Association,* October 18-20, 2014, Antalya, Turkey.

Esteban, Joan, Gilat Levy, Laura Mayoral, (2014), "Liberty, Equality, Religiosity," *Paper presented at the 4th International Conference on Economics of the Turkish Economic Association,* October 18-20, 2014, Antalya, Turkey.

IMF, (2014), *IMF Multilateral Policy Issues Report – 2014, Spillover Report*. IMF Policy Paper, July 29, Washington DC: IMF. http://www.imf.org/external/np/pp/eng/2014/062514.pdf

Impullitti, Giammario and Omar Licandro, (2014), "Trade, Firm Selection, and Innovation: The Competition Channel," *Paper presented at the 4th International Conference on Economics of the Turkish Economic Association,* October 18-20, 2014, Antalya, Turkey.

Kaminsky, Graciela, (2014), "Varieties of Sovereign Crises: Latin America, A Historical Perspective," *Paper presented at the 4th International Conference on Economics of the Turkish Economic Association,* October 18-20, 2014, Antalya, Turkey.

Piketty, Thomas, (2014), *Capital in the Twenty-First Century.* NewYork: Belknap Press/ Harvard University Press.

Rojas-Vallejos, Jorge and Stephen J. Turnovsky, (2014), "The Consequences of Tariff Reduction for Economic Activity and Inequality," *Paper presented at the 4th International Conference on Economics of the Turkish Economic Association,* October 18-20, 2014, Antalya, Turkey.

Uygur, Ercan, (2011), "Domestic Savings in Turkey: Policy, Institutional and Legislative Framework," *Background study for the Country Economic Memorandum*. Ankara: The World Bank.