

# **Globalisation, Development and Sustainability – Report on the 18th World Congress of the International Economic Association\***

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The Eighteenth World Congress of the International Economic Association (IEA) was held in Mexico City from 19 to 23 June 2017. The association was founded in 1950 on the initiative of the Social Sciences Department of UNESCO with the purpose of strengthening personal relations among economists living in various parts of the world by organising scientific conferences and joint research programmes. It regularly discloses publications of international importance relating to current topics and reacting to them. The IEA is governed by a Council that meets triennially; its primary task is the supervision of the general policy of the Association and the election of the leaders for the subsequent cycle. As an acknowledgement of their research activity and result, the following former IEA presidents received Nobel Memorial Prize in Economic Sciences: Robert Merton Solow in 1987, Amartya Sen in 1998, and George Akerlof and Joseph E. Stiglitz in 2001. János Kornai, who is Member of the Hungarian Academy of Sciences and currently professor emeritus at Harvard University and Budapest Corvinus University was president of the IEA between 2002 and 2005.

In a unique manner, all specific areas of economics (macro- and microeconomics, community, regional and international economics, etc.) and all their directions (classic, Keynesian, monetarist, alternative, etc.) are represented in both theoretical and empirical approaches at the world meetings held every three year.

Stemming from its holistic approach, the Association invites the following types of experts to common discussion: university lecturers and scientific researchers of individual countries, representatives of the non-academic sphere (central banks, state and government institutions) and dominant participants of the global market, most recently in the topics of globalisation, development and sustainability.

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\* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

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More than 500 participants arrived from all over the world to the event in Mexico City in order to discuss in plenary and parallel sessions more than 400 reports that had been considered suitable for presentation by the scientific organising committee on the basis of the submitted abstracts.

The Hungarian Economic Association (HEA) is also a member of the International Economic Association and it was the host of the Fourth World Congress in Budapest between 19 and 24 August 1974 under the title “Global, regional and sectoral economic integration”.

In its call for tender that appeared on 24 January 2017, the HEA announced a two-round report writing competition entitled “Growth and sustainability in Central and Eastern Europe” with the aim that the authors of the best papers present their research result in a separate parallel session at the World Congress of the International Economic Association in Mexico City. On the basis of the decision of the evaluation committee invited by the Board of the HEA and the decision of the Organising Committee of the World Congress of the IEA, the HEA was represented by the following participants: Dániel Palotai, chief economist of the Magyar Nemzeti Bank, vice president of the HEA and head of the Competitiveness Section of the HEA (title of his presentation: “Crisis management and economic recovery in Hungary”); Ferenc Pongrácz and Gábor András Nick (title of their presentation: “Innovation: key of sustainable growth in Hungary”) and Miklós Losoncz (title of his presentation: “Sources of sustainable economic growth in the Central European region: the role of market integration”). The chairman of the parallel session entitled Growth and sustainability in Central and Eastern Europe was Gyula Pleschinger, president of the HEA elected in May 2017, and member of the Monetary Council of the Magyar Nemzeti Bank.

In addition to the IEA, the Mexican Centre for Research and Teaching in Economics (Centro de Investigación y Docencia Económicas – CIDE) also played an active role in organising the Eighteenth World Congress. The main objective of CIDE is to ensure the knowledge necessary for the development of the Mexican economy in the open and competitive world of today and to train and educate the new generation of leading officials.

The event was opened by *José Antonio Meade*, Minister of Finance of Mexico, whose presentation underlined the importance of the ideas appearing in the title of the conference (Globalisation, development and sustainability) in the daily life of Mexico.

*Ildefonso Guajardo Villarreal*, Minister of Economy of Mexico called globalisation as of extreme importance for Mexico. In addition to structural openness in terms of the ratio of foreign trade in GDP, trade policy openness is demonstrated by the fact that

Mexico has 46 free trade agreements. He acknowledged with concern the spread of protectionism in the world economy, with special regard to restrictive foreign trade and migration policy pursued by the US president elected last year. Since its establishment in 1995, Mexico has benefited much from NAFTA (North American Free Trade Agreement). He added that, on the one hand, NAFTA itself could not contribute to the development and the structural modernisation of the Mexican economy by itself, but only with the support of appropriate domestic economic policy. On the other hand, NAFTA, too, needs to be modernised, its provisions have to be adjusted to the new developments of the period passed since its foundation.

The greatest attention was received by the opening plenary presentation of the conference, which was held by *Joseph E. Stiglitz*. He tried to find answer to the question how adequately the currently applied economic models describe the changes that took place all over the world in terms of income and wealth inequalities.

Stiglitz thinks that two theoretical approaches are currently predominant. According to the first, an equilibrium status exists with respect to the distribution of wealth/income. What we currently experience is a transition from a previous equilibrium to a new one. If this approach is correct, the factors that are the driving forces of the changes have to be identified. According to the second school of thought, the permanently increasing income and wealth differences are inherent characteristics of capitalism and the period after World War II was exceptional; thus, the concentration of wealth that can be observed currently is a return to the “natural” functioning of capitalism.

In his presentation Stiglitz argued in favour of the first approach. Thus, according to him, an equilibrium status does exist. Of the alternative theories, he first referred to the model of Piketty, who supported the trend of increasing wealth inequalities by a large amount of empirical data. Accepting these figures, Stiglitz raised questions concerning the explanation of these changes. According to the model set up by Piketty, capitalists save almost their entire income and if their savings increase more rapidly than the whole economy, wealth inequalities grow as well. However, Stiglitz thinks that the assumptions of Piketty are not correct, since the savings rate cannot be greater than one (to put it differently: 100 per cent), whereas the growth rate of wealth is an endogenous variable, which depends on economic growth. In other words: the rate of growth of wealth cannot exceed that of GDP in the long run. Moreover, according to Stiglitz, it is important to distinguish the notions of capital and wealth. Although the measurement is not clear, the income statistics of the US and other developed economies indicate a decrease in the K/Y (capital/income) ratio.

After this he introduced some models discussing wealth differences. Their common characteristic is that in the long term they anticipate progress towards an equilibrium status in the distribution of wealth. In the models presented, equilibrium can be interpreted as the combined result of centripetal forces, i.e. those strengthening wealth equality, and centrifugal forces, i.e. those deepening wealth differences. According to Stiglitz, the explanation of the current trends needs to be found in the interaction of these forces. In this context, he mentioned the following major factors: the decrease of taxes on capital, with special regard to inheritance taxes and the regressive tax practice of the US; the lower quality of public education, the segregation of wealth, and the growing role of private schools; the increase in personal network capital; and the consideration of wealth differences in the partner choice for marriage. The move from the previous equilibrium is also explained by changes in capital markets, the increase in the role of the service sector and the financing of real estate market bubbles with loans.

Stiglitz stressed the paradox that increasing wealth inequality was recorded in a time period when the cost of capital was extremely low. The explanation for this may be the uneven distribution of knowledge: knowledge namely has become a scarce resource. With more knowledge, an investment portfolio of higher risk can be constructed with higher expected profits. Knowledge is a fixed cost and wealthier individuals can achieve higher yields at the same risk level. Finally, the value of insider information has increased as well. All of these factors lead to the concentration of wealth on the highest level of the income ladder.

As a result, the growth rate of labour productivity exceeded that of labour incomes in the developed countries in a time period when interest rates tended to be zero and the aggregate indicators of the rate of return on capital did not decrease.

The most important message of the comments made after the presentation was that the presented analysis focused primarily on changes in developed economies. In this context, the opinion of *Lakner Milanovic* is worth mentioning who pointed out that income differences have increased in developed economies (primarily in favour of the upper one per cent), whereas in the less developed Asian economies a significant catching up of incomes took place relative to the most developed ones and reached a higher level.

Stiglitz dealt prominently with the importance of unequal distribution of knowledge. According to many experts, information has become the most important source of economic growth by now, while access to digital data is inconsistent and is not available to everyone. This leads to the emergence of new types of monopolies, which can explain to a significant extent the outstanding improvement of the wealth/income situation of the upper one per cent.

Following the guiding principle and cheerful atmosphere of his book “Phishing for Phools”,<sup>1</sup> *George Akerlof*, who received Nobel Memorial Prize in Economic Sciences in 2001, examined the rational and irrational decisions of economics. Disputing the principle of invisible hand of Adam Smith, in his presentation he illustrated the double-faced nature of the market economy through everyday examples, shedding light on the tricks of market participants that are present continuously and trigger self-induced effects.

The presentations of the parallel sessions encompassed the following topics:

- The relationship between demography, urbanisation and productivity
- Globalisation
- Monetary and fiscal policies
- Migration issues and their economic impacts
- The relationship between international trade and competitiveness
- Macroeconomic externalities, networking
- Sustainability, environmental protection
- Impact of digitalisation, development trends
- Labour market issues
- Economic importance of small and medium-sized enterprises.

A great number of the rapporteurs presented case studies from the country they come from or its wider external environment; thus, the participants of the conference received authentic views of the selected topics from many parts of the world (Vietnam, Japan, Italy, etc.). Only Africa was underrepresented, whereas topics related to Mexico, Latin America and mainly the US dominated the discussions. In the spirit of the place, an entire day was devoted to the overview and analysis of the economic development problems in Latin America. Global issues and actual topics overshadowed the European Union almost completely and the problems of the Central and Eastern European countries received relatively modest attention as well.

The overwhelming part of the presentations delivered on both the plenary and the parallel sessions was built on economic models in line with mainstream international economics. Most of the presenters drew new scientific conclusions from their models. However, in many cases the conclusions were rather trivial with methodological rather than scientific value. It was a common characteristic of the reports relying on economic models that the authors laid great emphasis on the details of their models, which, in certain cases, pushed the economic contents into the background. However, the dominance of modelling as a research method

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<sup>1</sup> Published in Hungarian: George A. Akerlof, Robert J. Shiller: *Balekhalászat: A manipuláció és az átverés közgazdaságtana* [Phishing for Phools: The Economics of Manipulation and Deception], HVG Könyvek, Budapest, 2016.

overshadowed qualitative analyses of synthesising nature to a significant degree. An example for an exception to this was the study of Jose Antonio Ocampo about reforming the global monetary “non-system”.

The parallel sessions took place in an extremely open atmosphere and in interactive way, providing an opportunity for informal scientific discourses as well, in which IEA leaders, attending professors and PhD students were equal parties. The role played by Nobel Memorial Prize laureate Joseph E. Stiglitz was particularly remarkable. In addition to delivering the opening plenary presentation, he chaired many parallel sessions where his students, were also present as rapporteurs. Based on the presentations delivered at the Eighteenth World Congress of the International Economic Association the conclusion can be drawn that significant attention is being paid to issues such as globalisation, economic development and sustainability and the interrelationship among them in economic thinking.