

# Risks and Opportunities in the Global Economy

Joseph E. Stiglitz  
Adana, Turkey  
January 2015

# 2015: A Year of Unusual risks

- Oil: How significant will be the fall-out from the large fall in oil prices leading?
- Monetary policy: Will asset price bubbles break if interest rates rise? How well will emerging markets manage the fall-out—including changes in exchange rates.
- Europe—For how long will Europe's weaknesses persist? For how long will Europe pursue the same flawed policies? Will the euro survive?
- Geo-political problems—How long will the conflict over Ukraine and Russian sanctions last? What will be the economic consequences? Will the problems in the Middle East be contained? Will the tensions in Asia have economic consequences?

- China—Will China have a hard landing? What will be the global consequences of China's slowdown?
- US—How bright is the one bright spot on the global landscape? Can it withstand the other global problems?
- Will the world make progress on some of the underlying problems:
  - Growing inequality within most countries of the world
  - Climate change
  - The need for structural transformations within most countries of the advanced world

# Oil

- Consequences of the dramatic decline in the price of oil
  - Pushing oil dependent states to the brink of bankruptcy
- Effects are asymmetric—contractionary effects of oil-producing states greater than expansionary effects in energy importing countries

# Monetary policy

- US ending massive monetary stimulation may lead to breaking of asset price bubbles
  - But effects may be limited because it has been anticipated
  - And continuing expansion of liquidity in Japan and Europe will offset this
- *Still*, evidence of asset price bubbles, the breaking of which could have significant effects

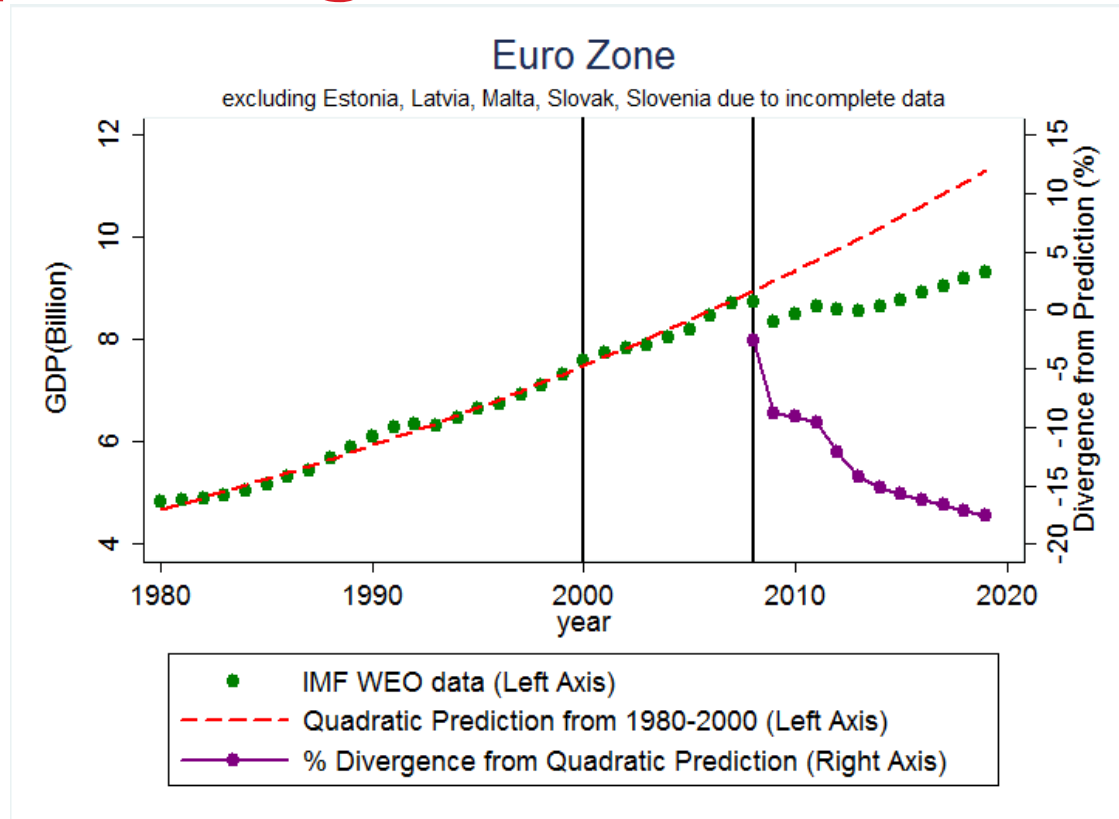
# Europe

- Europe's performance has been dismal
- The problem is the euro, the structure of the eurozone, and the policies of austerity that have been foisted on the crisis countries
- Europe should have learned that these policies are not working
  - Europe (Commission, ECB, IMF) have been consistently overly optimistic
  - Economic research had predicted that the austerity policies would be counterproductive

# Europe

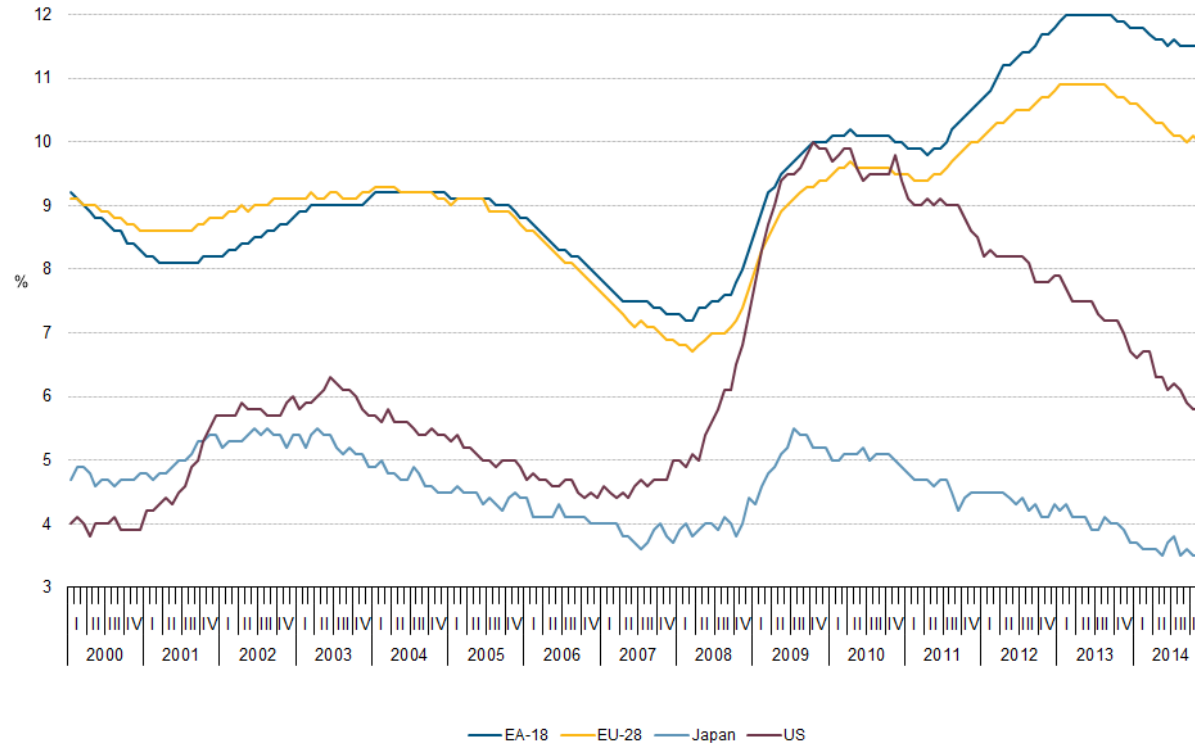
- Problems cumulating
- Always been a question of whether the politics allow this madness to continue
- Greece is now putting the matter to a test
- But even if it passes this test, there will be more in the future
- Euro has undermined democracy—discontent taking many forms
- Bad for the economy, even worse for society and politics

# Europe GDP growth far below trend

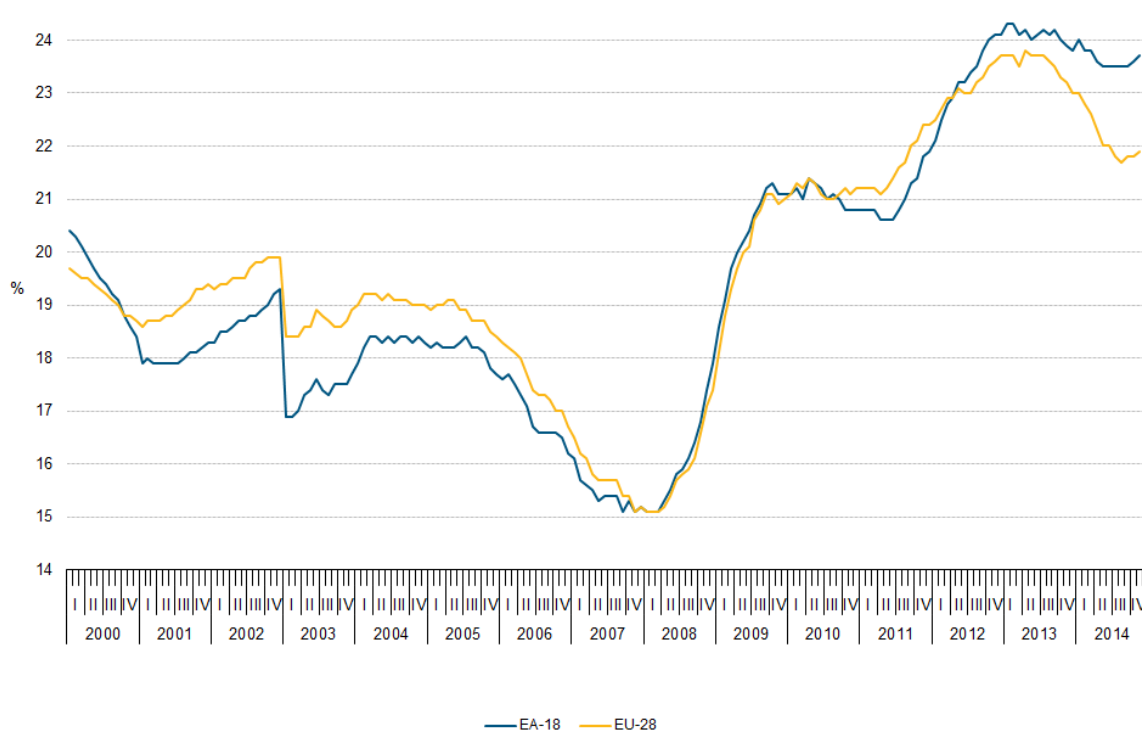




# Unemployment still high



# Youth unemployment in EU especially bad



Source: Eurostat

# Per capita income is lower than before crisis

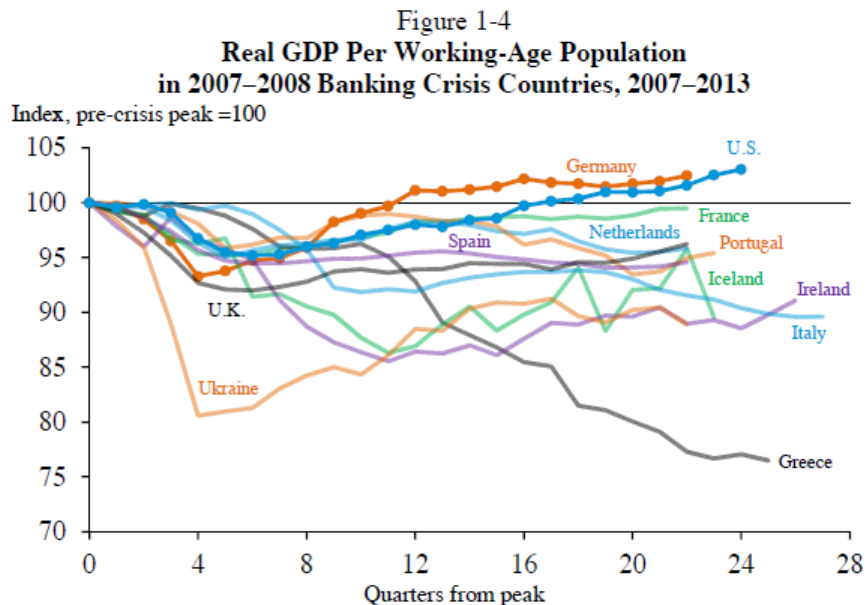
## GDP per capita, constant 2005 US\$

	GDP per capita, 2007 or peak	GDP per capita, 2013
France	36,075	35,620
Germany	37,665*	39,219
Greece	24,307	18,222
Italy	32,830	29,409
Spain	27,660	25,135
United Kingdom	41,567	40,231
United States	45,417	45,710

\*Germany data is for 2008, its pre-crisis peak year

Source: World Bank

# GDP per working-age population



Note: U.S. as of 2013:Q4, all others as of 2013:Q3 except Iceland (Q2). Working-age population is 16-64 for U.S. and 15-64 for all others. Population for Ukraine is interpolated from annual estimates. Selection of countries based on Reinhart and Rogoff (forthcoming).

Source: Statistical Office of the European Communities; national sources; CEA calculations.

Source: Economic  
Report of the  
President 2014

# Geo-political problems

- Middle East
- Russia-Ukraine
  - Will continue to be a source of instability
  - Unlikely to be settled
  - Ukraine issue likely to dampen Europe's growth

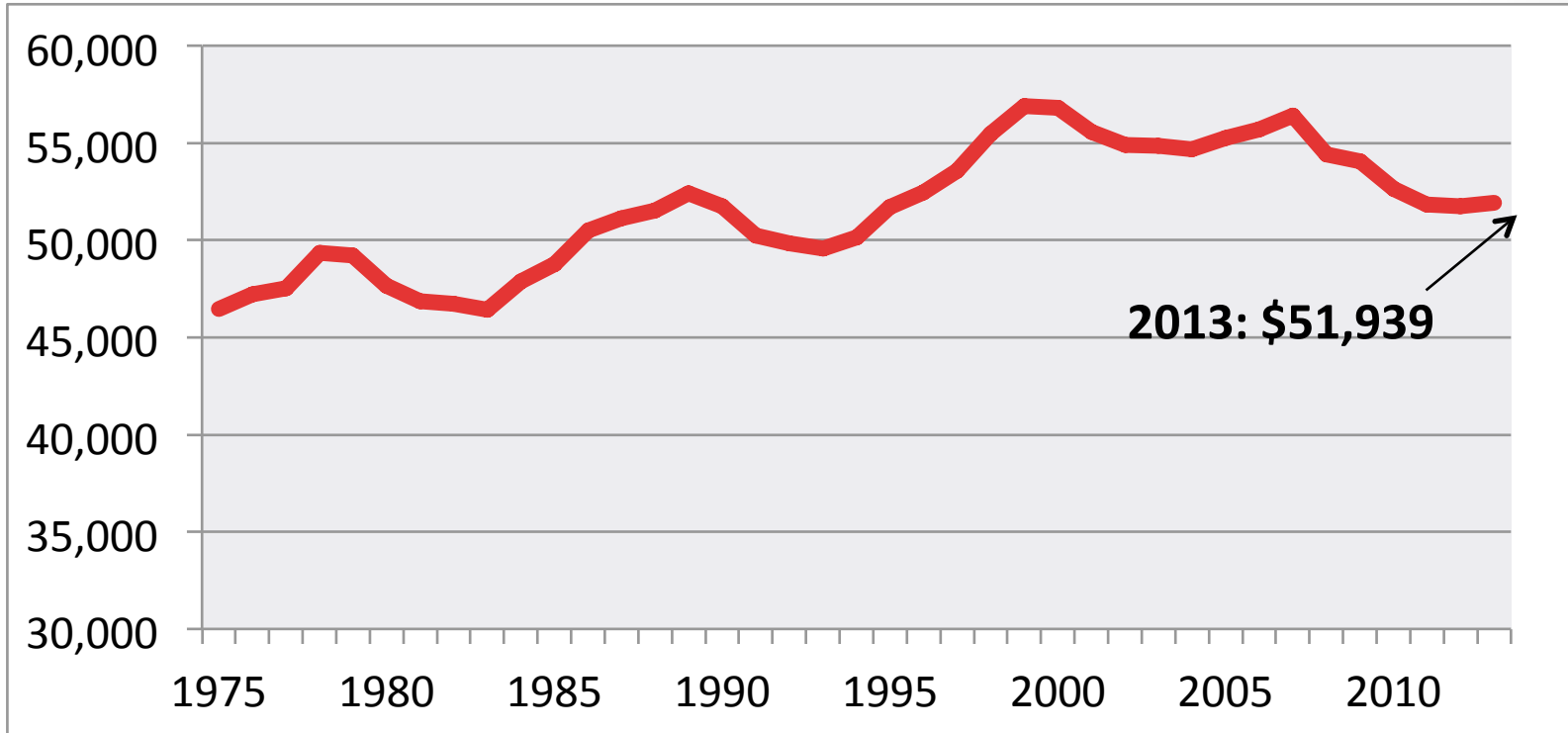
# China

- Move from quantity to quality growth good for China
- But will have global repercussions
- Problems compounded by fight against corruption
- Necessary for the country, but can have adverse effects on its growth

# America

- One positive in the world
- Partly because the country never had extremes of European austerity, and now States are beginning expansionary policies
- Still, labor force participation remains weak
- Disguised unemployment—large numbers of part time workers and large numbers of young men in prison, and large numbers have dropped out of the labor force
- Gap between actual and potential output not increasing
- But output far below what it would have been had pre-2008 trend continued

# America: Stagnation of median household income (constant 2013 US\$)

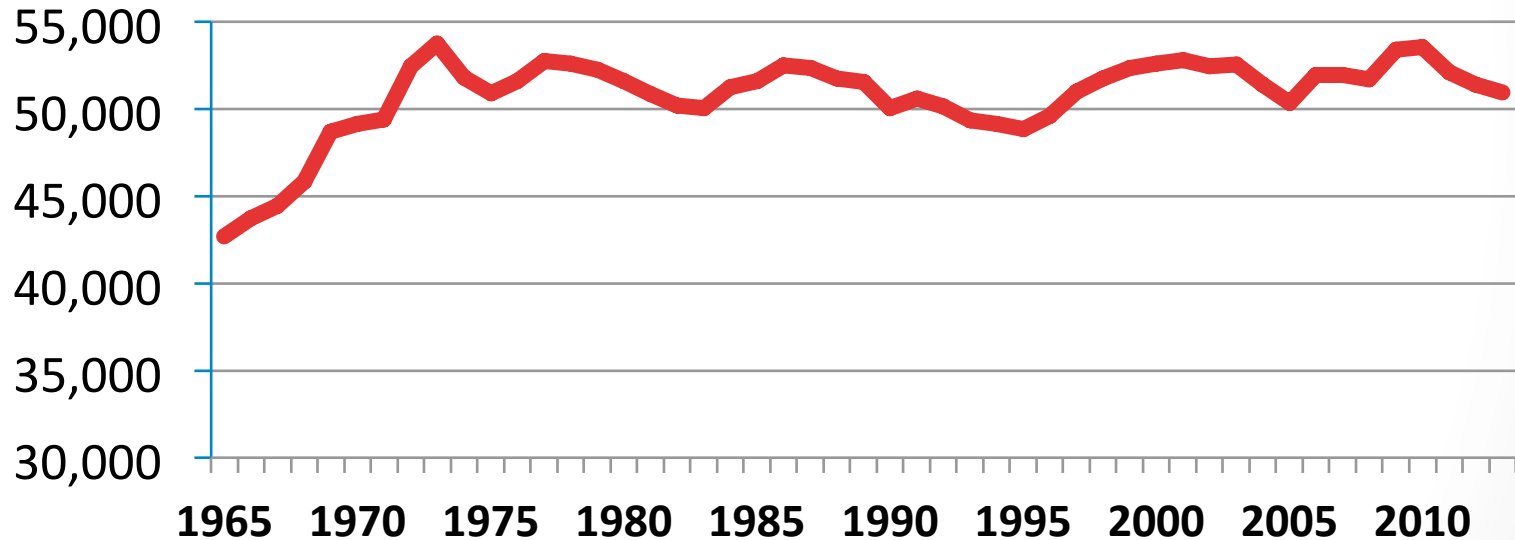


Source: U.S. Census Bureau

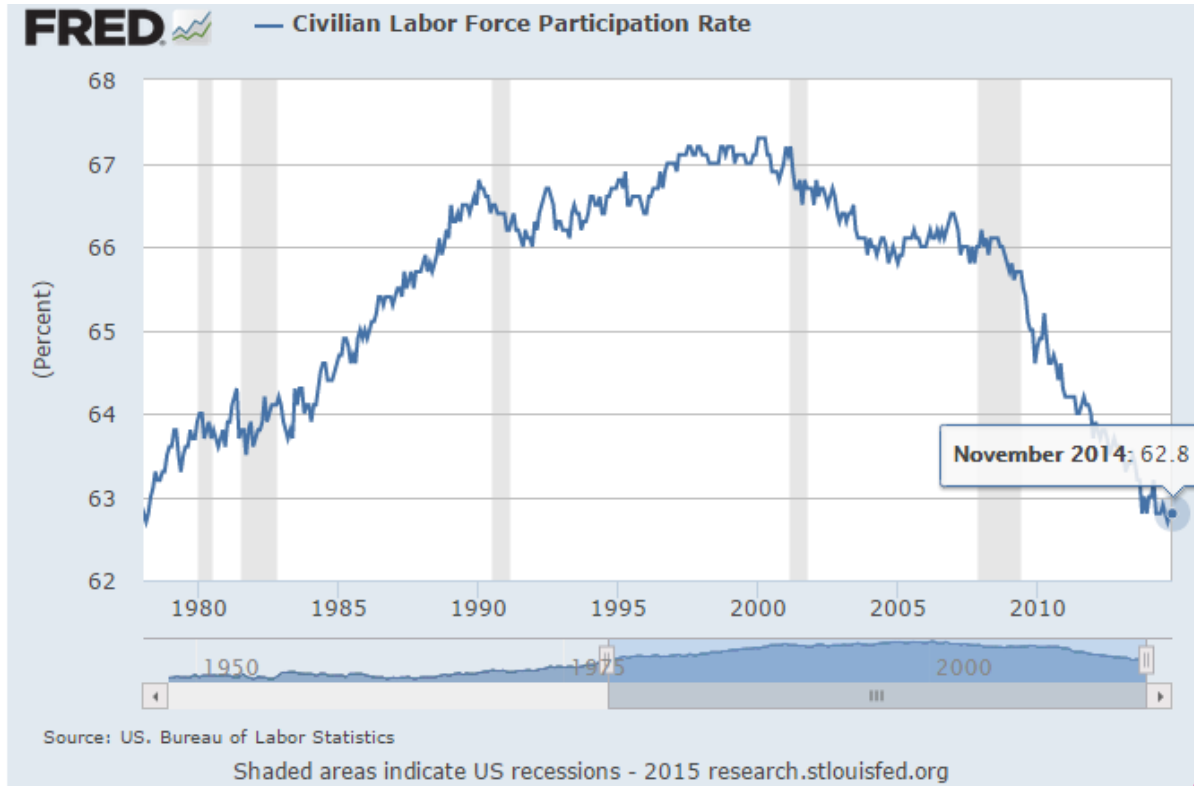


# America: Decline in median income of full-time male worker

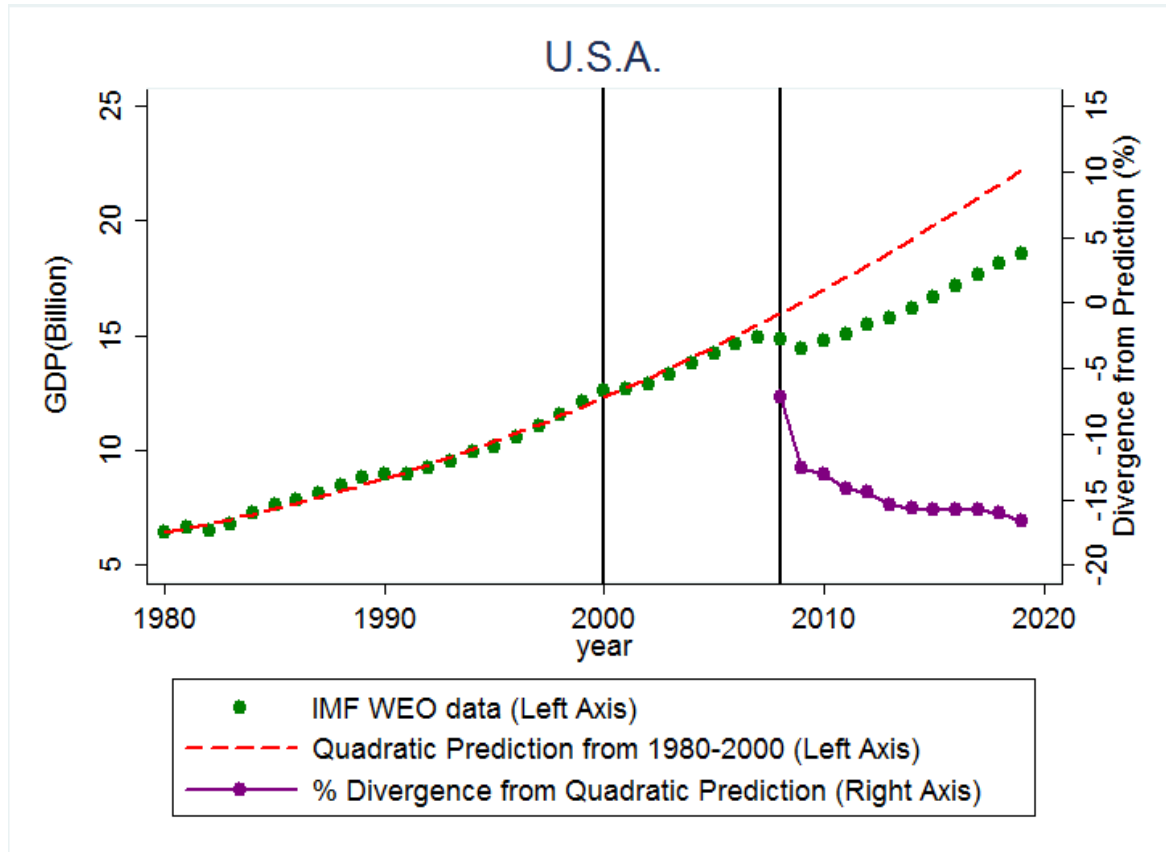
**Real Median Income of Full-Time Male Worker,  
1965-2013**



# America: Labor force participation



# America: GDP growth far below trend



# America

- Oil and tech sectors have been source of strength
- But these have limited employment
- Energy sector will be adversely hit by low oil prices
- And exports will be hit by slow growth of trading partners and high exchange rate
- High level of inequality continues to depress the country
- Continued risk of political gridlock

# Continued growth in inequality

- Partly as a result of leaving stimulation to monetary authorities
- Lowering cost of capital encourages firms to replace labor with machines
- Lowering cost of capital leads to increases in prices of equities, benefitting rich
- Weakens global aggregate demand

**Distribution of the global absolute gains in income, 1988-2008:  
more than ½ of the gains went to the top 5%**

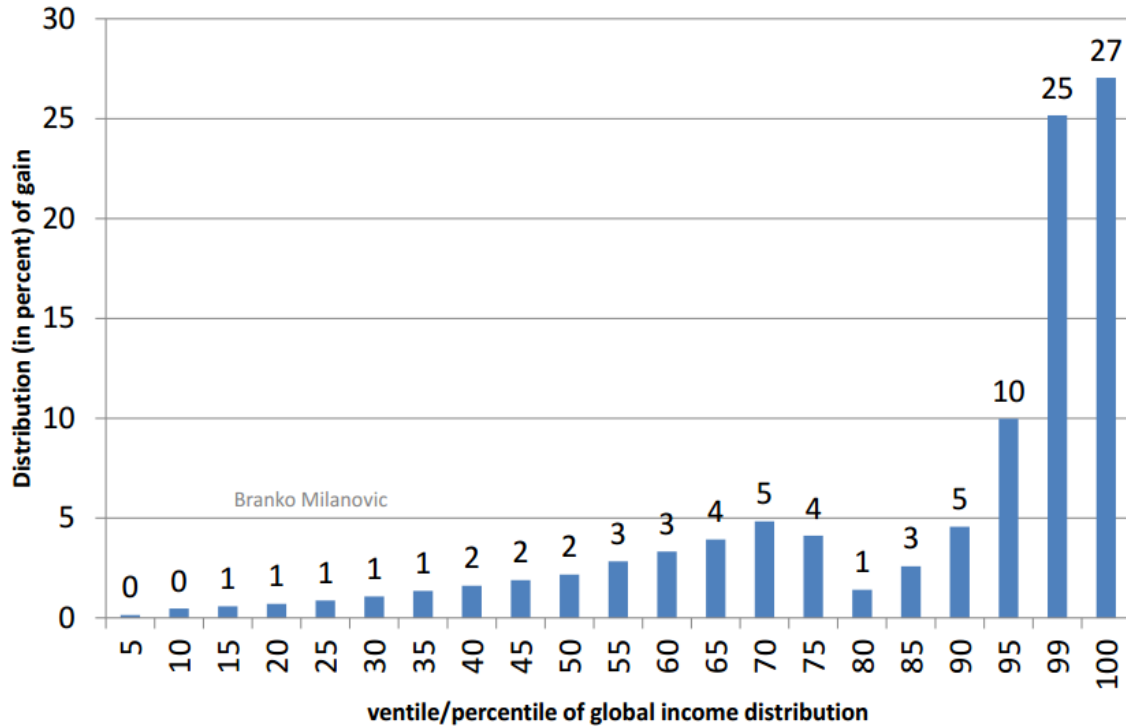


Chart  
source:  
Branko  
Milanovic

# Turkey

- Crossroads between Russia, Middle East, Europe, and Africa
- Trouble in each of these regions
- Africa has had strong success—but at least partly based on high commodity prices
  - Global slowdown likely to lead to slowdown in Africa
- Turkey is becoming a large economy on its own, can fuel its own demand
- But cannot be based excessively on real estate development and public projects
  - Diverts resources from investments that would have a more fundamental effect in transforming society and economy
  - Can be a short term palliative, with high long run costs—as US learned at such expense to itself

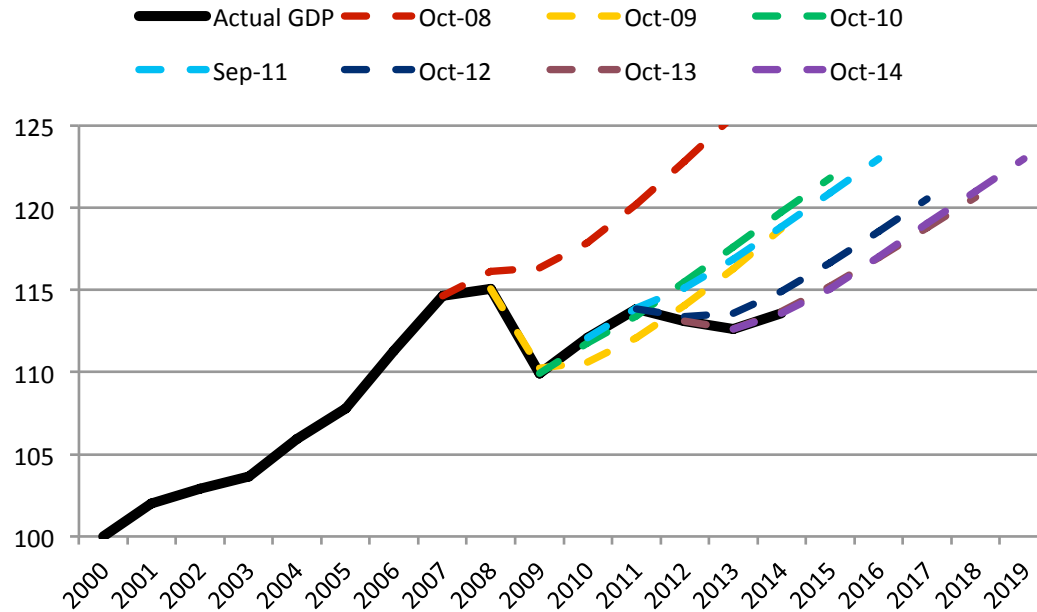
# Global growth forecasts

- IMF projects advanced economies grow at **2.3% in 2015**
  - US at 3.1%, euro zone at 1.3%
- Emerging markets and developing economies projected to grow at **5.0% in 2015**
  - China at 7.1%
  - India at 6.4%
  - Middle East + North Africa at 3.9%
  - Sub-Saharan Africa at 5.8%



# Caveat: IMF forecasts have been excessively optimistic

**Euro Area: Actual GDP and IMF's WEO Forecasts**  
Index 2000 = 100



# Risks and opportunities

- While there are many risks confronting the economy in 2015, there will also be many new opportunities, including those presented by
  - Changing global geo-political landscape
  - Lower oil prices
  - And important advances in technology
- For those who manage the risks and seize the opportunities, 2015 could be a very good year