

THE INFLUENCES OF CHANGES IN PHILOSOPHY OF ECONOMICS ON CONTEMPORARY MANAGERIAL PHILOSOPHY

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ABSTRACT

Plato argued if individual follows its own responsibility in a city state, the city would operate smoothly. Firstly, city state emerged, then, nations were considered as city. Currently, global world would be considered as a city. Adam Smith, the founder of economics science argued if each individual follow his own benefit, the society would get better and reach the equilibrium, "Pareto Optimality. However, unlikely the argument of Plato and Adam Smith, large fluctuations occurred during last decade. The 2008 global crises would be considered as evidence of fail of market economic system. Large fluctuations in global economy required radical changes and rethinking at macro and micro economics. In this structure, we need to use modern managerial philosophy and its innovative and multi-dimensional perspectives to be able to find solutions to global economic crises. Although, countries have been tried to analyze and apply new policies toward global problems at national level, the remedy is also considered at global level. New concepts and strategic policy have been introduced. However, these policies should cover more philosophical perspectives since economic problems of one country turned to become global problem. The contemporary managerial philosophy covers global economic perspectives which should be more objective, more ethical and environment based and not biased for nationality. In this paper, the new philosophy will be reconsidered.

Keywords: Global Economic Perspectives, Global Integration Process; Managerial Philosophy, Common Humanistic Values.

Paper Type: Research Paper

INTRODUCTION

The rise in cross border financial investment and trade dominates the global economy since 1970. The latest development in the electronics and technological development pushed international capital and good movements to the extremely high levels. Until the financial crisis in August 2007, the 2000s, especially, the mid 2000s was a period of strong economic performance throughout the world. Economic growth was generally robust; inflation generally low; international trade and especially financial flows expanded.

After the collapse of Bretton Woods's system, the new system was based on the current account deficit of the USA. Which means the USA was the only creditor country and small part of the US output was enough to manage the global balances. US gross external claims and liabilities were quite small part of output, respectively.

By 2007, the U.S. has become a large debtor country. More dramatically, gross external claims and liabilities soared, respectively, large part of output. While cross-border loans still represent roughly a third of cross-border positions, the structure of the rest of the U.S. external balance sheet has become substantially more complex US mortgage-backed securities. The composition of gross external claims has changed too. The case of the United States is unique (Gourinchas, Rey and Truempfer, 2011).

However, the signals of crisis were clear. Real estate values were rising at a high rate in many countries, including the world's largest economy, the United States. A number of countries were simultaneously running high and rising current account deficits, including the world's largest economy, the United States. Extraordinary enlargement occurred in many sectors among consumers in the United States and Britain and financial entities in many countries.

This paper analyses the global economic crisis and change on philosophy of economic thinking and its influences on philosophy of management.

BASIS OF CONTEMPORARY CHANGES IN WEALTH TRANSFERS AND ITS INTERACTION WITH INTERNATIONAL ECONOMIC THEORIES

The latest development on international economics was considered as puzzles. Each problem on global level has a different sets of reasons and different sets of solutions. Obstfeld and Rogoff were just two of them. "Why do observed OECD current account imbalances tend to be so small relative to saving and investment when measured over any sustained period why do home investors overwhelmingly prefer to hold home equity assets. How is it possible that the half-life of real exchange rate innovations can be three to four years? Why are exchange rates so volatile and so apparently disconnected from fundamentals were the some of them just asked by (Obstfeld and Rogoff, 2000:1).

As the world changes and new developments occurred in the world of political economy new and different schools of thoughts that try to explain the interaction of economics and politics have developed. Although there are many theories that try to explain the economics relations focus is on the most influential of these theories, economic nationalism, Marxism and economic Liberalism.

The world economy collapsed already at 1914 just before the I. World War. It was the end of the gold standard era. However, it was not only the end of free trade and free capital mobility. Economic globalization starting after industrial revolution and with the support of Adam Smith's and his followers philosophers since early 18th century, has raised the prosperity in advanced countries and many other poor countries. The liberal economists argued markets should be free and the governments should not intervene to the markets although they consider a role for government restricted with national defense or justice only.

Although, world trade had expanded approximately 1 percent year during the seventeenth and eighteenth centuries it raised 4 percent during nineteenth century due to rapid changes and globalization (Rodrik, 2012:24). Three important changes have been defined within this period: use of steam on transportation and industry and the invention of telegraph made revolutionary change on global economy. Especially, the widespread adoption of the gold standard made capital to move internationally easily. It was the realization of Adam Smith and his followers' philosophy and making the world prosper (Rodrik, 2012:22). However, unlikely, the national economies, there was not international authorities regulating the

international economy, as the rise of economy, the fall of the global economy was so strong at.

Most economists regard Great Depression of the 1930s as unnecessary tragedy. If only Herbert Hoover had not tried to balance the budget in the face of an economic slump; if only the Federal Reserve had not defended the gold standard at the expense of the domestic economy; if only officials had rushed cash to threatened banks and thus calmed the bank panic that developed in 1930-1931, then the stock market crash of 1929 would have led only to a garden variety recession soon forgotten (Krugman, 2009:5). The global markets suffer from the weak governance due to lack of global antitrust authority, no global democracy unlikely the national markets during these decade (Rodrik, 2011: 21)

The rapid growth in the external liabilities of the United States and its implications for a possible reversal in the current strength of the dollar has been a dominant theme of discussion in economic policy. The discussion on the relation between international payments and real exchange rates has a long and distinguished intellectual history. In the late 1920s, the discussion was on the impact of German war, in the 1970s, on the implications of oil price shocks, in the early 1980s in the aftermath of the debt crisis, and in the mid- and late 1980s, with the debate on causes and consequences of the large swings in the value of the dollar.

Lane and Feretti (2001) who studied relation between international transactions, net external asset positions, and the real exchange rate, making use of a new data set on external assets and liabilities, argued a positive steady-state net external asset position enables a country to run persistent trade deficits in 2001. However, they repeated their studies in late 2010. In their first studies, they concluded “the capability to sustain a negative net export balance in equilibrium is associated with an appreciated real exchange rate.

Conversely, a debtor country that must run trade surpluses to service its external liabilities may require a more depreciated real exchange rate. Previous empirical works have provided estimates of a positive long-run relation between net foreign assets and the real exchange rate. Accordingly, they concluded the size of the trade surplus that a debtor country has to run to service its external liabilities will depend on the rate of return it has to pay on these liabilities, as well as on its output growth rate. For instance, going back to the US example, a debtor country that grows quickly and manages to earn returns on its foreign assets that are higher than the payouts on its foreign liabilities requires a much smaller trade surplus to stabilize its net foreign asset position than a country with poor growth performance and unfavorable net investment income flows. The magnitude of any real exchange rate depreciation will be smaller in the former case (Lane and Feretti, 2001: 3)

In the empirical analysis, the direct evidence on how the relation between the trade balance and net foreign assets depends on investment returns, output growth and exchange rate movements were provided (Lane and Feretti, 2010).

Not only for the previous crisis period, but, during all the crisis period since 1920, leading countries tried to arrange different organizations, forums and the leading countries: South Africa, Canada, Mexico, United States, Argentina, China, Japan, South Korea, India, Indonesia, Russia, Turkey, European Union, France, Germany, Italy, United Kingdom, Saudi Arabia formed G20 meetings. The G20 began as a forum for finance ministers and central bank governors met once or twice a year to discuss international economic issues.

With the onset of the global economic crisis in 2008, the G20 involved in the forum for international economic cooperation. Annual meetings of finance ministers and central bank governors continue to take place, advancing the work of the G20 and contributing to the discussions at leaders' summits. G20 leaders met three times from 2008 to 2010 and are meeting twice in 2010. From 2011 onward, it is expected that G20 leaders' summits will be held annually. In 2010, Canada and India are co-chairing the Working Group on the G20 Framework for Strong, Sustainable, and Balanced Growth. Working groups and experts groups focused on Framework for Strong, Sustainable, and Balanced Growth; Anti-Corruption (established at the G20 Toronto Summit); Development (established at the G20 Toronto Summit); International Monetary Fund Quota and Governance Reform; Experts groups; Financial Safety Net; Financial Inclusion; Energy (Altinkaya and Marsap, 2012)

The G20's work is supported by international organizations such as the World Bank, the IMF, the Organization for Economic Co-operation and Development, the International Labour Organization, the World Trade Organization and the United Nations. The G20 calls upon experts from these institutions for technical advice and input from areas of responsibility. The G20 also works with the Financial Stability Board to address vulnerabilities, to develop and implement strong regulatory, supervisory and political in the interest of financial stability, and to monitor and report on progress in strengthening financial regulation.

INTERACTION OF CONTEMPORARY ECONOMICS CHANGES AND ITS EFFECTS ON PHILOSOPHY OF MANAGEMENT

Until global crisis, the world operated more and more on free market and free trade where market forces of supply and demand and competition determines the Pareto Optimality, equilibrium. The followers of free market economy system strongly recommend no intervention by the governments. Especially, during last decades, the Keynesian state intervention policies after first Great Depression of 1929s were discredited due to rapid growth in world economy. The free market model has been referred as the best economic model. However, even George Soros who is very good at practice of international capital investment rejected this and argued “free market is so volatile and dangerous and socially destructive, we badly need more global governance”.

Noam Chomsky, a leading contemporary philosopher on economics holds that the “words of free market economy” is a myth (Fuller, 2012:3). Chomsky argues that no one really believes that the free market and free trade are the best way forward. This is an important expression of fail of market economic system after Karl Marx (Marx, 1867) as the Keynes did at early nineteenth century.

Rethinking philosophy of economics requires to rethinking the philosophy of management on macro and micro-level. Management is considered as the art of encouraging people to do their best work to achieve their best result in order to achieve success. There is long debate on finding one single correct strategy to manage. However, there are many strategies set forth to do so. Best management practice would require implementation of a set of skills so people will work in harmony. Motivating people to manage their own work is often top job of a manager. Manager should also solve communication issues between groups of people systematically. This needs a balance of experience, intuition, knowledge of the various jobs working towards a common goal (Bodemann, 2010).

Top business management schools are following famous philosophical ideas. Most of the idea argue for management skills of people and company, however, management philosophy is ultimately a fascinating and useful form of business sense. Some experience business people actually believe it to be good those of common sense combined with education, experience, practical application and drive to succeed. Choosing the best philosophy and how to apply it to an organization depends on who will manage and how the organization is structured (Bodemann, 2010).

It may be argued that management philosophy is simply one set of ideas about best management practices. There are many different views concerning how to manage an organization in best way. These views have been used by successful managers and passed to their followers. Due to global changes, the main philosophy of management has been also changed and new concepts have been added. Earlier philosophers were considering individual has no rights in the cities, the society's benefits were more important than individual benefit. Especially, Plato was one of these philosophers (Wright, 2012). However, Adam Smith argued that every individual should follow his own benefit, so the society would get the "Pareto optimality" (Smith, 1776).

In addition to economic and financial dimensions, humankind faces an extremely complex set of challenges in the twenty-first century: climate stabilization, energy security, sustainable land use, and equitable development during the global crises. The priorities for Coherent Global Action has been defined as reaching more equitable world ; managing the climate – energy challenge; creating an efficiency revolution ; ensuring affordable food for all ; Social Responsibility and Ethics.

In this innovative process they explain the value-added opportunities – create a 'service chain' from the individual contributions of all involved through synergy by managing innovative change in the organization by adapting and evolving to meet the demands of a changing global world. Managers provide new visions philosophy for each individual by encouraging and facilitating communicating by self management techniques and create a success environment by monitoring creative progress by keeping dynamic balance and human resource are encouraged to learn and grow as an integral part of their responsibilities by monitoring and measuring progress, providing organizational and personal achievements and keeping a dynamic balance in the form of contributions and learning by focusing environment. If more than six billion people have been affected by the life conditions on the World, people ask for steady and affordable supply of freshwater, food, fibres and fuel – the natural capital that forms the basis for a continuous generation of wealth.

Everybody believes global sustainability would only be succeeded by 'great transformation', making all facets of society more respectful of the existing planetary boundaries (Schellnhuber, Molina, Stern, and Kadner, 2009). Although, Kyoto Protocol, signed in 1997 after an international treaty, United Nations Framework Convention on Climate Change signed in 1992 are two important steps of global recognition of the policy to keep the World a live.

The first Interdisciplinary Nobel Laureate Symposium on Global Sustainability in Postdam brought together many of the world's thinkers in physics, chemistry, medicine, economics and peace, top-level political leaders, representatives of major NGOs, and renowned experts on sustainability met to discuss scientific and political strategies for reconciling human civilization with its physical and ecological support systems. They put forward an

interdisciplinary approach through a broad range of contributions, covering the latest findings of climate impact research, environmental economics, energy resource analysis, ecosystems science, and other crucial fields.

Paul Deary (2012) presented an overview of systems thinking from the mid-20th Century to the present. "Systems thinking" is defined as an interdisciplinary approach to managing complexity in organizations. It is characterized as holistic, dialogical and pluralistic (Dearey, 2012). The philosophical interpretation of the practice of systemic intervention is increasingly important to understanding the reflexive and ethical nature of this approach to management (Dearey,2012). The prospects of systems thinking becoming a mature philosophy of management by focusing on the quality of relationships that it facilitates

As a recovery plan, the Global Marshall Plan has been developed. The Global Marshall Plan is a concept for a world in balance. Besides, the economic objectives, they introduced new concepts of eco-social economy fair cooperation, environment, social welfare and cultural development. Besides global development, in Turkey, due to economic and financial crisis the management philosophy change radically.

In a global perspective for the next 50 years, the current situation holds three possible scenarios for the future (Rachmer, 2012). Two of these are extremely threatening and incompatible with sustainability. At the beginning of the new century, the world is in an extremely difficult situation. The economic globalization is inadequately regulated by worldwide frameworks. It has unleashed the global economic system and brought down national constraints: a process that is accelerating. The core political structures remain national or continental, but not global.

New technologies can substitute more and more manpower and, together with the growing integration of parts of the labor potential of poorer countries into the world market, threaten the jobs of less qualified workers in rich countries. They can be considered as losers of globalization, and with reason. In its current form, the globalization process does provide certain chances for development, but it runs contrary to the goal of sustainability because international standards and means of regulation are lacking. The current development is undermining the social and cultural balance as well as the ecological stability of the world (Rachmacher, 2012).

Two important arguments of global economic and management system can be attained are protection of natural environment and resources, respect for the dignity of all people. If first one fails, the collapse is inevitable. A process that has already started at large parts of the population in rich countries. An eco-social market economy would only be model that countries should have consensus on for the European market system. Eco-social market economy would work. Key elements of a self-directed development are the promotion of good governance, measures to combat corruption and an allocation of funds that aim at the grass-roots level.

CONCLUSION

The global crisis caused radical change in the philosophy of economic thinking. Although, the liberal economic policies were the core of the economic theory, the lasting global crisis make economic philosophers accepted the global crisis was as the end of the capitalism. The crisis brought together all the part of the economies, societies, nations and international bodies to

think on new scheme of the world and find a solution to the case. However, not only the people from economic background, all other scientist on physics, engineering, sociology argued and introduced ethics and socially responsibility concepts once more. So, ethics, eco-social market economy, protection of the ecological system will be the main philosophy of economics and management after global financial crises of 2008.

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