



By: *Emre Alkin*

# The importance of saving and investment equality



It is a well-known fact that private investments create more value added, higher net tax revenue and insurance premiums than public investments. The most preferred source of private investments is private savings. Now let's talk about the person who presented the clearest and simplest definition of this proposition.

Encouraged by those who consider Adam Smith the father of modern economics, I say that the uncle of modern economics is Keynes, since he is described as the wealthy uncle who appears whenever the father does not want to part with his money or whenever he cannot afford to buy an item.

He also underlined that, unlike traditional economists, "full employment" is not necessary for the economy to reach its equilibrium. Rather, saving and investment equality would better help achieve this balance. In formula terms:

$$Y = C + S$$

$$Y = C + I$$

$$S = I$$

In this equation, Y refers to income, C to consumption, S to savings, I to investments. When savings are greater than investments, it means idle money, but when consumption is greater than investments, it naturally leads to a choice: "not investing or borrowing". The importance of saving and investment equality will become more evident with the explanation and example I provide below.

According to Keynes' theory, governments should meet people's needs, whenever the private sector cannot find sufficient funds to meet them or finds it unprofitable to engage in an investment to meet people's needs.

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However, Keynes has omitted one fact in this theory: It is inevitable that there can be a lack of savings as a result of the abuse of this responsibility by governments. Perhaps the "epistemological divergence of neoliberal economics" has begun here.

Those words, which were uttered by the Minister of Finance and Treasury in Turkey in a speech, which subsequently became a joke among my colleagues, actually contain a specific reality.

There has been a contextual divergence between neoliberal economics and liberal economics. Liberal economics thrives on the rule of law, which is the essence of liberal democracy, and creates value through increasing competition and equal opportunities.

Neoliberal economics, on the other hand, can survive under any regime, which make the rich richer and the poor poorer. For further details on this issue, you may refer to a previous article of mine.\*

**No economic model can be analysed by separating it from the political environment it inhabits**

Some developing countries have experienced the capitalist journey under various regimes. Argentina and Latin American countries for example have not been able to get out of the debt spiral for almost 200 years, and have social and political problems as well as chronic problems such as unequal income distribution, high inflation, unemployment and unstable growth.

None of these problems occurred coincidentally. Because no economic model can be analysed by separating it from the political environment it inhabits. In this respect, defining the poverty and financial bottlenecks in these countries as "exploitation by powerful countries" would be an oversimplification of the situation.

It is known that the United States and some

countries cause political turmoil in these countries to serve their own interests. However we must also accept that the vulnerabilities that give rise to turmoil are created by the governments themselves.

So, do people living in developed countries have no problems? Of course, they have. Just look at all those US-made movies and documentaries on debtors and the loan system. But this problem does not arise much in Germany and France. What happened in Greece, Spain, Italy and Portugal can mostly be explained by people's greed and their lack of financial literacy.

**The Western World and other developed countries have a more careful and cautious approach to financial matters due to the financial crises that ravaged their past**

Nevertheless, the Western World and other developed countries surely have a more careful and cautious approach to financial matters due to the financial crises that ravaged their past.

Thanks to the film industry, the whole world knows that the assets of companies with no bosses, almost all of which are publicly traded, are embezzled by "magically" appointed executives.

However, Latin America seems not to have learned from the financial crises that it has suffered for a period of 200 years. This means that the sensitivity of countries in financial matters can change over time in accordance with the way they are governed.

The reason for chronic savings deficits in Latin America is also closely associated with the government's style. In every country that cannot easily abandon the habits of old totalitarian regimes after a speedy transition to democracy, governments that exploit this totalitarian past for their own benefit may eventually come to power.

Although Spain, Portugal and Greece occasionally face great disruption because of the remnants of the regimes, ultimately the "rule of law" prevails. In this respect, Italy passed the test during the previous Prime Minister's term of office and did not allow autocracy, but we have to wait a little for the new PM on that matter.

In electoral democracies, formerly characterised by constant coups d'états or attempted ones cannot fully eliminate traces of totalitarianism because their governments always seek "absolute power".

In the Middle East and Asia, on the other hand, absolute power is the prerequisite for governing a country. In countries that define democracy merely by elections, governments are considered "powerful" when they spend money on everything from employment to consumption, investment to health. For this reason, in such countries, taxes always remain high compared to incomes, and there are practices that even impose taxes on taxes.

Since the increasing budget deficit caused by the never-ending government spending cannot be redeemed by taxes, governments are using the savings of their citizens through borrowing.

Where that is not sufficient, governments borrow foreign currency in order to attract foreign savings. All of this causes the funds required for private investments to become more and more expensive, which is called the "crowding out effect" in economic theory. \*\*

## Negative Effects of Corruption

As morality and social values are degenerating in the majority of electoral democracies, "reputable people" are no longer defined by their values but by their assets. In these countries where justice is shattered, the "demand for privilege" inevitably grows, and servility replaces merit.

Because people see the assets they have acquired by borrowing as their social status,

and they mistake their desires for their needs, they constantly feel the need to ingratiate themselves with those who pay them wages to promote them to higher positions.

For this reason, interest rates are often used as political tool by governments in economic models that constantly suck its citizens into further debt, and banks and financial institutions are blamed constantly if the interest rate fails to go down.

Those who are lucky enough to be able to borrow are forced to pay back throughout their working life, maybe longer. That is why people do not want to lose their jobs.

They keep silent about the wrongs they witness in their organisations, even praise these wrongs if need be. John Stuart Mill describes this situation in his book *On Liberty* as "the inevitable corruption where people advance in their careers not by merit but by servility and ingratiation".

### Crushed under debt they cannot pay, people expect from governments amnesty

Crushed under debt they cannot pay, people expect from governments amnesty, or restructuring of their financial debts, taxes and insurance premiums, tuition fees, checks, loans and credit cards, and properties that violate the law.

People's expectations and governments' promises about all these issues largely help the ruling party to regain power in the next elections. In such countries, governments pursue populist policies, claiming to act as "the voice of the people" instead of doing what is right.

Thus, the vicious circle never breaks. While inflation, interest rates, unemployment, injustice, poverty and indebtedness keep growing, civil liberties, critical thinking and education are disrupted. Because the perception that moral and ethical values are no longer helpful in achieving success are

more and more accepted in society.

In the process, citizens begin to see the governments that hold "absolute power" as a "State". They are therefore afraid to criticise them for the reasons I cited above.

And as governments see themselves as the State itself, they consider those who criticise them as a "public enemy" and treat them as such. Since it is very common, from business people to ordinary people on the street, to have controversial side jobs or activities, they tend to ignore governments actions, expecting that the government will do the same for them.

This is the miracle behind some governments' remaining in power for consecutive terms in some countries: the decay of moral values, caused by people's ambitions and wants that they satisfy with debt.

Since I analyse these issues in a specific context, I expect most people to ask for statistical proof. But, I have to say this: the notion we call science is the activity of utilising mathematics to rationalise developments that are known to be true through experiment, observation, discovery and experience.

Therefore, being able to observe development in its visible form without the need to prove its existence with mathematics is a scientific activity in itself.

As Paul A. M. Dirac said, "mathematics is only a tool", and added:

"Meaningful mathematics is removing the details that are too small to see from the equation, not the details you do not want to see."

\*<https://tomorrowsaffairs.com/the-future-of-democracy-and-private-sector/>

\*\*<https://tomorrowsaffairs.com/which-political-regime-is-good-for-economic-stability>

Dr Emre Alkin is one of the most influential

economists in the world. He is the President of Topkapi University in Istanbul, and well known author of the 4 best selling novels and 14 in total about socio-economics in Turkish and English. He held various positions in GSM and Telecommunication, International Financial Institutions, Payment Systems, Energy, Iron-Steel Industry and Insurance. Prof. Alkin participates in international projects about payment systems and financial management.