

Savvas Katsikides · Hardy Hanappi  
*Editors*

# Society and Economics in Europe

Disparity versus Convergence?

 Springer

# Society and Economics in Europe

Savvas Katsikides · Hardy Hanappi  
Editors

# Society and Economics in Europe

Disparity versus Convergence?

 Springer

*Editors*

Savvas Katsikides  
Department of Social and Political Sciences  
University of Cyprus  
Nicosia  
Cyprus

Hardy Hanappi  
Institute for Mathematical Methods in  
Economics  
University of Technology of Vienna  
Vienna  
Austria

ISBN 978-3-319-21430-6

ISBN 978-3-319-21431-3 (eBook)

DOI 10.1007/978-3-319-21431-3

Library of Congress Control Number: 2016938663

© Springer International Publishing Switzerland 2016

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Printed on acid-free paper

This Springer imprint is published by Springer Nature

The registered company is Springer International Publishing AG Switzerland

# Preface

In the James Clavell novel “Shogun” which plays in Japan around 1600, the *Jesuit Priest Martin Alvito* from Portugal, gained a great reputation and lived at the court of the local emperor, doing business with the mission to extend the power of his order and enhance trade with Asia. At the same time John Blackburn from England navigates his vessel “Erasmus” for the same reasons and landed as prisoner in Japan. The center of the Jesuit power in those days was the *Hieronymites Monastery*, a catholic order which is located in Lisbon (Belem), in Portugal, a huge building in front of the sea. On December 13, 2007, the Treaty of Lisbon was signed at the monastery, laying down the relight of the economy of the European Union and its growth.

Holland (2006) gives a sketch focus on the Lisbon Treaty and underlined that “The Lisbon strategy is an effort to universalize information access across European communities. This strategy set the ambitious goal of ensuring that every citizen would have the skills needed to live and work in the information society. The strategy aims to create equal access for all citizens to e-information, e-goods and e-services, e-learning, e-training and e-working opportunities. The main idea behind the Lisbon strategy is to erode the divide between information competent and -incompetent citizens, asking the question, “[c] and the Information Society, in fact, bridge the gaps in today’s society, providing new opportunities to *all* parts of society. There are tensions between social exclusion and economic development that will make this challenging (Goodwin and Spittle 2002:226). The EU is aware of that challenge and has committed resources for both economic and cultural considerations. The EU identifies a high priority area as “eGovernment”: information and communication technologies may not only make public services more effective, accessible, and responsive, they may change the underlying relationship between citizen and state (European Union 2004a)”, (see Holland 2006, many months before the outbreak of the economic crisis).

This book discusses critically European changes of selected central, southern and eastern countries into their final hub. It analyzes key questions concerning the future development of the European Union and how it will be able to cope with

concerns of stability, growth, and integration. An important issue is the way in which the ten non-eurozone economies will be absorbed in the complex EU structures.

The book mainly is a collection of articles examining the transition of Eastern European states from the post-Communist era to a more liberal era and culminating with their accession to the European Union. The authors believe that analyzing this period will allow for the development of new insight and will furthermore certainly lead to wider academic discussion. In this respect, it is hoped that this collection of studies will be of key interest for those who are involved in inner- and interdisciplinary research in social, economic, political, and technological fields. In particular, these analytical contributions are of critical value for current research issues in the study of the emerging information age. The central idea is to draw together research that is devoted to central questions examining the relationship between the various and widely discussed new developments of technological systems and their social impacts.

Major social and technological changes are reshaping everyday life all over Europe—and the world. Similar to the noticeable differences between regions, there are also various approaches to the study and understanding of what is often labeled the importance of technical progress. Recent developments, particularly in the political and economic systems of the global society, lead to the formulation of new ideas and subsequently increase the demand for studies concerning the relations between social and technological processes.

With the increasing economic, political, and social integration, Europe is being confronted with a fundamental change in its economy and its political legitimation. Is there a common European legacy to be defended?

Hardy Hanappi (Chap. 1) provides a preview of what governance in a better future state, *Shangri-La governance*, should take care of. The starting point for each policy feature, of course, is a contradiction that contemporary political economy cannot solve—what appears as problem already incorporates the ideas of its solution. Six problem areas are grouped as corners of a hexagon. A sketch of an overarching policy program derived from existing contradictions is presented. The main result is that the different policy areas are so tightly linked that only a holistic approach—taking care of all corners of the hexagon simultaneously—can promise success. Piecemeal engineering in isolated corners, i.e., what is currently happening, is bound to fail. A newly formulated overarching European economic policy clearly will include the particular role to be played by Eastern European countries.

In the second paper (Chap. 2), Christis Hassapis investigates in his study the degree of economic integration between Cyprus and the ten new accession countries and the European Union by using advanced econometric techniques. More specifically, the analysis looks at the financial and economic convergence between the above-mentioned groups of countries. With respect to the financial convergence, we examine convergence by looking at bond returns and the capitalization-to-GDP ratio. With respect to economic (real) convergence we examine the per capita GDP. Our results show that Cyprus does not show any degree of convergence when taking into account the capitalization-to-GDP ratio.

Of course, this is a general phenomenon: Even with respect to the old member states we find no convergence. As far as bond returns are concerned, we do find some partial convergence between Cyprus and the other groups of countries examined. Looking at the per capita GDP, the results are also disappointing in the sense that again we find no proof of any convergence between the countries involved. In the light of the above-mentioned results, one should expect the European Union to take additional and different measures in order to achieve faster integration (financial and real) between member states. Moreover integration might often be better viewed as a diverging specialization that runs counter the convergence of often imprecise aggregate variables.

In Chap. 3 Marian Gorynia analyzes the Polish economy and its transformation that began in the 1990s. The transformation process has fundamentally restructured the economy, both in regulatory and real spheres. Numerous achievements during the period of economic restructuring are undeniable. This raises questions about the hierarchy of factors that will determine further stages of the transformation. In 2004, while still undergoing economic transformation, Poland acceded to the European Union, which coupled with the continuation of globalization created many dilemmas for Polish economic policy. Gorynia presents the determinants of, and recommendations for, economic policy. He identifies the three most important factors that determined Poland's economic position in the international context and the possibility of benefiting from the international division of labor, which could possibly lead to increasing prosperity.

In Chap. 4 Janusz Ruzskowski deals with Poland's foreign policy. Since 1989, Poland's foreign policy has been focused on its integration with the Western European structures, namely, the European Union (EU), NATO, and the Council of Europe (CofE). This orientation has naturally had an adverse impact on the development of the eastern and, to a lesser extent, the northern dimension in Poland's foreign policy. The concentration on the West has had perhaps the least negative influence on the southern and eastern directions of Poland's policy. Whereas the relations with Western Europe remain to be priority in Poland's foreign policy, her southern policy, with Poland's institutional presence in CEFTA (Central European Free Trade Agreement), CEI (Central European Initiative), and the Vysehrad Group (VG)<sup>1</sup> and eastern institutional relations between Poland and the Commonwealth of Independent States (CIS), appears to be subsidiary to the western policy, that is, one that contributes to integration with the Western European structures. This chapter clearly shows how important the overall institutional positioning of a transformation country is.

Jaroslaw Kundera (Chap. 5) deals with the main economic effects (in real terms) of Polish accession to the EU. Although the primary forces behind enlargement have always been political in nature, the final decision by the EU to adopt a new member is based, to some extent, on an evaluation of cost-benefit analysis. This raises many questions. For example, is EU enlargement good news for both, the current member states and new member state, and what would be the main cost and benefits for Poland from participating in the EU? This chapter rounds up the spotlights on Poland presented in Chaps. 3 and 4.

Moving to the Balkans, Mladen Maslarski, in Chap. 6, examines the Bulgarian transition starting in 1990 from a centralized to a market-oriented economy. Inconsistent changes and an almost permanently declining income, reduction in the employment rate, and high inflation characterize the period between 1990 and 1996. As a result, toward the end of 1996 and the beginning of 1997, Bulgaria found itself on the verge of a severe financial and economic crisis. The need to increase the speed of reforms was obvious. In the following period Bulgarian economic policy was able to stabilize the economy, as Maslarski shows by the use of a simple IS-LM framework. Though government debt could be kept small, Bulgaria nevertheless remained vulnerable to the current great economic crisis.

In Chap. 7 Nicholas C. Baltas, Athens University of Economics and Business, in his paper takes a more general perspective and analyzes this current global crisis. Most economies experienced negative rates of growth, the unemployment continues on the increase, a number of financial giants have closed or are having severe problems; the private consumption and investment have shrunk because of uncertainty and reductions in the value of financial assets. The global financial crisis has shown fundamental weakness in the fiscal and monetary policies in the eurozone. The sovereign debt crisis in the euro area during the spring of 2010 has revealed that the monetary and fiscal policy framework of the European Monetary Union (EMU) is still incomplete. In this paper a number of questions with respect to the current economic crisis are analyzed: What measures have been taken by the European authorities to confront the debt crisis in the eurozone? What is the role of European Central Bank? What kind of changes does the current crisis lead to in the legal and institutional basis of European integration?

In Chap. 8, Kristina Levisauskaite, Violeta Pukeliene, and Jone Sakalyte introduce readers to the efficiency of computerization in an enlarged Europe by analyzing the Lithuanian case. This chapter deals with the digitalization of the word as a result of the introduction of computers, microchips, and modern information and communication technologies, which have undoubtedly been some of the most important technological developments of the past few decades. Since the introduction of computers in the 1960s, the emergence of automation in the 1970s, the development of the Internet in the 1980s and 1990s, and recent innovations in the field of (mobile) telecommunications, the widespread use of personal computers (PCs) has caused fears among employees that (1) their job security may be threatened and (2) they are witnessing the creation of a digital division of society. These fears would eventually lead to social and economic problems—also within Lithuania. Finally, the authors question the peculiarities of the computerization process in Lithuania and specific effects on social and economic efficiency.

Rumiana Gladicheva deals in Chap. 9 with a different object of investigation, with the social partners and the information society in Bulgaria. Social partners had to survive and operate in a situation of *Chokerlebnis* (“shock experience”). They had to undergo a host of simultaneous changes, with the knowledge that even more shocking changes were still to come. Until today, the social partners have had to overcome ideological, political, and economical obstacles, but the future will certainly impose new and less understood and less manageable social spaces. This will

probably happen in a situation where strong ideological associations are idle, politics and power are under question, and the economy moves away from the market “institution.” In short, they may be forced to operate in a society of fluctuations and will have to adapt to an emerging culture of disorganization to “lift out” workers and production systems to nomadic multinational partners. This will involve more than a simple transition to the information society.

Pavlos I. Koktsidis in Chap. 10 focuses on the contemporary political adjustments and militant manifestations of Albanian ethno-nationalism in the western Balkans. The paper puts forward the argument that Albanian political actors in Kosovo, FYR Macedonia, and Albania have generally adopted the narratives of “Europeanization” aiming at the peaceful resolution of their long-standing ethno-territorial grievances on grounds that territorial integration will replace the aggressive ethno-nationalist calls with a reasonable European agenda. However, in spite of this moderate political adjustment, the analysis emphasizes the continual threat posed against this project by organized Albanian politico-criminal networks active in the region, with a capacity to influence politics and generate instability.

In Chap. 11, Csaba Mako analyzes Hungarian labor relations and goes into a deep analysis of the former Committee for the Reconciliation of Interests (CRI), regarded as the most significant “tripartite” institution of the post-socialist states of the Central and Eastern European regions. Social partners had various levels and forms of participation in decision making. More concretely, they could enforce their right to be informed, express opinions, and make agreements (as well as to make common decisions). For example, in the case of the national minimum wage, they were entitled to make joint decisions; in the case of urgent issues they could directly or indirectly affect the interests of the social partners. Since unemployment and labor relations are at the core of the EU’s current crisis the contribution of Mako provides man important insights into this processes.

In Chap. 12, Georgia Yiangou examines NATO enlargement in 2004, commonly referred to as the fifth wave of enlargement. It was one of the biggest expansions in the history of the alliance and demonstrated not only the quantitative growth of this military-political organization but also confirmed its qualitative shifts. During the Cold War, the Baltic Sea was an inner sea of the Warsaw Pact and saw a heavily concentrated military presence on its southern shore. Since the collapse of the Soviet Union and the Warsaw Pact, there have been two waves of NATO enlargement, as the Baltic is now becoming an inner sea for NATO. During the Prague summit of 2002, NATO decided to accept seven new members. Among them three former Soviet republics: Latvia, Lithuania, and Estonia. This phase of enlargement was viewed as moving NATO directly into Russia’s backyard. Yiangou discusses Russian vital interests in the Baltic region, especially after the last NATO enlargement and the current situation of Russian–NATO relations. She also stresses the justifiable consternations of some observers concerning the propriety of the invitation of the Baltic States to join NATO and the possible areas of future friction between the West and Russia. The current crisis in the Ukraine makes Yiangou’s contribution extremely relevant.

In Chap. 13 Evangelos Charos, Hossein S. Kazemi, Anthony J. Laramie, and Douglas Mair take a close look at the theory of investment, reminding the reader that investment behavior is pivotal for the overall increase of welfare—and thus for the success of the European project. To do so, they use a Kalecki–Courvisanos model of new orders of non-defense capital goods. The chapter follows Kalecki’s “golden rules” under which historical materialism and econometrics can be reconciled provided that changes in the superstructure are not of such a magnitude as to invalidate the use of econometrics to estimate the relationships between the economic variables in the sector of productive activity and that productive relations are explicitly included in the model. Since the best data for econometric estimation of this relationship is US data they use this data: USA 1992–2010. Econometric estimates of the determinants of non-farm, non-financial capital goods are presented. Statistically significant relationships are found between investment orders and cyclical variations in output, the interest rate spread, net cash flows, and the net increase in financial liabilities, the net increase in financial assets, and the value of non-defense manufacturing shipments.

In Chap. 14, Konstantinos Vergos, Apostolos G. Christopoulos,\* Quyan Pan, Petros Kalantonis are examining another highly relevant relationship, namely the connection between the IT industry and the economic crisis. The best data for empirical findings on this topic come from the USA. In their study they investigate the effect of ICT investments on the economy and vice versa in the context of an economic crisis. The empirical analysis examines US data during the period 1969–2011. Initially, they have estimated the effect of GDP growth on the ICT industry by examining: The relation of economic growth to ICT sales; ICT profitability; changes in employment rate. In the sequel they estimate the effect of ICT investments on the economy. This chapter shows that indeed ICT investments are affected by GDP growth—but not during the recession period. They also find that ICT investments can lead to significant GDP growth and employment growth. The lessons to be drawn from this chapter for the EU in a state of crisis are rather pessimistic; IT only can serve as an amplifier if the recovery has already started.

In Chap. 15 Savvas Katsikides and Georgia Yiangou examine the Cyprus banking crisis of 2013. The paper investigates the reasons behind the collapse of the island’s largest and most productive sector. It is argued that the bail-in strategy used in the Cyprus case may have set a precedent for future treatment of illiquid banks, (in the EU) as it has demonstrated the fragility of the fractional reserve banking system.

## Reference

Holland, G. A. (2006). Information Society: European considerations in economic and cultural contexts. *Library Philosophy and Practice*, 8(2). ISSN 1522-0222.

# Contents

<b>1</b>	<b>Shangri-La Governance. A Sketch of an Integral Solution for European Economic Policy Based on a Synthesis of Europe's Problems</b> . . . . .	<b>1</b>
	Hardy Hanappi	
<b>2</b>	<b>The Convergence Process and the Volatility of the Money and Capital Markets</b> . . . . .	<b>19</b>
	Christis Hassapis	
<b>3</b>	<b>Polish Economic Policy, Internationalization, and Globalization</b> . . . . .	<b>31</b>
	Marian Gorynia	
<b>4</b>	<b>A Geopolitical and Institutional Model of Poland's Participation in the New Baltic Europe</b> . . . . .	<b>53</b>
	Janusz Ruszkowski	
<b>5</b>	<b>The Main Economic Effects of Poland's Entrance into the European Union</b> . . . . .	<b>65</b>
	Jaroslav Kundera	
<b>6</b>	<b>Socioeconomic Development in Bulgaria</b> . . . . .	<b>89</b>
	Mladen Maslarski	
<b>7</b>	<b>EU Strategy on the Governance of the Euro Area</b> . . . . .	<b>105</b>
	Nicholas C. Baltas	
<b>8</b>	<b>Questioning the Social Efficiency of Computerization in an Enlarged Europe: The Lithuanian Case</b> . . . . .	<b>115</b>
	Kristina Levisauskaite, Violeta Pukeliene and Jone Kalendiene	
<b>9</b>	<b>Bulgarian Social Partners and the Information Society: A Cursory Acquaintance</b> . . . . .	<b>127</b>
	Rumiana Gladicheva	

**10 European Integration and Security in South Eastern Europe . . . . . 137**  
Pavlos Ioannis Koktsidis

**11 The Dual Character of Hungarian Labor Relations:  
The Institution of Employee Participation  
from a European Perspective . . . . . 157**  
Csaba Mako

**12 Toward a New Cold War: NATO Enlargement, Russia,  
and the Baltic States . . . . . 177**  
Georgia Yiangou

**13 A Kaleckian Model of New Orders of Non-defense  
Capital Goods in the USA 1992–2010 . . . . . 185**  
Evangelos Charos, Hossein S. Kazemi, Anthony J. Laramie  
and Douglas Mair

**14 The IT Industry and the Economic Crisis:  
Empirical Findings from the USA. . . . . 199**  
Konstantinos Vergos, Apostolos G. Christopoulos, Quyan Pan  
and Petros Kalantonis

**15 The Cyprus Banking Crisis: The Bail-in Strategy as a Game  
Changer for the Too-Big-to-Fail Mentality of the Fractional  
Reserve Banking System . . . . . 207**  
Savvas Katsikides and Georgia Yiangou

**16 Conclusion—The Birth of Europe. . . . . 217**  
Savvas Katsikides and Hardy Hanappi

# Editors and Contributors

## About the Editors

**Prof. Savvas Katsikides** Jean Monnet Chair Ad Personam in European Economic Integration, Department of Social and Political Sciences, University of Cyprus. Vice Dean of the Faculty of Social Sciences and Education.

**Hardy Hanappi** Professor at the Institute for Mathematical Methods in Economics at the University of Technology of Vienna, Austria. Ad Personam Jean Monnet Chair for Political Economy of European Integration, and Research Professor at SOAS (University of London).

## Contributors

**Nicholas C. Baltas** Professor of Economics & Jean Monnet Chair, Department of Economics, Athens University of Economics and Business.

**Prof. Evangelos Charos** Department of Economics, Merrimack College, USA.

**Apostolos G. Christopoulos** is Lecturer of Banking and Finance at the National Kapodistrian University of Athens, Faculty of Economics. He is Visiting Professor at the MBA program of Kentucky with TEI of Piraeus and at the M.Sc. in Mathematical Modeling in Financial Engineering at the National Technical University of Athens where he is teaching corporate finance. He is also teaching corporate finance and portfolio management at the TEI of Piraeus, Department of Accounting and Banking Theory at the Open University of Cyprus. His research interests include banking, corporate finance, and portfolio management.

**Christis Hassapis** has a Bachelor's degree in Mechanical Engineering from The George Washington University and a Master's and a Ph.D. in Economics from Boston College, USA. He has served, among others, as a Member of the Council of the University of Cyprus (2004–2010), Member of KY.S.A.T.S (Cyprus Council for the Recognition of Higher Education Qualifications) for Economics

(2005–2009), Vice Dean at the School of Economics and Business Administration (2004–2007).

**Petros Kalantonis** is Assistant Professor of Financial Accounting at the Department of Tourism Management at the School of Business and Economics of Technological Education Institute of Piraeus, Greece. His current research mainly concerns financial accounting and corporate finance. He is author and co-author of articles and book chapters regarding these issues. He has been Research Fellow in the Center of Technological Research of Piraeus and the Islands from 2002 to 2006. He is also Program Coordinator at the University of Kentucky—TEI of Piraeus, MBA in Greece and the M.Sc. in Accounting and Finance of TEI of Piraeus.

**Jone Kalendiene** is Lecturer at the Department of Economics, Faculty of Economics and Management, Vytautas Magnus University. Her research interest includes economic efficiency of financial system and financial markets. She was given a grant for young researchers in economics by Lithuanian Academy of Sciences in 2005. She did her Ph.D. in Economics at Vytautas Magnus University. Address: S. Daukanto str. 28 - 307, Kaunas 44246, Lithuania.

**Prof. Hossein S. Kazemi** Department of Economics, Stonehill College, USA.

**Pavlos Ioannis Koktsidis Ph.D.** Queen's University of Belfast; He received MA in Comparative Ethnic Conflict from Queen's University of Belfast; BA (hons) in Politics with International Relations from The University of Lancaster. He has been Visiting Academic at Department of Social and Political Sciences, University of Cyprus.

**Jaroslav Kundera** Professor of Economics, Jean Monnet Chair in European Economic Integration, University of Wroclow, Poland.

**Prof. Anthony J. Laramie** Department of Economics, Merrimack College, USA.

**Prof. Dr. Kristina Levisauskaite** Head of Department of Finance, Faculty of Economics and Management, Vytautas Magnus University. His research interests include investment environment and investment management; functioning of financial system and its structural changes; modeling of changes in capital markets, banking systems; corporate governance problems. She is an expert and consultant in corporate finance, investments, banking areas. Address: S. Daukanto str. 28 - 102, Kaunas 44246, Lithuania.

**Emeritus Prof. Douglas Mair** School of Management and Languages, Heriot-Watt University, Edinburgh, UK.

**Quyan Pan** holds a Bachelor's degree in Accounting from the University of Portsmouth and M.Sc. degree in Management from the Business School of the University of Portsmouth. Her research interests include corporate finance and portfolio management.

**Prof. Dr. Violeta Pukeliene** Head of Department of Economics, Faculty of Economics and Management, Vytautas Magnus University. She is Jean Monnet chair in Economic integration from 2000. Her research interests include integration economics and managerial economics. She has authored more than 50 research publications in scientific journals, books, conferences proceedings. Address: S. Daukanto str. 28 - 311, Kaunas, 44246, Lithuania.

**Konstantinos Vergos** is Senior Lecturer in the Business School of Portsmouth University. In the past he has taught finance and economics at the University of Torun in Poland, the National Technical University of Athens, the National Kapodistrian University of Athens, the University of Kentucky, and the European University. His research interests are mainly in the areas of real options, valuation and credit risk, risk management, corporate governance, and economic cycles. He has been the Chairman of the Hellenic Association of Certified Stock-market Analysts for 8 years.

**Georgia Yiangou** has received BA in Political Science and M.Sc. in Strategic Studies, Aberystwyth, Wales, Ph.D. candidate (Political Science), University of Cyprus.

# Chapter 1

## Shangri-La Governance. A Sketch of an Integral Solution for European Economic Policy Based on a Synthesis of Europe's Problems

Hardy Hanappi

**Abstract** This chapter provides a preview of what governance in a better future state, Shangri-La governance, should take care of. The starting point for each policy feature, of course, is a contradiction that contemporary political economy cannot solve—what appears as problem already incorporates the ideas of its solution. Problem areas are grouped as corners of a hexagon. A sketch of an overarching policy program derived from existing contradictions is presented. The main result is that the different policy areas are so tightly linked that only a holistic approach—taking care of all corners of the hexagon simultaneously—can promise success. Piecemeal engineering in isolated corners, i.e. what is currently happening, is bound to fail. A newly formulated overarching European economic policy clearly will include the particular role to be played by Eastern European countries. After almost ten years since the enlargement of the EU to central and Eastern European countries it is remarkable that this integration does *not* occur as one of the six major contradictions to be solved today. Quite the opposite is formulated. In the concluding paragraphs: Despite the many shortcomings and—hopefully mostly transitory—disadvantageous developments in several Eastern states an overall assessment of welfare implications of integration can hardly ignore the positive net effects. These many-layered experiences can, and should be considered as a kind of historical laboratory experiment testing if cohesive forces within the EU are strong enough to assure the survival of this political entity—and this test has been passed.

---

H. Hanappi (✉)  
University of Technology Vienna, Vienna, Austria  
e-mail: hanappi@tuwien.ac.at  
URL: <http://www.econ.tuwien.ac.at/hanappi/>

© Springer International Publishing Switzerland 2016  
S. Katsikides and H. Hanappi (eds.), *Society and Economics in Europe*,  
DOI 10.1007/978-3-319-21431-3\_1

1

## 1.1 Introduction

In economic theory a synthesis of divided analytical results seems to be urgent. The last decades of research have been characterized by an acceleration of the narrowing down of the scope of each phenomenon under investigation. The methodological imperative driving this development has been the priority given to rigorous treatment using a unique mathematical apparatus developed for the natural sciences. Since broader social phenomena usually escaped the modeling possibilities of this toolbox the standard procedure adopted was to assume these difficulties away: the model was allowed to be inadequate to reality in order to be solvable with the standard formal method. It was a facilitating preparatory work first to divide and to isolate parts of a phenomenon: Smaller problems with less essential endogenous variables did lend themselves to archaic formal modeling much easier. Nevertheless each of these reduced formal exercises was using rather different ‘heroic assumptions’, stemming from the different specificities found in the real economic world. The only remaining binding element between all models was the formal language they used. Seen from this perspective the (formal) convention to consider only equilibrium points to avoid problems with non-linear dynamics can be interpreted as an attempt to provide social identity of a certain group of economists. Equilibrium modeling became an orthodoxy, which on the other side of the coin was characterized by a falling apart of topics approached as soon as it tried to describe real economic phenomena. Only in its most abstract form, as general equilibrium theory, it achieved a universal understanding. But this was not an understanding of the real economic world; it only was the void understanding of its own abstract implications.

Parallel to a highly specialized microeconomic theory of the representative firm, a utility theory, a pure and a monetary theory of international trade, a theory of social choice, a real business cycle theory, and the like—all based on the same equilibrium dogma—the last decades also saw an explosion of different new methodologies. Since the current crisis has revealed the impotence of the orthodox dogma with respect to economic policy, it is tempting to propose a reversal of the basic strategy. The diversity of methods has to be accepted as an advantage—and it is the object of investigation which is the unifying motor. Reality drives science instead of methodological unity forcing the dynamics of reality into a static prayer without real correlate. From a scientific point of view such a change certainly looks attractive.

Leaving the equilibrium world behind, a first glance at actual life processes immediately shows one basic characteristic: Evolution proceeds in sequences of sudden pushes, thus (at least) two types of models are needed: In one model dynamics have to be slow enough to serve as (almost) constant background for the fast dynamics described by the second dynamics. Moreover innovation of new essential variables and processes, as well as extinction of old elements plays an important role. For these types of models, focusing on a transient build-up of social

structure, a changing set of models, as diverse and heterogeneous as at first sight the reality it addresses appears, is adequate.

If it is not a methodological canon which provides the unity of the social sciences but the fact that it is *one* real world—outside all modeling languages—that has to be understood, then descriptions of the most pressing contradictions of this world are the best starting point. Contradictions indicate what is least understood—relative to a quickly increasing urgency. Bringing these contradictions under a common overarching interpretation can be a tool for a preliminary research program of the social sciences. It is evident that interpretation has to be founded on historically observed trajectories, there simply is no alternative. The further the impact of contradictions is projected into the future, the longer the look back into human history has to be; far reaching interpretations of the past are mirroring daring speculations about mankind’s future. Again there is no way to avoid speculation. Contemporary contradictions first are short-run pointers to the future, only more history encapsulated in a slow dynamics model informs long-run *reasonable* speculation.<sup>1</sup>

This chapter takes a first few steps along this methodological route. It identifies six major fields of contradictions and then works on the links between them to encompass the overall understanding of the current crisis. This approach at the same time provides the possibility to formulate the economic policy measures which could overcome the six fields of outstanding contradictions. They show what governance in a world that got rid of these problems will be able to do—they are foreshadowing ‘Shangri-La Governance’.

## 1.2 Cornerstones of Political Economy—A Hexagon

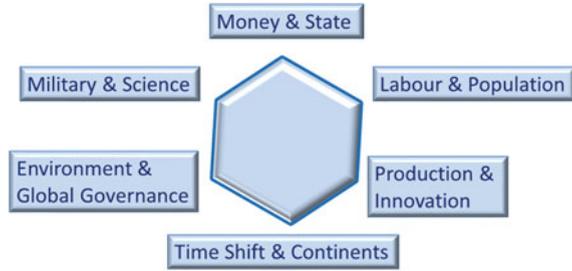
The so-called Washington consensus has been a doctrine of global economic policy that consisted of some crude conservative rules of thumb becoming prominent during the Reagan era. The Pentagon tried to enforce these rules on the global economy via IMF and World bank, to some extent the deep crisis since 2008 can be traced back to the misconceptions inherent in the Washington consensus of the Pentagon. In contrast to the Pentagon plan the hexagon of main contradictions and their proposed solutions proposed below are designed to overcome this crisis (compare Fig. 1.1). Let a hexagon replace the Pentagon consensus.

*Money & State:* A deep crisis usually surfaces first as an avalanche of bankruptcies in the area of interbank payments, it appears as solvency crisis. This is due to the fact that collaterals—an integral part of any credit contract—during times

---

<sup>1</sup>It was Hegel who distinguished between reason (‘Vernunft’) and rationality (‘Verstand’). Reason always has to be speculative while rationality is a behavioural mode based on deduction of results from assumed facts with the use of a predetermined formal apparatus. Nevertheless speculation not necessarily is a blind guess; it can be well-informed leading to a so-called reasonable speculation.

**Fig. 1.1** A hexagon of main contradictions. A brief description of each corner is necessary



of low crisis expectation are not touched upon. But if crisis expectations increase beyond a certain socio-psychological threshold, then a sudden run for liquidity of almost all agents sets in and leads to a simultaneous breakdown of the weakest financial intermediaries. This process urgently needs theoretical clarification leading back to an understanding of the foundations of the central notions of money, credit, and capital (compare Hanappi 2009). As any symbol system of social value, i.e. money, needs a carrier system (e.g. an e-payment network) as well as a political power system to enforce it, i.e. state power, it is evident that money forms and state forms have to be discussed and designed under the same header.<sup>2</sup>

*Labour & population:* The interbank crisis quickly and via numerous channels initiates a crisis in production units. As interest paid by these units to banks and insurances are part of the profit they extract from employing workers, they necessarily will immediately go for drastic reductions of cost. And for those units, which are unable to do that the wave of bankruptcies will swap into the production sphere of the economy. As the states are trying to reduce their budget deficits (which are additionally burdened by the interest paid for the banks' debts that have been transferred to the state) by lowering social transfers and increasing taxes the problem is aggravated. Bankruptcy of financial intermediaries and production units in all areas leads to severe unemployment. In the second stage of a deep crisis the interruption of the income stream of the majority of the population even in richer countries cannot be compensated by a depletion of stocks of savings any more—consumption levels fall. Problems of employment organization that already existed before the crisis (full-time, high-skilled, high-pay versus unemployment of low-skill; old-age employment versus youth employment; etc.) get worse. Social unrest based on rising poverty makes governance difficult and a turn to radical political solutions knocks at the door of capitalist democracies.

*Production & innovation:* While the disappearance of firms with insufficient productivity increases in the course of usual business cycles is a customary—in the aggregated long-run even beneficial—phenomenon, the deep crisis changes the context. It does not make sense to wait for surprising technical innovations that can

<sup>2</sup>The transfer of debt of financial intermediaries to government debt, which characterized the second stage of the crisis, is just another manifestation of this unity of the problem area 'money and state'.

drag the economy out of depression, the political and social context does not allow for the courageous entrepreneurial activity that was the motor of the labor productivity growth cycles during capitalism's heyday. Indeed the concept of innovation suddenly changes its character: It is a large-scale, socio-political innovation, which becomes necessary—and once it has been achieved, advanced societies will face only small-scale innovations allowing for material reproduction on a continuous high level.<sup>3</sup> Of course, this issue only concerns advanced economies like the EU countries.<sup>4</sup> Strong traditional growth processes have to take place in the poorer parts of the world, the new European regime is only one side of a global disparity, which will have to be consciously overcome.

*Time shift & continents:* This cornerstone addresses both sides of the just mentioned unequal development—the relation between first and third world—and therefore sets Europe's problem into a global context. The central observation on which this contradiction is founded concerns the ability of global capitalism to amplify existing uneven stages of development in order to extract additional surplus value.<sup>5</sup> If—in the times of the Western trade triangle in early capitalism—wealthy British merchant ships exchanged with rulers of African tribes new technologies to exploit the local population against black slaves, which they carried (and sold) to America's cotton field owners, then this whole (capitalist) procedure cemented the pre-capitalist political economy in Africa and America. The socio-economic state of development of continents during colonialism, despite or even because of new military technology, drifted further and further apart. After the two world wars a comparable development during the second wave of globalization could be observed. Travelling today from one continent to another continent the traveler experiences a time shift<sup>6</sup>: Outside the small enclaves of militarily secured outposts of advanced capitalism in some big cities of Africa, South America, and Asia there is a society living in a different era. How to cope with this contradiction, which capitalist interference is less and less able to exploit for additional profit-making, is not Europe's problem only. But Europe can and should be developed into a pilot project, which shows how to overcome the contradicting forces.

*Environment & global governance:* As just hinted at, only global governance can go beyond Europe's role to be a good pilot project. This not only concerns the previous cornerstone, where global governance will have to tame the exploitative forces of local national elites and transnational corporations. Most important will also be a conscious reframing of global policies concerning environmental conditions. The range of problems is rather wide, from water and energy resources, CO<sub>2</sub> pollution, to information pollution by media empires. In a sense to solve this set of policy questions will remain a core activity of Shangri-La governance.

---

<sup>3</sup>Fortunately enough the human mind seems to be sufficiently malleable to experience this (materially modest) type of 'reproductive innovation' as growth of personal utility.

<sup>4</sup>See Hanappi (2012a) for a summary of Joseph Schumpeter's contribution to this point.

<sup>5</sup>Compare Hanappi (2011a) for a more detailed treatment of this property.

<sup>6</sup>A similar point has been taken up by Bob Jessop, compare Jessop (2004).

*Military & Science:* This last cornerstone needs most explanation. As all other cornerstones it is composed of two concepts. As some readers might have noticed the sequence of the two words usually hints at a process: From the more abstract to the more concrete, from the less specified to the more involved, policy-oriented concept. This is also true for this last cornerstone. Coercive power, brutal physical force, which in modern times is organized in military and paramilitary troops of fighters, always has been a vital element of political economy. An almost natural counterpart to coercive power is knowledge, which in organized form is called science. From the age of first social forms onwards knowledge has mainly been used to extend the reach of coercive power. In the middle ages a king spread the message of an example of how cruel disobedience had been punished to all subjects to frighten them—and save cost for individual punishment expeditions. Transforming coercive power into internalized informational power did breed first religion and later science to do so. But starting with the revolution of the natural sciences during the 17th century sciences started to gain a life of their own. While coercive power always aimed at taking away growth possibilities of others to advance the own might, scientific activity—first usually under an umbrella of a strong coercive monopoly—tended to show that cooperative efforts creating a new inter-individual subject called ‘science’ can dispose of the zero-sum mode of behavior of coercive agents. Science started to free its activists somewhat from the role of supporters of a coercive ruler. Till today any fallback into a military regime has been accompanied by a push for power expanding military science paralleled by fierce oppression of critical free science. One can indeed interpret the struggle for democracy (or communism) as a struggle against coercive dictatorship; a struggle, which needs science to provide organizational algorithms, which shall substitute the coercive ruler. Today’s global political economy is characterized by a return to military solutions, to solutions with the help of direct coercive power. This concerns inter-state conflicts, intra-state conflicts, and the rise of criminal activities on all levels. Pro-military scientific knowledge is used extensively across all borderlines of all conflict parties on all levels.<sup>7</sup> Critical, pro-democratic science is in the defense. In short, this cornerstone marks the danger of a third world war, and the need for a community—a unity—of critical scientists to prevent it. The second concept, science, thus is pointing at political action again.

After this quick tour of explanation a similarly brief overview of how a possible solution to each of the problems might be circumscribed seems to be appropriate (compare Table 1.1).

*Reproductive innovation* is a new concept developed more comprehensively in other papers (Hanappi 2010, 2012b). It indicates that innovation will also play an important role in Shangri-La, in the future mode of production, but that the concept will change its meaning dramatically. Social and technical innovators will have to

---

<sup>7</sup>Most frightening, it currently is invading the minds of a whole generation of children playing war games on the internet.

**Table 1.1** Contradictions and proposed solutions

Cornerstone	Problem	Solution
Money & State	Liquidity and solvency	From profit-oriented accumulation to innovative reproduction
Labor & Population	Unemployment	From private rigid labor time extraction to flexible public labor time organization
Production & Innovation	Bankruptcy	From ideology to design
Time Shift & Continents	Exploitation	From exploitation of the unequal to the benefits of diversity
Environment & Global Governance	Pollution	From general evolution to the human species
Military & Science	War and crime	From coercion to democracy

be motivated directly to increase the utility of the users of their intervention, without necessarily increasing the number of commodities produced.

The term *'flexible public labor time organization'* shall transport the message that how many hours have to be worked in which production or service, and to which extent this occupation is organized by a firm or a public institution, are questions waiting for a radically new design. Again in Hanappi (2012b) some preliminary answers are sketched.

The *'benefits of diversity'* in this context are to be understood as an evolutionary device: The trajectory which today's leading OECD-countries have historically experienced—and which makes their rulers so sure that they can consider them as 'most advanced'—is just one of many possible development paths. For other continents this history will not repeat itself. The diversity of their starting points has to be considered as a pool of possible trajectories—each set characterized by strong interdependence of continents. Fortunately—and in contrast to Dawkins (1986), view on biological evolution—political economy has not to wait for a 'blind watchmaker'. Humans can take their future fate in their own hands by designing their future actions, by producing and using science. To mentally select a scenario in a set of simulated futures is fundamentally different to being selected or extinct in real time. The pool to select from, the diversity of global starting points, indeed enriches the evaluation procedure—and this presupposes a global government. It is in this sense that the benefits of diversity can contribute most.

The place of *'human evolution'* as part of general evolution is a surprisingly little discussed topic in evolutionary economic theory. The often heard immediate imperative proposed by environmentalists is that human evolution shall be sustainable and compatible to the evolution of all other species—a kind of human biotope. This view is completely incompatible with the positive view on growth of the species, which has been developed by our species. What is even more disturbing is the fact that emergence of a new species as well as the extinction of a species is a non-topic when it comes to the human species. All these questions are left to science fiction authors. The concept of a species itself is by far not univocally

defined in the moment, discussions on the usefulness of the concept of sustainability abound. In other words, sound theoretical foundations for the formulation of the goals of global governance are still missing! This is a theoretical task, which cannot be delegated to biologists; it needs social scientists, evolutionary political economists. Only the latter can come up with scientifically underpinned long-run visions that can organize political forces. Since similar arguments can be made for the design of global governance in other areas, this cornerstone is dictating a heavy load of theoretical work.

The quick and dirty lines of argument provided above are far from being self-evident. They are just used to serve the following three purposes:

To express what topics in the current global political economy are particularly urgent.

To show that all of these topics are closely linked.

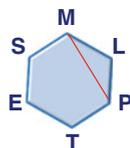
To provide some confidence that these problems—and how these problems—can be solved.

With respect to the second point the next chapter will add more flesh to the argument.

### 1.3 Using the Hexagon's Links

Moving along the edges of the hexagon is an informative exercise, but only covers a part of the highly interwoven dynamics between cornerstones. The following paragraphs provide entry points to the interplay, the partially contradictory influences between two selected non-neighboring edges of the hexagon. All possible pairs are covered, but the already existing theoretical discourse on each of these pairs clearly can only be briefly referred to.

#### 1.3.1 Money & State—*Production & Innovation*



Political control exerted by the state sets the stage for possible actions of production units. Production units outgrowing the domain of a single nation state clearly can combine different political settings in different nation states to optimize profit-maximizing actions: Produce in a nation state with the low wage cost and advantageous labor laws, sell in rich nation states with a rising national currency, pay taxes in nation states with low taxes, and so on. This indicates the need to

install internationally powerful political institutions to counterbalance the space of actions of a particular part of the production structure, the transnational corporations (TNCs). For TNCs the part of their activities which could be labeled ‘exchange rate exploitation’ has become of overwhelming importance. It involves not only the use of continued devaluation of third world currencies and tax paradises, but also the extraction and the focused use of household savings in OECD countries for activities at stock exchanges. Shangri-La governance will need a well-designed structure of political institutions reaching up to the global level to be able to restrict the activities of TNCs, legitimizing only those which are globally welfare enhancing.<sup>8</sup> The concept of ‘state’ thus assumes a more general meaning: It refers to a node identifying a specific political institution within a hierarchical structure of global governance.

A most important element of this global governance concerns the policing of a sign system representing social value, i.e. a global currency system enabling **money transactions** and **finance of innovation**. The demand for money transactions dispersed in space, though greatly improved by the use of electronic carrier systems of social value signs, still is in desperate need for global regulation.<sup>9</sup> Policing the distribution of money transactions over time is an even more demanding task. Coins carried by household members are concerned as well as whole national pension systems expressing a contract between generations. The former example seems to be solved easier since the average social value of the coin carried in the pocket will not change dramatically during the time it stays there.<sup>10</sup> The latter example, due to its longer time horizon will have to consider the changing social values involved in technical and social innovations. Regulation by political authorities therefore becomes intermingled with the core activity of entrepreneurial production units doing innovation.<sup>11</sup> Interplay between the risk-taking explorations of certain production units on the one hand and the needs and scope related and available for these activities set by political institutions on the other hand becomes mandatory.

---

<sup>8</sup>There is an exploding body of economic literature trying to explore these new challenges, be it under the header of new economic geography, e.g. Navaretti and Venables (2004), be it in an attempt to reconcile it with mainstream approaches to international trade, e.g. Markusen (2004).

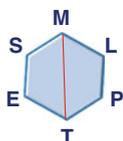
<sup>9</sup>To some extent these questions have been discussed in traditional monetary theory and international finance, e.g. Walsh (2000), Shubik (1999), Mishkin and Eakins (2009) and Mishkin (2010).

<sup>10</sup>Indeed inflation can be interpreted as a compression of (economic) time, which is doing exactly that: Reducing the social value represented by coins in the short-run. For the short-run political regulation thus boils down to prevent inflation and deflation. While the former hurts the owner by reducing the purchasing power of his coins, the latter would induce to delay any purchase, and therefore would paralyze economic circuits. Standard policy prescriptions for national banks evidently reflect this short-run stability goal.

<sup>11</sup>Not all production units are involved in innovation, but those which are will play an even more important role than today. Their future aim will be to increase overall utility of the human species, call it welfare (compare e.g. the discussions surrounding Bentham 1789; Sen 2010; Roemer 1996), by means of technical and social innovation. A rich set of literature on innovation has started to blossom in the last decade.

The annually reached bargaining results between these two sides, the ‘stability party’ and the ‘innovation party’, will then have to be translated into interest-at-risk augmented money flows policed by political institutions, by states (in the more general sense). Since these flows occur at points in time far away from each other, they appear as contracts about flows, and in this form need strong and enduring political authority to be trusted in. Note that strong states need very strong and highly sophisticated democratic control.

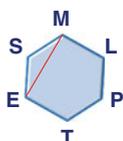
### 1.3.2 Money & State—Time Shift & Continents



Global governance taken care of by one global state includes the idea of one global currency expressing one global system of social values of commodities and services. Even this simple straight-forward statement immediately shows how demanding—though in the long-run indispensable—this task is.

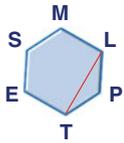
Exploitation via deteriorating exchange rates of the third world has to be stopped. Production in the first world has to be redirected towards more commodities designed for underprivileged people in the third world, despite lacking effective demand. Education systems for all parts of the world urgently need an upgrade.

### 1.3.3 Money & State—Environment & Global Governance



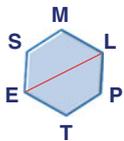
Which environmental goals should receive which attention? By drawing on all available expertise, i.e. science, plus the vote of taxpayers a global government should then decide how much social effort, i.e. money, should be spent on every task. The income of a global state will have to be collected by taxes, and exactly these taxpayers (by the use of a probably rather sophisticated democratic algorithm) will co-determine the weighting scheme of importance. As Jessop already argued more than 10 years ago there is a contradiction between national state power and global environmental concerns, a contradiction that breeds the need for a global political authority (compare Jessop 2000).

### 1.3.4 Labor & Population—Time Shift & Continents



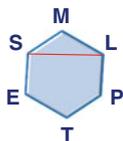
Flexible labor time organization cannot stop at the borders of continents. Historically seen waves of large-scale migration typically were a consequence of political catastrophes or large natural disasters, but diverging employment and wage differences are a permanent source of migration decisions too. Though a more fluid mixing of the global population has its advantages (it activates creative diversity, see above), it nevertheless should not be based on a divergence of living conditions in different continents. Unfortunately migration flows without political intervention will work exactly in this disastrous direction: Most educated and able parts of the poor continents' population will emigrate and make the gap between continents continuously larger. This implies that incentives for migration in the opposite direction have to be developed and implemented rather quickly.

### 1.3.5 Labor & Population—Environment & Global Governance



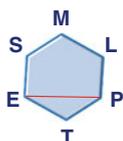
Traditional labor union policy cared mainly about real wages and job security; environmental questions were out of focus. More recently part of the workers in leading OECD countries are getting a bit more concerned by rapidly deteriorating environmental quality, while the working population in all other parts of the world still remains mostly ignorant. It can be expected that environmental dynamics will teach the human species a lesson soon—the hard way, of course. As critical science is in the defense it gets less and less voice, also in this respect—only sporadic and singular warnings reach the public. The immediate policy conclusion therefore is that critical science and environmentalist concerns have to form a coalition to prevent the worst. And this coalition has to mobilize the global working population, a process which in turn can be an additional route towards reasonable global governance.

### 1.3.6 *Labor & Population—Military & Science*



As history shows, high unemployment can be reduced by a government with the decision to start a military conflict. Military draft can send previously unemployed persons to the battlefield, a fallback on coercive solutions can have economically beneficial consequences in the short-run (e.g. the surge of the US Dollar in the course of Middle East wars), and can even win a democratic election (e.g. Thatcher after the Falkland war). Military science can anticipate these effects and can consult politicians; a turn towards external aggression in case of internal troubles is an all-times classic of policy consulting. But even without external outlet military solutions might help to solve domestic problems with the labor force. One has to keep in mind that the most primitive form to extract surplus value from a worker is not a labor market with many unemployed. It is the simple threat of coercive power, e.g. of being tortured, which can induce people to work for the benefit of others. The return of this more primitive form of exploitation—at the limit to what used to be considered a crime—is what typically takes place in the course of a deep crisis.<sup>12</sup>

### 1.3.7 *Environment & Global Governance—Production & Innovation*



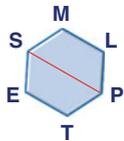
These two cornerstones go together particularly well. Reproductive innovations in the field of environmental improvements, which then are turned into global solutions by global governance—this is the stuff visions can be made of. But there is more: To find the place of the human species in the overall evolution of the planet (compare the solution column in Table 1.1) implies a certain type of interactions expressed as material exchange supporting our species—and this is what today is called production structure. To turn production processes on their feet, namely on the quantitative material exchanges which they are, does not mean that the

---

<sup>12</sup>Labor productivity increases during Fascism as well as the flourishing of the different kinds of global Mafia organizations are outstanding examples of the success of coercion as a means of exploitation.

consideration of social values attached to these quantities loose importance. Social values, including the visible price structure into which they are transformed, are turned upside down too. Instead of a vaguely defined global agent that recently has been dubbed ‘financial markets’, and which is thought to determine all actions, the possibilities of diverse and well-defined market mechanisms are subordinated to conscious explorations along the lines of reproductive innovation. As markets are finally understood as what they always were, namely possible frameworks of rules, their diversity becomes a toolbox for investigating utility increases beyond the basic biological needs. The subject using this toolbox for well-specified areas (excluding basic biological needs) is the global government, which governs with its help the adaption process of production structures. A more detailed treatment of such a ‘grand design’ for Shangri-La goes beyond the scope of this chapter.

### 1.3.8 Military & Science—Production & Innovation



To organize the personnel of a capitalist firm in the same way as a general organizes his army is a rather traditional, though still predominant prescription. As such it has stimulated lots of studies in organization theory concerning the obvious contradiction between exchanges of products of capitalist firms—relying on market mechanisms—and exchanges within capitalist firms—organized as hierarchical command structures.<sup>13</sup> The long-run emancipatory move away from military dictatorships with hierarchical structure towards democratic feedback control of societies as far as capitalism is concerned was stopped at the doors of the privately owned factory. And till today much of the ‘scientific’ literature on firm organization reads much like a proposal for *troops* and *divisions* to brought into a *formation* which can *conquer* ‘the market’. Concepts like ‘*charismatic leadership*’ and ‘*corporate identity*’ are obviously shared by theorists of military and management. In Shangri-La this last bastion of hierarchical dictatorship, the capitalist production unit, has to give way to a more civilized, a more democratically oriented type of production unit. The idea is not new, and many dead alleys of ‘labor-managed firm organization’ have already been visited.<sup>14</sup> But hurdles appear to be finally mastered; there is no reason to believe that reconciliation of democratic feedback loops at the micro-level (production units) cannot be reconciled with Shangri La governance at the macro level. Solutions certainly have to be sophisticated, but already existing contemporary technical abilities to support them should never be underestimated.

<sup>13</sup>A classic text on this topic is Williamson (1983).

<sup>14</sup>Compare e.g. the early discussion between Ward (1957, 1959) and Horvat (1959, 1986).

### 1.3.9 *Military & Science—Time Shift & Continents*



The mechanisms of colonialism did teach an important—though rarely understood—lesson to theorists of political economy: A fallback on purely coercive politics on a global scale allows for a more sophisticated democratic handling of class struggle in the domestic economy of the imperial power. Export of coercive methods then allows local rulers in a colony to cement their exploitation mechanism, thus pushing back revolutionary forces and increasing the time lag between continents. The neo-colonial traits of US-policy after World War 2 (e.g. in Saudi Arabia) as well as the policies of some European countries (e.g. France and Italy) in North Africa show that this type of strategy has not ceased to exist with the fall of the old imperial regimes in World War 1. Of course military technology and scientific support for international political strategy have experienced incredible advances since. But the methods remained the same: Support for dictatorial leaders in North Africa to keep immigration to Europe at the doors was used and worked well until the Arabian Spring in 2011; crude oil exports from Saudi Arabia (OPEC’s swing producer) to the US petroleum firms were never closed down as the Saudi regime always was supplied with weaponry needed to suppress internal or external revolt. Fortunately enough, modern means of strategic analysis (e.g. game theory) cannot only help the neo-colonial power to design such policies; it also can be an instrument for progressive forces to understand how a transition towards Shangri La governance can be initiated.

This ends the circle around possible connections of nodes of the hexagon. The many topics and ideas that only could be touched upon should show how fertile the proposed structure is. Additionally it should have become clear that it is not possible to single out a problem to do an isolated, partial analysis for this problem only. The nodes of the hexagon are much too tightly interwoven to allow for such a treatment, it needs the view on the whole network to understand the evolution of a single node. In other words, the next big task for social science is synthesis—an extremely difficult and highly sophisticated synthesis.

The good news is that there already exists an enormous amount of highly specialized research. In each field somewhat different research methods are used to draw conclusions from growing datasets and more or less explicit (hypothetical) theoretical models. What is urgently needed are efforts to synthesize the major results of the different disciplines. Such a synthesis will evidently imply that a certain selective screening and filtering of what is essential in each discipline has to take place. This filtering should not proceed exclusively along the lines of

methodology used. There is a broad set of valid methodological approaches which is not to be ranked with respect to scientific value.<sup>15</sup>

From the perspective of scientific practice what is needed is well-organized teamwork of many transdisciplinary researchers. Today no single researcher can be expected to oversee advanced research in more than two (neighboring and narrowly defined) disciplines, the amount and permanent growth of contributions is simply too large. Communication within an advanced research team with only few possible links becomes the crucial issue. But unfortunately communication between researchers, due to institutional and mental intervention of capitalist ideology (in particular in the social sciences), has run into a stalemate: Competitive behavior (keeping results secret, unsound ideological attacks, monopolizing research funds, and the like) dominates all cooperative possibilities. Indeed across the social sciences there would be some sure candidates for building bridges:

- Game Theory in the perspective of John von Neumann.
- Input Output Analysis in the sense of Leontief.
- Computer Simulation of the Interaction of Heterogeneous Agents (ABS).
- Network Analysis including Fractal Analysis.
- Discrete Choice Econometrics.

Science policy in Shangri-La will immediately change the unfortunate situation of today's 'science in a capitalist mode': All research will be financed by tax revenues, and the value of scientific contributions will be judged with respect to its overall contribution to current and future social welfare.<sup>16</sup>

---

<sup>15</sup>Today Hegel's famous remark attributing the highest stage of scientific development to the most abstract science, i.e. mathematics, is not plausible any more. The fundamental insight, which emerged since Hegel's time, was that any formalism owes its structure to the object of investigation from which it had been abstracted. With the evolution of external objects (not belonging to the world of language) new formalisms are needed for new objects of investigation. Contemporary mathematics is the language of theoretical physics, of rules for relations between inorganic (entropy increasing) matter. When John von Neumann tried to envisage a new object of investigation, (entropy decreasing) human society, he suggested a far-reaching adaption of the existing analytical apparatus, called game theory. But this was only one specific attempt to meet the new challenge. With new objects emerging, empirically oriented research methods periodically gain new importance—Hegel's original image of a ladder of scientificity should be replaced by a pulsation of an ever changing set of partially new scientific languages.

<sup>16</sup>This change immediately gets rid of the current neglect of basic research, which occurs due to the time horizon of short-term profit maximizing firms. Furthermore the (more difficult and more sophisticated) evaluation with respect to the whole society's welfare implies an important role for democratic mechanisms that are needed for social aggregation.

## 1.4 Conclusion

As a conclusion first some implications for Central and Eastern European states can be highlighted. It is a fact that the Eastern enlargement of the EU took place several years before the deep crisis hit the world economy. But even at that point in time the integration process that had started with the end of the Soviet Union was already more than ten years old. During this whole long period transformation did take place in a continuous and peaceful way. Though many commentators are repeatedly complaining that the process has been too slow and too heterogeneous across countries, the plain fact is that it has been a permanent feature—and looking back this should indeed produce astonishment and admiration. Even the property that each of the new countries followed its own development path—making them hard to compare and torpedoing most attempts of conclusions on aggregates—should be seen as a precious experience: Diversity is possible and improves stability in particular as environments are getting rough. It only can be speculated what would have happened if indeed the first prescriptive vision of the early 90-ties (e.g. made by Jeffrey Sachs) had come true, namely a US-like capitalist system in each country within 100 days. Most political economists today would consider this a nightmare; all being alike would imply that all would fall simultaneously as soon as a severe shock strikes. Europe now has a first prove that diversity has advantages: productivity levels and changes of these levels can coexist in particular if they concern different commodities and services; different speeds of development can be very beneficial if speed concerns a broader cultural evolution and not just the meta-physical microeconomic-theory-concept of income-derived utility. Many other diversity driven improvements could be mentioned. The Eastern European experience thus should provide additional necessary optimism to engage in the pilot project Europe.

Perhaps a few statements that emerged during this long line of argument, some in between the lines, shall be kept in mind:

To describe Shangri-La Governance is to produce a focal point to serve as orientation for current improvements. It should discourage useless piecemeal engineering aiming at saving the currently existing flawed system.

Contemporary contradictions and speculative visions can be the poles and the sources of inspiration for social research and policy.<sup>17</sup>

An enormous amount of knowledge in economics has turned out to be of no social value—the quest starts anew. Those scholars whose intellectual capital stock has been completely devaluated will not give up their institutionalized academic strongholds, but will fight to the bitter end to keep any challengers at doors. For the new quest new organizational forms will be needed.

---

<sup>17</sup>Some more general methodological thoughts are summarized in Hanappi (2011b).

But as informed visions of a secularized Shangri-La seem to be possible<sup>18</sup>—the bottom of Pandora’s Box is reached.

## Bibliography

- Bentham, J. (1789). *Introduction to the principles of morals and legislation*, published by J. H. Burns/H.L.A. Hart (The Collected Works of Jeremy Bentham), (2<sup>nd</sup> ed.). Oxford 1996.
- Dawkins, R. (1986). *The blind watchmaker*. New York: W. W. Norton & Company.
- Hanappi, H. (2009). Money, Credit, Capital And The State. On the evolution of money and institutions, invited paper at the Verein für Socialpolitik (Ausschuss für Evolutorische Ökonomik) July 2009 in Jena. The updated version will be published in a forthcoming book edited by Uwe Cantner with Springer in 2012. On the web:[http://ftp.econ.tuwien.ac.at/hanappi/Papers/Hanappi\\_2011B\\_22\\_04\\_11.pdf](http://ftp.econ.tuwien.ac.at/hanappi/Papers/Hanappi_2011B_22_04_11.pdf)
- Hanappi, H. (2010). *From growth to innovative reproduction. A roadmap for a European model of evolution*. Paper presented at the EAEPE Conference 2010, October 28–30 in Bordeaux. Published as MPRA Paper No. 29062.
- Hanappi, H. (2011a). *Deepening Contradictions. From Exchange Rate Exploitation to Fascism*. Manuscript on the web: <http://www.econ.tuwien.ac.at/hanappi/publications.html>
- Hanappi, H. (2011b). *Signs of reality—Reality of signs. Explorations of a pending revolution in political economy*. Published as MPRA Paper No. 31570.
- Hanappi, H. (2012a). Schumpeter. In M. Dietrich & J. Krafft (Eds.), *Handbook of the theory of the firm*. London: Edward Elgar Publ.
- Hanappi, H. (2012b). *Can Europe survive? Ten commandments for Europe’s next ten years*. Forthcoming in Papers for Evolutionary Political Economics (PEPE), No 9 (2012). On the web: [http://ftp.econ.tuwien.ac.at/hanappi/Papers/Hanappi\\_2012b\\_newest.pdf](http://ftp.econ.tuwien.ac.at/hanappi/Papers/Hanappi_2012b_newest.pdf)
- Horvat, B. (1959). Workers’ management in Yugoslavia: A comment. *Journal of Political Economy*, 67(2), 194–198.
- Horvat, B. (1986). the theory of the worker-managed firm revisited. *Journal of Comparative Economics*, 10(1), 9–25.
- Jessop, B. (2000). The crisis of the national spatio-temporal fix and the tendential ecological dominance of globalizing capitalism. *International Journal of Urban and Regional Research*, 24(2).
- Jessop, B. (2004). Globalization: It’s about time too! *Hong Kong Journal of Sociology*, 5.
- Kessler, O. (2009). Interrogating the current financial crisis. *International Political Sociology*, 3, 449–468.
- Markusen, J. (2004). *Multinational firms and the theory of international trade*. MIT Press.
- Mishkin, F. (2010). *Economics of money, banking, and financial markets* (9th ed.). Prentice Hall.
- Mishkin, F., & Eakins, S. (2009). *Financial markets and institutions* (6th ed.). Prentice Hall.
- Navaretti, G., & Venables, A. (2004). *Multinational firms in the world economy*. Princeton University Press.
- Roemer, J. (1996). *Theories of distributive justice*. Cambridge (USA): Harvard University Press.
- Sen, A. (2010). *The idea of justice*. London: Penguin Books.

---

<sup>18</sup>It has to be stressed again that for this goal all parts of the social sciences have to become one effort. As Oliver Kessler put it: ‘...an understanding of the roots, dynamics, and consequences of the crisis cannot be confined to just economic, sociological or political considerations. The “traditional” categories of international political economy or even economic sociology are inadequate. ... existing disciplinary boundaries might be more part of the problem than part of the solution.’ (Kessler 2009).

- Shubik, M. (1999). *The theory of money and financial institutions*. MIT Press.
- Walsh, C. (2000). *Monetary theory and policy*. MIT Press.
- Ward, B. (1957). Workers' management in Yugoslavia. *Journal of Political Economy*, 65(5), 373–386.
- Ward, B. (1959). Workers' management in Yugoslavia: Reply. *Journal of Political Economy*, 67(2), 199–200.
- Williamson O. (1983). *Markets and hierarchies: A study in the internal organizations: Analysis and antitrust implications*. Macmillan.

# Chapter 16

## Conclusion—The Birth of Europe

Savvas Katsikides and Hardy Hanappi

The emergence of a continental entity of political economy is a long and complicated process. Since the end of World War 2 Europe has experienced rather different stages to reach its current form. These big and often rather abrupt shifts in the perspective of a united Europe usually were just elements in the pulsating development of the global political economy; Europe always has to be understood as a vital and large part of the world economy.

In the first phase of reconstructing global capitalism after a disastrous war that had destroyed 40 millions of lives and approximately half of the capital stock of Europe, the idea to institutionalize a more integrated Western European area was built on a two-fold foundation. One pillar was the economic goal to link German and French basic industries necessary for weapons production (e.g. coal- and steel-industries) to pacify the old rivalry between Europe's largest nations. With an integrated, common economic base of warfare any re-emerging political conflict would remain civilized. The second pillar of the early unification attempts was a military goal, namely to form a common political structure supporting a European branch of NATO. From a military perspective the European peninsula had to be politically strengthened as a bulwark against the Soviet Union—this was a straight forward necessity of US-dominated NATO in times of the newly emerged bi-polar global power relations.

Surprisingly for many contemporaries this first period of unification of Western Europe proved to be economically extremely successful. Western European nations recovered rather rapidly, internal class struggles were transferred to the level of state institutions where moderate social-democrats could bargain with politically

---

S. Katsikides (✉)

Department of Social and Political Science, University of Cyprus, Nicosia, Cyprus  
e-mail: savvas@ucy.ac.cy

H. Hanappi

Institute 105-3 (Economics), University of Technology of Vienna, Vienna, Austria  
e-mail: hanappi@tuwien.ac.at

weakened representatives of the national ruling class.<sup>1</sup> Though economic integration proceeded well, political integration in Western Europe lagged behind; in particular the populations remained far from developing a European identity. Economic success was understood as national success. Social and cultural life remained diverse and as a closer look at economic progress shows, it also was built on diversification and specialization of Europe's nations<sup>2</sup> (with an exploding importance of trade between nations) rather than on the convergence of production patterns. It was the very success of Europe's, in particular of Germany's economy that put an end to that period: In 1971 the USA changed the global exchange rate system, the Bretton-Woods system was abandoned, to maintain their hegemony in world trade. During the transition period of the 70s first cracks in the European Social Model became visible. The two oil crisis (initiated by the deterioration of the US Dollar in which crude oil barrels were priced) did hit European countries simultaneously and called into question the economic competence of many European (coalition) governments. At the end of this decade a new era, the conservative roll-back—not only in Europe but world-wide—started.

During this first period Eastern European countries, the satellites of the Soviet Union's Stalinist production system,<sup>3</sup> were completely excluded from a European unification process. This does not mean that their economies did not recover; but in most cases this happened at a much slower pace and under the premise that certain trade arrangements with the Soviet Union had to be observed.<sup>4</sup>

In the following decade of the 80s conservative governments in Western Europe in general were successful in breaking the implicit social contract of the European Social Model and implemented a large initiative of privatization and reduction in all kinds of social transfers to lower income households. These measures were introduced in the name of a need to increase national competitiveness that was challenged by the renewed strength of the US economy.<sup>5</sup> Confronted with the aggressive US economic policy large European transnational companies as well as the top level of representatives of the European Social Democrats decided to give the European

---

<sup>1</sup>In the beginning of the period the shock that parts of the ruling class evidently had been supporting Fascist regimes motivated more humanistic-oriented parts to co-operate with the labour movement representatives—at least at the level of state institutions. But a divided ruling class was a weaker ruling class. This development led to an increasing influence of the state on economic affairs and became the basis for the so-called European Social Model.

<sup>2</sup>At second glance another advantage of European nations was that due to their destructed capital stock they easily could immediately install most advanced technologies, whereas US firms had the problem of non-existing markets for out-dated capital. Schumpeter's 'creative destruction' necessary for innovation appeared to favour Germany and Japan.

<sup>3</sup>See Hanappi (1994, pp. 103–162) for a detailed discussion on Stalinist production systems.

<sup>4</sup>In Hanappi (2014) a more detailed account of the history of some South-Eastern European countries is provided.

<sup>5</sup>Two elements of this second coming of US hegemony can be distinguished: The weaker US Dollar helped US exporters (1). High US interest rates, provoked by Ronald Reagan's enormous military expenditures, were attracting European capital and thus were driving European interest rates upwards, which in turn killed investment demand in Europe (2).

unification process a new push. The basic idea was to develop a common European political entity that could match the strong political leadership of the USA. All important initiatives and treaties of the European Union can be traced back to the initiatives of the 80s. The common enemy on world markets enabled a grand coalition between European social democrats, e.g. Jaques Delors, and large European firms, e.g. members of the Copenhagen Round. Since from the start this coalition mainly aimed at Europe's competitiveness in the world economy, which necessarily included dampening of wage increases, it is not surprising that the new agenda for the boost of the EU did not contain any components supporting the social net of Europe's workers. Of course, this strategy eroded the influence of social democrats on their respective national workforce<sup>6</sup>: those parts of the population that were hit most by the attempts to increase competitiveness started to turn to nationalist right-wing movements, e.g. Austria's Jörg Haider became a new party leader in 1986 and in 1984 Jean-Marie Le Pen was elected to the European Parliament for the first time.

Parallel to these developments in Western Europe the hierarchy of the power structure of the Soviet block was dissolving. It is remarkable that this erosion of the Stalinist house of cards of coercive power has not been initiated by any dramatic failures of the economic base in these countries. At most one could say that their slow economic improvements asymptotically approached no economic improvements, but this could not explain the sudden political eruption at the end of the decade. Future historians will have a difficult time to explain what had happened, it goes far beyond the scope of this chapter. As a matter of fact, the iron curtain fell and suddenly the European agenda could be envisaged on a much broader scale: It could be extended towards the East and as for any peninsula where the border towards Asia was assumed, e.g. the Ural, was an open question.

In the 90s, with the fall of the Soviet Union, the topic of European unification changed its character. Probably it now could be understood best by distinguishing two types of crusades that the West started to conquer the former European satellite states of the Soviet Union. One crusade was an **economic expansion** of Western European firms, the other one was a **military conquest** of US-lead NATO.

The first process, the changes in the political economy—including the introduction of market mechanisms as well as the implementation of new (political) regulatory regimes and governments—earned the new Eastern European states the reputation of being 'transformation states'. After more than 20 years of transformation it is only fair to say that these processes have produced a variety of rather different animals of political economy, but certainly not what a textbook capitalist system would look like. Most of the chapters of this book (3, 4, 5, 6, 8, 9, 10 and 11) are discussing the respective peculiarities that emerged in these countries in the course of transformation. There is no doubt that only a rich picture of these empirically observed transformation phenomena can be the basis of a more general theory of the dynamics of European political economy in the last two decades. Like

---

<sup>6</sup>See Hanappi (2010) for a more detailed description of the development of social democracy.

the pieces of a puzzle that can only fall into their place if a critical amount of them is found to fit in certain aspects, there is a lot of additional empirical research needed to see the contours of a new continent-wide economic policy. On the other hand, time is getting short, the need for immediate action necessary to keep the pilot project Europe afloat is evident.<sup>7</sup> Thus parallel action, combining long-run and short-run challenges is needed.

It is clear that in the course of the unification process some elements shared by all European countries will have to converge, e.g. **monetary procedures**, while it is at the same time advantageous for Europe to preserve its variety in other aspects, e.g. its rich cultural scope. Chapter 2 by Christis Hassapis covers certain convergence processes for a larger group of countries, and thus is more than just a country study. Another step taken into a particularly important economic area that will shape Europe's future unification process is provided in Chap. 13. In this chapter researchers from England and Greece take a look at the special **role of IT industries** when an economic crisis strikes. To derive empirical estimates for their conclusions they use data from the USA. In a similar vein Chap. 14 uses US-data to debate the validity of a certain type of **investment function**, namely a specification proposed by Keynes' contemporary Michail Kalecki. Independent, i.e. behaviourally grounded, investment functions are the core of macroeconomic modelling<sup>8</sup>; their specification implies what can and has to be done by economic policy—in particular in times of severe crisis. Chapter 7 by Nicholas Baltas contributes another more general aspect of European political economy: continental **governance**. This topic is taken to a more speculative level concerning European governance in the future, in a continent-wide Shangri-La, in Chap. 1. Finally the already mentioned second trajectory of Europe's recent history, namely the **military aspect**, the advance of NATO towards the East, is dealt with in Chap. 12 by Georgia Yiangou. Chapter 14, Konstantinos Vergos, Apostolos G. Christopoulos,\* Quyan Pan, Petros Kalantonis are examining another highly relevant relationship, namely the connection between the IT industry and the economic crisis. Chapter 13, Evangelos Charos, Hossein S. Kazemi, Anthony J. Laramie and Douglas Mair, the paper follows Kalecki's 'golden rules' under which historical materialism and econometrics can be reconciled provided that changes in the superstructure are not of such a magnitude as to invalidate the use of econometrics to estimate the relationships between the economic variables in the sector of productive activity and that productive relations are explicitly included in the model. Chapter 15, Savvas Katsikides and Georgia Yiangou, this chapter explores the reasons which led to the collapse of the Cyprus banking sector in 2013. Chapter 16, Conclusion-The Birth of Europe Savvas Katsikides and Hardy Hanappi. All of these chapters therefore are spotlights on particularly important topics that pop-up in the course of Europe's unification process. They concern all European states and thus have to be merged

<sup>7</sup>See Hanappi (2013) for a concise policy program needed in the short-run.

<sup>8</sup>The chapter also provides some insight why and how far econometric analysis is an important tool for political economy.

with the respective country-specific characterise. To which extent disparity and diversity in Europe can be transformed into an advantage of the European continent as part of the global economy, and how this process has to be embedded in a countermovement of converging regulations in other areas of political economy—this will be the big question to be answered by European social scientists and political decision-makers. To solve it, is to initiate the birth of Europe.

To be able to work on such a solution the European project needs some time—and independence of any short-run and self-amplifying military agenda that threatens peaceful evolution. In the face of the more recent developments in the Ukraine and the Near East this last point needs emphasizing: European unification as a civilized process needs conscious and self-assured European leadership that acts independent from geo-political military strategies of other global powers. An important cornerstone of such a European leadership is a scientific community of social scientists that produces an adequate theoretical foundation for its actions. If this book has made a modest contribution to this goal then it has achieved what its editors had strived for.

## Bibliography

- Hanappi, H. (1994). *Evolutionary economics. The evolutionary revolution in the social sciences*. Aldershot: Avebury Publishers.
- Hanappi, H. (2010). The beat of visions. The challenging features of a new global mode of production. In *Paper contributed to SGIR 7th Pan-European International Relations Conference—Politics in Hard Times: International Relations Responses to the Financial Crisis*. Stockholm, Sept 9–11, 2010. Published as MPRA Paper No. 28398.
- Hanappi, H. (2013). Can Europe survive? Ten commandments for Europe's next ten years. In A. Balcerzak (Ed.), *Growth perspectives in Europe* (pp. 27–92). Torun: Polish Economic Society. Also available as working paper: Papers for Evolutionary Political Economics (PEPE, No 9, 2012).
- Hanappi, H. (Ed.). (2014). *South-East Europe in evolution*. London: Routledge.