

## **South-east Europe in Evolution**

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## Introduction

Why is a book on the evolution of Europe's south-east an urgent task? Why is it an important task at all? Are there not enough books on cultural uniqueness, esthetic qualities, and historical importance of this area on the bookshelves already? There are indeed, though it is always interesting to discover new aspects. But the motive for this book, its starting point, is radically different. Its focus is on the contemporary stage of a large entity of political economy, of a continental unit just being born, it is on the fragile fate of a future Europe. Europe's evolution, its second renaissance, takes place with different speed and in rather different modes in the diverse parts of the continent. A basic suggestion put forward in this book is that the south-east part of Europe is currently the most crucial component of Europe's further development<sup>1</sup>. To understand why this is the case a short tour de force to explore the history of political economy of Europe is necessary.

Since the end of World War 2 Europe, the 'old continent', has experienced a most surprising evolution. Reborn as a divided former battlefield, which just had lost a considerable amount of its population and about half of its capital stock, its future seemed to be endangered. Torn apart by the newly emerged global superpowers to its east and to its west and characterized by the multi-faceted internal restructuring processes brought about by the dynamics of the changed power relations – new local and global setups – Europe's first long-run recovery process lasting till the 70-ties was astonishing. In the west this process was embedded and supported by international agreements and institutions like the Bretton-Woods system of fixed exchange rates. In the east a new division of labor between more advanced manufacturing in Eastern European countries to be exchanged for cheap energy from the Soviet Union was established, basic infrastructure was rebuilt. Despite several dangerous episodes the Cold War between the two hegemonic systems remained cold – Europe remained on its reconstruction trajectory, but also remained divided.

Then a sequence of two important blows<sup>2</sup> lead to a shake-up of socioeconomic evolution: First the ***breakdown of the fixed exchange rate system in 1971*** initiated a global energy

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<sup>1</sup> Even surface phenomena like Greece's financial turmoil, and the high hopes on Turkey's possible future contributions to European real economic growth show that there is a shift in public attention indicating that the bottleneck characteristic of the area is sensed already.

<sup>2</sup> To show how endogenous tensions slowly built up, and finally manifested themselves as the two bursting bubbles of well-established forms of political economy, such a demonstration would go beyond the scope of this brief introduction, but compare [Hanappi, 2014].

price shock, which in turn synchronized all business cycles in the western world and thus lead to a heavy economic downturn in Western Europe in 1975. The falling US Dollar could re-conquer export markets and the suffering West European economies had to restructure themselves. In the end it has been this general defensive position with respect to the strong second post-war upsurge of the USA in the early 80-ties, which lead to the re-launch of the idea of a politically united Europe able to support its global economic players, its transnational corporations. In this decade the political will for the installation of a European Union materialized. Of course, the idea had existed earlier, but the critical mass of a coalition of powerful groups in Western Europe only became possible under the threat of global economic pressure. Then the second shake-up occurred: the ***breakdown of the Soviet Union in the early 90-ties***. All of a sudden the iron curtain fell, and the two parts of Europe potentially could be re-united. This was a historically unprecedented situation; the European project could suddenly be extended to include the so-called transformation countries. This terminology, of course, immediately reveals the ideological supremacy of the west: Which parts serve as the future role model, and which systems have to be transformed. After twenty years of transformation it is rather evident that this process was not the easy return to a natural state of affairs, which temporarily had been disturbed by Stalinist production systems<sup>3</sup>. One lesson learned certainly concerned the wide variety of possible transformation paths for Eastern European countries. While Finland – after a deep fall – in several important respects quickly became a leading member of Europe, other countries where confronted with a long-lasting stagnation or welfare decline - even if compared to their Stalinist past. Despair of large parts of the population (all those not ready to organize quick profit around the newly defined political setting) followed and till the day in many areas an uneasy relationship between eastern and western parts of Europe cannot be denied. To develop a common political and economic framework for a continent with such diverse economic and political history, with languages and cultures constituting borders rather than being an interesting variety of views offered and reconciled, is difficult. To start a unification process under these circumstances certainly was a risky, though worthwhile task.

It is this context of the last twenty years which explains the special role presently played by the south-east part of Europe. It all started with the Balkan war, a war initiated by the president of a non-European superpower, partially against the consent of western European

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<sup>3</sup> For a macroeconomic definition of a Stalinist production system see [Hanappi, 1994].

leaders. To explain this move one has to refer to geopolitical considerations, which implies a considerable amount of speculation about the motives of the US government at the time – a daring analysis, which goes beyond the scope of this introduction.

Whatever its immediate origin, it is sure that the characteristics of the Balkan war are quite unique. The way in which the former state of Yugoslavia broke into parts was demonstrating how little can be explained by purely economic considerations, and how important the ideological amplifiers not grasped by standard economic theory are. With the exception of the religious aspects of anti-Semitism religious warfare had not been observed in Europe for a very long time. The intensity with which at micro- and meso-levels ideological constructs (including religious metaphors) became instruments of war on the macro-level has been spooky and foreshadowed elements of Taliban warfare in the near east. The south-east of Europe (in contrast to the rest of Europe) thus experienced not only war; it also saw the first reappearance of micro-rooted ideological amplifiers of the religious variety. This feature, the emerging importance of religious and cultural factors on micro-levels, has not disappeared in south-east Europe since. The access of Turkey to the EU, its internal problems of extreme cultural and economic imbalance, its external role as the outpost of a secularized Europe towards the Islamic near east, almost every aspect of Europe's south-east border is infiltrated by ideological topics and religious beliefs.

As brute religious convictions proved to be powerful tools for warlords during the Balkan war, so was the rediscovery of direct coercive action itself. The sudden loss of the executive power of a more or less accepted central ruler in Belgrade gave local military leaders the possibility for uncontrolled coercive action. Direct coercive power was on the agenda again. Strong religious ideology and strong coercive power typically go hand in hand - so far these developments are not surprising. What is surprising is that after decades of civilized neighborhood relations (in a wide sense) such a fierce breakout of this evil pair of religious/cultural convictions plus use of direct military action was possible. Even if in some parts of Europe's south-east the dynamics of these forces seem to be frozen (e.g. Turkey and Cyprus), there is a continuing latent potential<sup>4</sup>. South-east Europe's evolution can neither be understood nor anticipated without a close inspection of this potential.

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<sup>4</sup> In this context it should be remembered that the military government of Greece as well as Ceausescu's regime in Romania are two other examples of frozen military state power not very far in the past.

Though these elements play a special role in the south-east as compared to other parts of Europe, it never should be ignored that they are embedded in and even encompassed by economic and geopolitical developments. Economic structures, either given as natural endowments or acquired by endogenous efforts, are the foundation for the determination of the role of the South-East in Europe's future division of labor. In this sense the **political economy**, more precisely its trajectory, is the basis for the above mentioned special characteristics of **coercive powers** and **cultural traits**.

The structure of the book follows this trinity. The first part investigates economic aspects of south-east Europe. The second part deals with politics including military questions. The third part discusses cultural phenomena. Since the book aims at an overarching explanation of recent evolution and informed mid-run anticipation, it remains sketchy in some detail to be able to drag the reader to more general conclusions. This is necessary to avoid a loss of attention caused by too many singular issues. In other words, this book is not encyclopedic.

It rather tries to follow some superficial esthetic principals<sup>5</sup>: Each of the three parts again consists of three chapters.

The economic part starts with a chapter characterizing the evolution as driven by the major agents at work in the area since the end of World War 2. This take-off is rather unconventional for an economic analysis, but proves to be of utmost importance for taking account of the changes of tide, the vivid switches of political economy constellations, which occurred in Europe's south-east part since 1945. Economic expansions, development of infrastructure, consumption and investment patterns, all these elements in the end are driven by economic agents. And if the set and the characteristics of agents changes dramatically (as was the case in the period under consideration), then a careful description of these changes is a precondition for any further analysis. Not only to understand the past, but also to use this interpretation of history for the anticipation of future changes is the challenge of this chapter. The second chapter introduces a somewhat contrasting view on the same object of investigation: The spotlight is not on the dynamic changes of the set of agents but on the somewhat more inertial evolution of the set of commodities and services

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<sup>5</sup> *Esthetic* in the classical sense - of being appealing without interference of rational thought - here refers to the attractive power of the ancient three-step scheme of thesis, anti-thesis, and synthesis, which by the way originated in Europe's south-east. As a closer look at the content of the chapters reveals, this interpretation is a bit farfetched and needs a lot of imaginative power. Let it remain at the esthetic level.

produced in the area as a whole. The basic goal thus consists in getting some insight into the changes of labor productivity in production sectors, to see how they influence trade between SEE countries as well as with non-SEE economies, and how these productivity developments in turn are influenced by geopolitical developments. The latter task evidently constitutes a link to the previous chapter. Again this chapter ends with some ideas on the future, this time concerning the economic production structures possible in Europe's south-east and the policy recommendations they imply. It is thus more about constraints to be considered and less about possible dynamic changes of power structures to be anticipated. The last chapter in the part on economics, chapter 3, focuses on the most pressing contemporary economic policy question, the point where agent dynamics currently meet structural constraints<sup>6</sup>: labor markets and education. Organization of the division labor in the last decades has become the central global problem. Its unsolved problems, its failed attempts to overcome fundamental constraints, appear as financial bubbles, as liquidity crisis of households, banks, and states. Once a bubble bursts an increase in unemployment follows, a change in economic and sometimes even political structure becomes mandatory. Chapter 3 takes a close look at the conditions prevailing in SEE countries. Clearly the outlook for the future of this chapter has to include policy answers, that is, how education policy – building on its stock of past experience – can adjust the quality of the labor force. Again, several important side-constraints have to be considered: institutional structures, increasing contradictions between big cities and the open land, political priorities of governments. This chapter proceeds by a country by country analysis going from description of the specific situation to some policy recommendations. Policy recommendations provide a nice link to the second part of the book concerning politics.

The three chapters of the second part focus on elements of politics, which currently turn out to be the essential bottlenecks of social evolution – not only in SEE, but even globally: Environmental problems, problems of designing and implementing democratic governance mechanisms, and situating and organizing change in the context of geopolitical dynamics. Political science is the scientific discipline investigating the dynamics of power structures in society. Social power manifests itself usually either via the implementation of institutions, a kind of temporarily frozen setting of opposing powers, or via outbreaks of sudden upheavals

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<sup>6</sup> For the methodologically interested reader: synthesis of antipodes has to take place in the arena of practice, preferably on a topic that poses the most severe problem.

against the existing power structure. Since economic mechanisms - exploitation of nature by man as well as exploitation of man by man – are always embedded in institutional frameworks, these frameworks and their eventually occurring revolution, i.e. politics, can be considered as concentrated economics. In this sense the two elements of economics and politics have been conceptualized in the classical political economy oeuvres of Malthus, Smith, Ricardo, and Marx. The first two parts of this book are meant to follow this concept of political economy.

Politics understood as concentrated economics implies also a concentration in time; times of relatively slow changes in power structures are followed by sudden and profound breaks leading after a brief consolidation period to another slowly changing regime<sup>7</sup>. The current speed-up of political change is rooted in the inability of existing political structures to handle rapidly increasing, dangerous threats. Chapter 4 starts by investigating how the global menace of environmental damage questioning the survival of mankind expresses itself in south-east Europe. The mechanisms, in particular the market mechanisms maintained by the political systems of the area have proven to be rather insufficient and inadequate to solve the upcoming questions, to say the least. The chapter thus not only provides a critique of current practice but also suggests possible routes to be followed in the future, emphasizing a profound break with the still prevailing growth-oriented ideology. The necessary political change to initiate substantive environmental policy points at the need to design a different political process. A certain, crucial aspect of this topic is discussed in chapter 5. Here the focus is on the rather fragile relationship between military backed dictatorship and democracy. The question is approached by an empirically oriented econometric analysis that tries to detect how the relationship between democracy (measured by certain well-established indices) and military (measured by military expenditure) works. Developments in Europe as well as in some comparable Asian countries are used to derive the main issue: High military expenditure in low-income countries is detrimental for their welfare growth. This result shows the most acute political problem in Europe's current situation, namely how to redesign democratic mechanisms to avoid the self-amplifying circle of more authoritarian national regimes and increasing unemployment. But a closer look at the link between welfare and democratic governance reveals that the concept of welfare has to be expressed

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<sup>7</sup> The parallel to Schumpeter's concept of basic innovations, in this case basic social innovations, is evident. Several more recent schools of thought, like the French school of regulation [Boyer, 1986] and the American Social-Structure-of-Accumulation approach [Gordon, 1980], have made this theoretic liaison more explicit.

in a much more specific way than just taking GDP per head of a country as an index. This index, averaging total output and total population, hides the most important internal struggle between the different classes of an economy, which in turn is handled and hopefully civilized by democratic mechanisms. A first set of measurable economic variables to highlight class dynamics are the distributions of income and wealth<sup>8</sup>. To stay in power political leaders will either have to find compromises and coalitions within their countries and also with the European Union or they might take a radical turn to an extreme right-wing type of national governance. At least this seems to be the lesson to be learned from Europe's development after the big depression of the thirties. This not only is a drastic comparison, it indeed might be the dramatic consequence of further deteriorating income distribution and exploding unemployment. It is thus of utmost importance to implement economic policies on national levels as well as on the European level that aim at improved distribution mechanisms to defend democracy and civil society. The last - a bit synthesizing - chapter 6 of this part on politics concentrates on the interaction between south-east Europe and global politics. Environmental issues as well as local evolution of democracy in SEE are topics only to be understood fully when considered in the context of global political dynamics. A full-fledged theory about the latter, of course, would go far beyond the possibilities of this chapter. What is presented thus is just a fragmentary subset of the international power play involving and shaping SEE countries – and some possible scenarios for future developments. It proves to be necessary to discuss the northern part of SEE, the countries of the former Eastern Hemisphere, different from its southern neighbors Greece, Turkey and Cyprus. Each of the latter three is separately dealt with. Nevertheless, as SEE in some respects is considered in total, i.e. an indivisible part of Europe, it also is the European neighbor to the Islamic world of the Near East. Evidently the break between a religious state dogma and the secularized constitution of the European Union is of essential importance – and this also provides the link to the third part of the book.

The third part of the book comes under the glamorous header of culture and goes beyond the range of classical political economy<sup>9</sup>. There are good reasons why culture - the

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<sup>8</sup> For aficionados of dialectical reasoning: The anti-thesis that a chapter on the organization of power struggle between classes (chapter 5) poses to a chapter on the organization of global general environmental benefits (chapter 4) corresponds somewhat to the often discussed contradiction between economy and ecology. Would a more equal income distribution be compatible with better considered environmental constraints?

<sup>9</sup> Nevertheless it is clear that the classic authors were well aware of the importance of culture. From Smith's work on moral sentiments to Marx' essays on the analogies between religious concepts and the perception of



normative power of the symbolic systems produced, perceived and used by the members of society<sup>10</sup> – has gained a more dominant role in the last hundred years. One fundamental reason certainly is the occurrence of profound technological revolutions in the twentieth century. Technical progress from telephone via radio and TV to contemporary internet and mobile phone applications has transubstantiated the world in which Malthus and Ricardo had lived. In particular the computer - a device, which Herbert Simon and Alan Newell early on had dubbed a ‘symbol manipulating machine’ – has extended the limits of our secondary metabolism, our life in the information sphere, towards borders we still cannot really determine. The second important driver for the surge of cultural amplifications probably is the sterilization of possible impacts of micro-units on the primary metabolism. Be it that the extremely interdependent networks of production are perceived as intellectually impenetrable<sup>11</sup>, be it that the satisfaction of the basic needs involved in the primary metabolism appear as ascertained in many European households, the fact is that in the 20<sup>th</sup> century individual energy was rather easy to manipulate towards goals erected in the world of symbols<sup>12</sup>.

But the basic features of the forces of cultural systems are much older than the current technological means, which serve them so formidably. Chapter 7 is on religion, and is meant to achieve a twofold task: To explore the primary cultural archetype, i.e. religion, and at the same time to give a survey on its evolution in south-east Europe. Though the future of ever larger parts of life taking place in symbolic environments might be a possible scenario, the blossoming of religion under the secularized umbrella of the EU is not a likely trajectory. The difficult task to take apart these two streams is the challenge faced in this chapter. The difficulty to theorize distinctions in a scientific area generally haunted by vaguely defined (not to talk about ‘commonly shared’) concepts certainly is a basic problem of part 3. The opposition to chapter 7, which is brought into this mosaic in chapter 8, on gender and generation relations, consists of establishing its distinctions as starting points of the argument, rather than developing them in the course of future evolutions. Sex as a biological

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capital processes there is ample evidence that they derived a lot of their ideas from the study of cultural elements.

<sup>10</sup> Instead of adding another one to the thousands of definitions of culture already existing, this brief description of its working as a social power should be sufficient for the purpose at hand.

<sup>11</sup> Classical economists have called this phenomenon ‘alienation’, compare [Hanappi and Hanappi-Egger, 2013].

<sup>12</sup> Fascism in Europe is the outstanding example, but less disastrous examples after the defeat of Fascism abound. The new fundamentalism is just the subset of movements using ancient symbol systems for their games.

property is defined in opposition to gender, a property emerging in the way a society handles biological predispositions. Biological age of an individual is related, but theoretically to be always distinguished from what age-ism ascribes to the old generation in a given society in a given era. The focus of the investigations in chapter 8 thus is on how this given bipolarity of biological traits and the social use groups in societies make of it manifests itself. Again the chapter has to struggle with a twofold goal: Describe some basic archetypical algorithms (and a corresponding terminology) explaining the use and misuse of biological traits in social procedures, and provide some eclectic examples on what this implies for the evolution of south-east Europe. Though the object of investigation seems to be limited by time and location (SEE in the after-war period) it turns out that the questions touched upon are at the center of theoretical disputes of feminist theory as well as of the sociology of aging societies in general. The concluding ninth chapter is on organizational forms. These forms are manifestations of agreed upon solutions to handle behavior, which otherwise would be damaging to at least one of the concerned partners. With respect to religious forms, to manifestations like the Catholic Church, the standard algorithm consists of the broadening of membership in the club of chosen people, where the choice is made by a hypothesized supernatural being, which actually and visibly is represented by a group of earthly officers, of priests. For the simple members a credible threat of being a non-member has to be produced by officers, so the latter can exploit the primary metabolism of their lay members paying them with the production of elements of the secondary metabolism. All organizational forms of religion somehow follow this scheme. But chapter 9 takes up a somewhat different, though related idea: Building on some seemingly irrelevant but still visible historical differences existing institutional settings representing ruling power structures can and will use cultural devices, i.e. the organization of culture, to amplify and to deepen the existing hegemony. Organizational forms usually start at the meso-level, but practiced for longer time in certain local environments they not only transpire into the behavioral forms of individuals, they even tend to raise their head and determine macroeconomic performance. A most prominent scientific field in which this phenomenon has been investigated is the study of corporate governance. Chapter 9 provides an introduction to these questions by starting with typical comparison between Anglo-Saxon styles (USA) and European styles of corporate governance; and then proceeds to discuss the particularities of south-east Europe. The south-east of Europe certainly can be considered as

a most interesting laboratory for intriguing crossings of formal and informal organization. The outlook of this chapter points at further evolution rather than at a demise of Mediterranean styles<sup>13</sup>.

The trinity of the three parts of the book leads back to its origin, to a better, a more informed understanding of the history of this part of Europe. Furthermore in the course of this intellectual journey it will become clear that the future of the European project to a considerable extent hinges on the future of its new member states in the south-east. The way the European Union can position itself as a neighbor of the Near East, as an example of good governance of the difficult economic, political, and cultural structures existing in the countries in its south-east – this challenge will either be met (and honored by European citizens), or ...

The following chapters have been written by different authors or pairs of authors. As a consequence the opinions and arguments with respect to the same object of investigation sometimes differ. In our opinion it is not a deficiency if the views on a process, which is in continuous flux are not streamlined but reflect the variety of possible interpretations based on conscious and unconscious internal modelling approaches of the respective scientists. This book is meant to inspire debates rather than to present a unique and all aspects encompassing theory of Europe's south-east. The responsibility – and hopefully also the acclaim - for the views expressed in a chapter rests completely on the author(s) of the chapter. Having said this, in editing this book I nevertheless can identify a common pro-European spirit that is shared by all authors. This continent is a political entity that only just is being born; the accompanying variety of theoretical support of this risky process – with an optimistic undertone – seems to be the most adequate contribution we can provide.

Hardy Hanappi

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<sup>13</sup> Indeed several specific organizational forms of SEE are shared with other Mediterranean countries. Though some of them evidently will (and some even should) not survive European unification, there seems to be a cultural pool of forms outperforming other alternatives of organization. It is thus good advice for the rest of Europe that there is a lot to learn from its south-east part.

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