



EACES Newsletter

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1. OFFICIAL NEWS

1.1 MESSAGE FROM THE PRESIDENT

Dear EACES members,

as the new president of our Association, I'd like to welcome you to this edition of our quarterly EACES newsletter. On behalf of the entire board and executive committee, let me first express my gratitude for the overwhelming vote of

confidence the general assembly in Warsaw gave to all EACES officers.

Special thanks are due to those officers who have left the board. First to mention are our past president Magdolna Sass and past secretary Agnes Szunomar from Budapest. Thanks for the diligent and successful job you've done. Apart from performing all the usual chores of your respective offices, you also succeeded with and after the 2014 conference in Budapest to strengthen the bonds between researchers from Hungary and our Association.

A very special thanks goes to Jens Hoelscher who – after having been EACES president – for many years served as our treasurer. For those of us who know EACES for a longer time, it's hard to imagine EACES without Jens looking after the money. But then, we are supposed to know a few things about transition ... Be this as it may, the overview of the financial situation that was given during the general assembly in Warsaw made pretty clear that he has done a great job in the past.

Last but not least, I also want to thank Jan Svejnar and Milica Uvalic who didn't run again for the executive committee. The existence of the advisory board on which Milica still sits, however, ensures that we will still benefit from her ideas and network in the future.

And I would like to welcome the new board and committee members, first of all Hartmut Lehmann as the vice president and Kseniia Gatskova who agreed to fill the positions of both the Association's treasurer and secretary in personal union. I am very grateful for this.

Newly elected executive committee members are this year's winner of the EACES Ph. D. award, Sonja Avlijas from Science Po in Paris; Beata Farkas from the University of Szeged; and Francesco Pastore who will be in charge of organizing the 2020 edition of our biannual conference in Naples.

In the meeting of the newly elected board and executive committee I offered the observation that EACES can only be as successful as the initiatives of its members and asked for any suggestion that helps to foster research on comparative economics and exchange between researchers. I would like to extend this to all EACES members: Please don't hesitate to contact me if you have any idea to share or suggestion to make. I also want to remind all of you that you are very welcome to send call for papers for your workshops and conference to be included in our quarterly newsletter. Just email them to our

secretary, Kseniia Gatskova at gatskova@ios-regensburg.de.

I also want to thank everybody who contributed to make the Warsaw conference a success. I know from first-hand experience how challenging and laborious the organization and management of such an event is. So again and on behalf of all participants – thanks for your tremendous efforts! This newsletter also contains the written version of the keynote lecture presented by Domenico Mario Nuti on the "The rise, fall and future of socialism". (The written version of the other keynote, by Stanislaw Gomulka, was included in the conference package.)

Right after the conference in Warsaw, we received the sad news that Božidar Cerović from Belgrade University has passed away. In her obituary in this newsletter, Milica Uvalic reminds us of his contributions to our subject and to our Association.

Jürgen Jerger, EACES President

1.2 MEETING MINUTES

of the EACES General Assembly, 7th September 2018 Meeting, 17.15 at Warsaw School of Economics, Warsaw, Poland

Present: 47 EACES members, including EACES Board Members, President, Vice President and Secretary (in alphabetical order):

Jürgen Jerger, Vice President (JJ)
Michael Keren
Hartmut Lehmann
Satoshi Mizobata
Martin Myant
Magdolna Sass, President (MS)
Agnes Szunomar, Secretary
Milica Uvalic

Urmas Varblane
Andrei Yakovlev

1) Presidential Report (MS)

The president reported on the past two years, EACES Board's activity, progress that has been made as well as remaining issues to be solved during the next presidency.

Membership: EACES has now around 430 members. After this conference membership will grow further.

Newsletter: EACES issues newsletters four times a year on the activities of the organization, events organized or co-organized by EACES, publications of members and others.

Warsaw Conference: The EACES Warsaw conference had 110 participants officially. Some had to cancel right before the conference (e.g. due to the typhoon in Japan). There were some delays during registration and submission due to delays of submission tools and problems with PayPal. We managed to solve these, while deadlines had been expanded.

Events: EACES has organized and co-sponsored several events in the past two years.

Website: The website has been changed (new design, easier editing)

Journal (EJCE): Although the current Board has worked a lot on it, there are major issues to be solved concerning the Journal.

Next conference: MS announced that the next EACES biennial conference will be held in Naples at University Parthenope, September 2020. Francesco Pastore made a presentation on the University. He emphasized that the University has experience in organizing international conferences. They have already organized a brainstorming session on what to offer for the participants (tours, session for publishing houses, etc).

2) Financial report (MS)

As EACES treasurer Jens Hölscher couldn't participate, MS reported on the finances of EACES.

EACES has 13.000 EUR (without conference costs) on its EUR account and 9355 GBP on its GBP account, so financially everything is safe and sound. The president expects to have a little surplus (1-2.000 EUR) after Warsaw EACES conference. The president announced that Jens Hölscher resigned and a new treasurer will be elected during the assembly. She expresses the gratitude of the Association to Jens Hölscher for the many years he served as treasurer.

3) Statute (vote) on Changes of the EACES statute (Vereinsatzung) (JJ)

Background: Vice-president JJ reported on the statute of EACES. He explained that legally, EACES is registered as a non-profit association (eingetragener Verein) in Germany. Among other things this implies that any changes in the association's statute are subject to a vote of the general assembly. Two changes are necessary in order to be eligible for the tax-privileges of a non-profit association.

The formal vote included both the English and German version, because the latter is the legally binding one.

1)

Article 2. Purpose of the Association: Additional sentence (sentence 2): The Association is a disinterested non-profit organization, and does not primarily focus on own economic purposes.

§ 2 Zweck des Vereins: Zusätzlicher Satz (Satz 2): Der Verein ist selbstlos tätig; er verfolgt nicht in erster Linie eigenwirtschaftliche Zwecke.

2)

Article 10. Dissolution of the Association: New text for part b.: b. In case of dissolution of the Association or the discontinuation of tax-privileged purposes, the assets of the Association will be transferred to a legal entity of public law or another tax-privileged body in order to promote science and research.

Old text: b. In case of dissolution of the Association its assets will be used directly and only for scientific or charitable purposes, if possible in accordance with the Association's purposes. Decisions on the specific utilization of the assets are taken by one representative of the Technical University of Freiberg, one of the town of Freiberg, and two members of the Association designated by the dissolving General Assembly.

§ 10 Auflösung des Vereins: Neuer Text für Abschnitt b): b) Bei Auflösung des Vereins oder bei Wegfall steuerbegünstigter Zwecke fällt das Vermögen des Vereins an eine juristische Person des öffentlichen Rechts oder eine andere steuerbegünstigte Körperschaft zwecks Verwendung für die Förderung von Wissenschaft und Forschung.

Alter Text: b) Bei Auflösung oder Aufhebung des Vereins wird das Vermögen nur und ausschließlich für wissenschaftliche oder wohltätige Zwecke verwendet, nach Möglichkeit in Übereinstimmung mit den Zielsetzungen des Vereins. Die Entscheidungen über die spezielle Verwendung des Vermögens werden gemeinsam durch einen Vertreter der TU Bergakademie Freiberg, einem Vertreter der Stadt Freiberg und zwei Mitgliedern des Vereins, die von der auflösenden Mitgliederversammlung benannt werden, getroffen.

The statute was changed with full support (unanimous vote) of EACES members.

4) Election of the new Board (MS)

The president asked all candidates (including candidates for president, vice-president, secretary, treasurer and board members) to introduce themselves.

Before voting, Hubert Gabrisch emphasized that in the future, it would be good to introduce the candidates to EACES members already in the newsletter before the forthcoming conferences and general assemblies so as members can learn something about the candidates.

Number of votes: 47

Results:

Jürgen Jerger – elected as president
Hartmut Lehmann – elected as vice president
Ksenia Gatskova – elected as secretary and treasurer in personal union

Elected as members (in alphabetical order) of the executive committee are:

Sonja Avlijas
Beata Farkas
David Kemme
Michael Keren
Satoshi Mizobata
Martin Myant
Francesco Pastore
Urmas Varblane
Andrei Yakovlev

5) Other issues (MS)

The next EACES Board Meeting will take place 8th September 2018, in Warsaw, on the last day of the conference. With no further business, the president closed the assembly at 18.30.

2. OBITUARY

Professor Božidar Cerović

It is with great sadness that I share the news on the passing away of Professor Božidar Cerović, better known to friends and members of EACES as Cera. He was our close colleague, a brilliant scholar, devoted friend and very active member of EACES. Professor Cerović passed away on 11th September 2018 at the age of 71, after a long illness that he fought with courage and determination until his very last days. A final farewell on the part of his family, colleagues and numerous friends took place at the New Cemetery in Belgrade on 14th September.

Cera has been an active member of the EACES for over two decades. Some of you may still remember his wonderful hospitality in Belgrade, when he hosted the 9th bi-annual EACES conference entitled “What after 2004?” in September 2004 at his home institution, the Faculty of Economics of the University of Belgrade, where he had been Dean and had taught economics for many years. Cera was elected member of the EACES Executive Board several times, but then stepped down to let a younger colleague replace him. Some of the EACES’s Workshops were also Cera’s initiative, in Belgrade but also in Miločer, one of the most beautiful places on the Montenegrin coast. As organizer of these events, Cera took great care not only of the contents of the scientific part, but also of all possible other details – from unforgettable meals with several dozen different dishes, to live music and boat rides (even under heavy rain) down the Sava and Danube rivers - and later getting the papers presented published in book form. Cera was also the Editor of one of the journals associated to the EACES – *Economic Annals* - which he presented at several recent EACES conferences.

Cera has maintained his active presence in our Association until his very last days. As late as 8th September 2018, at the 16th EACES Conference in Warsaw, he was co-author (together with Jasna Atanasijevic and myself) of a paper on Serbia’s economic performance after the global economic crisis. Although his illness prevented him to attend, we had discussed the contents of our paper over the phone just a few days before my flight to Warsaw. Upon returning home, I sent him the comments we had received (knowing him, I have no doubt he has read them, despite his deteriorating health conditions). The next day I received the sad news that he had passed away.

Cera was a rare intellectual, he had a critical mind and was truly dedicated to his work, but he also had great knowledge about many fields that go well beyond economics. You may not know that Cera was very active in one of the most important Serbian soccer teams, the Red Star, where he for years had important functions (last as Vice-president of the Executive Board), thus actively contributing to some of the most glorious moments of Red Star’s history. Cera also knew how to enjoy life in the best possible way - through excellent food, good music, travel to exotic places. He was an extremely generous person - with his time, his comments, his commitment to teaching, his care for younger colleagues and students, his hospitality – but was also one of the most honest persons I have known, consistent in his views and a great defender of those values he regarded important. We will all miss him.

22 September 2018

Milica Uvalić, University of Perugia

3. KEYNOTE LECTURE OF D. M. NUTI at the EACES CONFERENCE 2018: THE RISE, FALL AND FUTURE OF SOCIALISM

Domenico Mario Nuti, Emeritus Professor, Sapienza University of Rome, dmarionuti@gmail.com

Introduction and Summary

I am particularly pleased to be here today, and grateful to the organisers for their invitation. My personal and professional life has deep and long standing connections with Poland. I first came to Warsaw 55 years ago immediately after graduation. I was a student in this very institution that today hosts our conference, the Main School of Commerce, except that at that time it was called the Main School of Planning and Statistics; I was fortunate to be taught here by Oskar Lange and Michal Kalecki. And as one of the people that back in 1990 founded our Association naturally I am delighted at witnessing its continued growth and vitality.

The topic of my lecture today is ambitious and daunting, and may sound like a provocation in a country that attempted and developed a socialist model that eventually failed. However today there is still a market-led demand for socialist institutions and policies, which is what I intend to explore.

My text on *The Rise and Fall of Socialism* is freely available at the link [https://doc-research.org/2018/05/rise and fall of socialism/](https://doc-research.org/2018/05/rise-and-fall-of-socialism/). That text provides an extensive classification of economic systems with different degrees of socialist components. Capitalism, as it is acknowledged unreservedly in the *Communist Manifesto*, brought about economic growth, technical progress and unprecedented prosperity to the world. However it also

generated unemployment, fluctuations and crises, frequently and on increasingly large scale, thus creating over time an ever-increasing inequality especially in the last post-War period. The rise of socialism is rooted in these drawbacks of capitalism.

In that essay I discuss the evolution of the Soviet-type system, its impressive achievements, as well as its costs in terms of repression of basic freedoms and lack of political democracy. The system was incapable adapting to the challenges raised by its own successes, reform attempts failed, and eventually it was brought down by its inefficiency, instability, internal and external imbalances, shortages and a crushing debt, and by loss of popular support. I argue that Soviet socialism suffered greatly from an original sin: the belief that economic laws would not operate at all in the socialist economy (Rosa Luxemburg, Bukharin, Hilferding and other Bolshevik thinkers).

The transition was expensive, in terms of a deep and prolonged recession, even in the few countries like Poland that have succeeded in rapidly reducing their gap in GDP per head with respect to advanced capitalist economies.

For all of these topics I refer you to my paper on *The Rise and Fall of Socialism*. Today I will concentrate on seven types of “real” socialism (present or past), revisit quickly socialist growth performance, give a characterisation of the social democratic model both in its traditional version and in its hyper-liberal degenerated form that occurred after the post-socialist transition of 1990, and introduce the future of socialism.

The revival of a demand for socialism today derives from the multiple challenges facing our planet, concerning globalisation, mass migrations, infrastructural investment, digitalisation, robotics and Artificial Intelligence, climate change, environmental pollution and resource conservation. Additional challenges are faced by the member states of the EU and

especially the Eurozone, given their dysfunctional nature and disintegration trends. All these problems have been generated or exacerbated by capitalism, which therefore cannot be relied upon to solve them. Failure to tackle them is raising inequality intolerably, with devastating consequences.

The new socialism should not replicate Soviet, Chinese or Yugoslav models, but will be a social democratic market economy, differing from existing capitalism only in institutions and policies, but these involve fundamental differences in the range and intensity of economic policy instruments used, which make up a distinctive new system.

1. Types of Socialism

Socialism is a relatively recent economic and political system. The word socialism, as an economic organisation set up in the interests of workers, first appeared in 1827 in the writings of followers of Robert Owen.

I define socialist systems as a combination of four major components: 1) public ownership of the means of production; 2) equality; 3) economic participation and democracy; 4) effective social control over the main macroeconomic variables.

On the basis of different dosages of these ingredients I identify seven major models of “realised” socialism:

1) Soviet-type central planning (1928/32-1990), with dominant state ownership and enterprise, a commitment to equality diluted in practice by privileged access to low-priced goods in excess demand; “democratic centralism”, in practice the political monopoly of the Communist Party; central planning achieving varying degrees of macroeconomic control. After the last War this system was effectively replicated in Eastern Europe and other parts of the world.

2) China in 1978-end 1990s: “socialism with Chinese characteristics”, growth and equality, dominant public ownership of state enterprises and territorially based cooperatives (Town and Villages Enterprises), moderate authoritarianism. Privatisations began in 1997 and accelerated in 2007.

3) China’s economic system from 2001 (when China joined the WTO) to date. Public ownership is no longer dominant (since 2005) and the system is subject to domestic and international market competition, but central powers exercise a strong influence on economic processes through extensive and deep use of traditional instruments of economic policy.

Contemporary China seems to defy classification: it has been variously described as capitalism (Kornai 2013); “political capitalism” (Milanovic 2018, following Max Weber 1904 and 1922, i.e. “the use of political power to achieve economic gains”); “state socialism” (*The Economist* 6/10/2012, Coase and Wang 2012, 2015, Naughton and Tsai 2015; Lenin had considered state capitalism a transitional stage, but there is nothing transitional or temporary about China); a unique system combining elements of capitalism and socialism but not conforming to either (“Chinism”, Kolodko 2018).

Contrary to common practice I propose to treat contemporary China as being very close to the Soviet-type system, for many reasons: land is still entirely state owned, though subject to long, transferable leases; over half of the capital stock excluding private housing ownership is public (Piketty et al. 2017); Town and Village enterprises vanished from a late 1990s peak of over 40% of GDP probably through their easier registration as private. I expect that the larger part of China FDI ownership is also in public hands; the banking system is predominantly public and credit access and interest rates are

actively used to control all investment. China exercises an effective indirect control on macroeconomic variables through active economic policy, much more successful than Soviet direct central planning. There is political monopoly of the Communist Party, there are no Trade Unions, strikes are illegal, there is an authoritarian, repressive regime, with internal residence restrictions and extensive spying; corruption is rampant and inequality of income and wealth is greater than in the United States.

4) Market socialism of the kind that prevailed in the Soviet Union in 1921-26 under the so-called New Economic Policy, with dominant private ownership and enterprise (re-privatisations, also to foreigners), domestic and international markets, macroeconomic stabilisation, inequality of wealth and income. A similar system was implemented in Yugoslavia in 1950-1990, with social ownership subject to employees' usufruct of the capital of self-managed enterprises, with inequalities among regions, sectors and enterprises, and ineffective macroeconomic control (as witnessed by high unemployment, emigration, fluctuations and open inflation).

5) Some post-socialist economies especially in the early years (1990-93) of their Transition, including Putin's Russia today: a dominant residual state sector, often restored after initial privatisations; high inequality; lack of participation and of economic (as well as political) democracy; high unemployment, inflation and economic fluctuations.

6) models of social democracy in otherwise capitalist market economies, like post-War Scandinavian countries: private ownership and enterprise, a developed welfare state, social protection, socialisation of consumption, high and stable employment. A similar model was introduced to a varying extent in many countries of the European Union in the 1990s and the early

2000 (Freeman 2005), but it was never part of the obligations of membership and remained a dead letter. Of course the welfare state has earlier foundations in 19-th century mutual self-help institutions, and – from Bismarck to Macmillan - the liberal recognition of the benefits of social peace, also given the competition with socialist welfare policies and their political threat.

7) the degeneration of social democracy as a result of the adoption by social democratic parties of hyper-liberal policies of austerity, globalisation, financialisation, de-regulation, privatisations, labour and capital mobility in a world without borders. In the European Union this process was worsened by the management of the Eurozone, but it affected also the United States and other countries. In the last decade this degeneration has led to electoral backlashes, with the defeat of self-styled "left" parties by political groupings usually labelled "populist" or "sovereignist" in a derogatory sense but which is simply an expression of residual democratic vitality.

2. Socialist growth performance revisited

The main advantage of the traditional Soviet and early (1978-end-1990s) Chinese model has been that of implementing the transition from less developed, almost feudal economies to indigenous capitalism (Milanovic, in his forthcoming *Capitalism alone*, Harvard UP 2019). Milanovic characterises as "political capitalism" China and ten other developing countries (Vietnam, Malaysia, Laos, Singapore, Algeria, Tanzania, Angola, Botswana, Ethiopia, Rwanda) all featuring one party rule for very long periods, a high level of corruption and impressively high economic growth.

In post-War Europe however there appears to be a negative correlation between income level at the inception of socialist policies and its

subsequent growth rate relatively to capitalist countries. In other words, that kind of socialism was least successful in developed industrial economies like East Germany and Czechoslovakia and most successful in poor and agricultural societies like China and Vietnam. Milanovic discusses the two most common explanations usually provided: inability to innovate and inability to substitute capital for labour. Either way the system was less efficient the more sophisticated the economy.

Vonyó (2017), investigating socialist and capitalist European countries (including the Soviet Union) for the entire post-War period until 1989, reports three important results. First, countries that were more developed in 1950 had lower average growth rate in the following 39 years. Second, socialist countries performed worse than capitalist countries regardless of their initial income level. Third, the gap in growth performance between the two groups of economies is increasing with respect to the initial income level (see his diagram, p.255).

3. Social Democracy: Scandinavia and the European Social Model

The traditional Scandinavian social-democratic model is a market economy with private ownership and enterprise, the collectivisation of individual risks (old age, illness, invalidity, a large family) and social risks (poverty, unemployment), economic participation and democracy, high and stable employment obtained primarily through fiscal policies, and an egalitarian commitment implemented above all through the socialisation of consumption.

A similar model was introduced to a varying extent in many countries of the European Union in the 1990s and the early 2000: the European Social Model was “characterised by ... a high degree of social protection, by the importance of social dialogue and by services of general interest

that cover activities essential to social cohesion, based today, beyond the diversity of social systems of single Member States, on a common core of values” (European Council, Nice 2000; see Freeman 2005). The ESM main weakness was the lack of a European Social Union project, and the reliance exclusively on voluntary implementation on the part of Member States. From time to time ambitious ESM projects are announced, for instance the *European Pillar of Social Rights*, at the Goteborg Summit of the European Parliament, European Council and European Commission in November 2017, only to remain a dead letter.

In the autumn of 1989 the Polish Parliament sent a delegation of distinguished economists led by Jan Mujzel to Scandinavian countries, to explore the viability of a social democratic model in Poland. But there was a shortage both of time and resources, and their report actually was never presented to Parliament for discussion.

Traditional social democracy, through various stages characterised by varying degrees of commitment to such a model, has performed well in terms of growth, employment, equality. The Scandinavian model was diluted by de-regulation and blander forms of state interventions than originally intended, as well as globalisation and immigration. The European Social Model never really took off in view of its voluntary nature; it was diluted by European enlargement to hyper-liberal Eastern Europe, and by the budgetary cuts required by the austerity policies with which the European Union dealt with the crisis that began in 2008 and is still in operation.

4. Perverted social democracy: globalist, austere, unequal

Towards the end of the 1990s the fall of the Berlin Wall and the victory, seemingly definitive at the time, of hyper-liberalism, provoked a late

and exaggerated conversion of social democracy to that ideology.

This happened first in the transition countries on the part of right and left governments alike, then in western Europe under the leadership of Tony Blair's New Labour and his Third Way, replicated by the German *Neue Mitte* of Gerhard Schroeder. A similar strategy was followed by President Bill Clinton in the United States (Meeropol 2000).

Blair and Schroeder (1999) reaffirm their commitment to uphold traditional socialist values: *"Fairness and social justice; liberty and equality of opportunity; solidarity and responsibility to others: these values are timeless. Social democracy will never sacrifice them"* (p. 2).

However their social democratic project differed drastically from traditional social democracy in three major respects.

1) The acceptance of the primacy and desirability of internal and international markets, fully recognising their global nature in the modern world. *"The market is part of the social organisation we desire, not just a necessary means which we reluctantly admit that we need, and need to master"* (Karlsson 1999). Thus they were oblivious to the national and global adverse distribution implications of market allocations.

International trade liberalisation undoubtedly involves net benefits, but at the same time it inflicts losses on some of the national subjects affected. The overcompensation of losers on the part of the gainers would require international transfers that are impractical and/or transfers from poorer gainers to richer losers that are undesirable. Potential overcompensation is not sufficient, it needs to be actual. The belief that globalisation benefits everybody, a tide that lifts all boats, whose benefits in any case "trickle down" from the initial gainers to the rest of the population, is unfounded: "trickle up" is most likely. Finally, the advantages of trade liberalisation do not extend to the liberalisation

of financial capital movements and labour migrations, nor to trade agreements regulating standards, competition and jurisdictions (Rodrik 2018).

2) The rejection of public ownership and enterprise, in support of private entrepreneurship, and a decisive and continued privatisation of state assets. Privatisations have involved the abdication of the entrepreneurial role of the state in research and innovation (Mazzucato 2011, 2013), the neglect of essential public services and the diffusion of *public private partnerships* (PPPs) that collectivise risk and privatise profit, the destruction of building societies and of the entire sector of mutual societies, through the privatisation of capital that belonged to their members and was not for the government to give away.

3) Affordability, in the sense of fiscal discipline and a restrictive monetary policy, rejecting therefore both Keynesian policies of public deficits financed by debt, and inflationary monetary expansion. *"A healthy public finance should be a reason of pride for social democrats". "... deficit expenditure cannot be utilised to overcome the structural weaknesses of the economy which are an obstacle to faster growth and higher employment. Socialdemocrats, moreover, should not tolerate excessive levels of public debt, which imposes an excessive burden on future generations and could have other undesired distributive effect. All the money spent for the service of a high public debt is not available for other priorities [sic] among which an increase in investment in education, formation or transport infrastructure"*. (Blair and Schroeder 1999, p.10). These astounding propositions rule out anti-cyclical interventions regardless of the phase of the business cycle, take for granted adverse intergenerational effects that are inexistent or exaggerated or at the very least questionable, they confuse objectives with "priorities" and presume that the most important objectives should necessarily be sacrificed to fiscal and monetary discipline.

Such fiscal restraint initially found strong support in economic theories of the 1990s and 2000s, on presumed “expansionary fiscal consolidation” (for instance Giavazzi and Pagano 1990, 1996) and on the alleged existence of a public debt threshold of 90% of yearly GDP, beyond which debt would exercise a negative impact on GDP growth (Reinhart and Rogoff, 2010). Such propositions have been falsified by subsequent research and they are rejected in official IMF documents (see Nuti 2013)

The supporters of this degraded brand of social democracy claim to uphold the values of social democracy but – apart from the spectacular reversal of social democracy’s pacifist traditions in Iraq – take away from government every single traditional instrument of economic policy needed to implement social democracy: fiscal policy is constrained by balanced budgets, monetary policy is delegated to a Central Bank that is not only independent of the government but is totally disconnected from fiscal policy; privatisations remove the government ability to influence distribution and growth through the price and investment policy of public enterprises; direct controls are replaced by market parameters. In practice the only instruments left to government economic policy are so-called “reforms”, and in particular the alleged “structural reforms”.

These reforms in practice are a misleading euphemism for precarious employment, the ease of dismissing dependent workers even without just cause, the destruction of the Trade Unions, the dismantling of collective bargaining and the reduction and privatisation of the welfare state. The IMF has confirmed the ineffectiveness of these measures for relaunching the economy, but nevertheless hyper-liberal governments – whether or not

social democratic – have adopted such instruments with an enthusiasm worthy of better causes.

At the same time the Third Way supporters did not move fast enough or far enough on the road they had chosen: they still talked of “priorities” instead of discussing trade-offs between alternative objectives, proposed the reduction of the working week to 35 hours without corresponding wage reductions, wanted to reduce pensionable age in an ageing society, proposed a Tobin tax on financial transactions unenforceable without its universal adoption and virtually impossible in the cyberspace. Instead they all went much too far in endorsing hyper-liberalism (Nuti 1999) and unconditional globalisation, including free movement of capital and labour in a world without borders, unleashing in 2007-08 the worst economic, financial and political crisis in the modern age, whose disastrous effects we are still suffering today.

5. Populism versus democracy

In the last few years this perversion of the social democratic project has been rejected by the electorates of a large number of countries, from the Brexit referendum to Donald Trump’s election as US President, to many European countries independently of their EU membership (as in Germany, Sweden, France, Spain, Austria, recently followed by Italy and Sweden¹) and in Commonwealth countries (the UK, Australia, New Zealand, Canada). In post-communist Europe, today seven countries have “populist” parties in power, two have them as members of

predicted – also because of Social Democrats taking a somewhat tougher line on immigration – but reached third position raising their share if the vote from 12.9% to a record 17.6%, with the Social Democrats at an electoral minimum and a hung Parliament with Right and Left party groupings each with roughly 41% of the vote.

¹ In Sweden’s parliamentary elections of 9 September opinion polls envisaged the possible defeat of Swedish Social Democrats, then in government with the Greens, by the anti-immigration, Eurosceptic, “populist”-“sovereignist” Sweden Democrats. In the end the Sweden Democrats obtained less support than polls had

a coalition, and in another three they are the major opposition force. Hodgson (2018) writes of *Wrong Turnings – How the Left Got Lost*; Kennedy and Manwaring (2017) ask *Why the Left Loses*. There are multiple causes: the reduction of the electoral base of industrial and manual workers; the emergence of parties more committed to the left (for instance *Die Linke*) or to the right (like the *Front National* or the AfD); the increasing lack of confidence in political parties, often leading to electors' abstentionism; the discontent and disaffection due to economic crisis. Significantly, the phenomenon is particularly marked in countries governed by social democrats in a coalition with the right, characterised by high immigration, the reduction and worsening of social services and the welfare state, and more generally the absolute or relative impoverishment of the middle classes: Germany is the best but not the only example.

Often the loss of electoral consensus on the part of social democratic parties is attributed to "populism", in a pejorative sense. Rodrik (2018) distinguishes between political populism, that compromises pluralism and the liberal democratic rules, and economic populism which on the contrary finds justification in the policy failures of governments, including progressive ones, and can be a necessary and sometimes the only way to avoid political populism.

In general we can define populism as the promise of impossible or non-sustainable policies, accompanied by the appeal to selfish sentiments of the electorate. In truth this populism is indistinguishable from democracy, being simply the expression of electoral dissent from government policies even if supported or tolerated by social democrats, and even when it encourages unjustified but legitimate prejudices of the electorate (for instance xenophobia, which as simple fear of the foreign or the different is an inalienable citizen right). This populism might be stirred up or literally bought with concessions and promises by unprejudiced political leaders;

the danger of the majority dictatorship feared by Toqueville cannot be avoided without limiting democracy or destroying democracy outright.

The current *debacle* of social democracy is not due to the refusal of the social democratic model as such but to its perversion in following hyper-liberal, austerian and globalist tendencies, not only in trade but also in capital movements, foreign direct investments, production delocalisation to low-wage emerging economies, and labour migrations. These tendencies favour large multi-national companies, dry up fiscal revenue by encouraging fiscal competition between states, facilitate fiscal avoidance and evasion with the proliferation of fiscal paradises and greatly reduce the policy space of national governments. This is the perverted social democracy that today has lost electoral consensus in the greater part of the whole developed world.

6. A Socialist Revival to meet major global challenges

A revival of socialist ideas is taking place today because of several extreme challenges to the further development and sustainability of the world economy under current domestic and global policies:

- the management of globalisation of trade and investment: losses from globalisation are difficult to compensate by tapping gross benefits, though net benefits are positive, leading to costly trade wars and the rise of new protectionism;
- mass migrations of labour, that are in practice unrestricted and also lead to the same redistributive problems of benefits and costs associated with other forms of globalisation. In a world without borders the net benefit from migrations has been often over-estimated but even the more sober assessments are still appreciable: Docquier *et al.* (2012) estimated that liberalizing migration would increase world GDP by between 7.0 and 17.9 per cent, equivalent to 11.5–12.5 percent in the medium

term. But the gains of migrants and of their employers, and workers' gains in the country of origin, cannot be tapped to overcompensate the losers, i.e. workers in the host country and employers in the origin country, without international transfers which are not feasible or transfers from the poorer to richer subjects which are undesirable. A socialist alternative will have to distinguish between refugees and economic migrants, and be capable of containing and controlling migratory flows within the limits of the various countries' willingness and ability to welcome them and finance their integration – either directly or thanks to the financial contribution of countries that prefer to pay instead of taking on an obligation to take them, which ought to be based on UN criteria.

- the need of massive investment in public infrastructure, in developed countries for the maintenance of decaying public works as well as new ones, in developing countries mostly for new infrastructure, as well as everywhere for investment in new housing, considering that one quarter of the 4 billion urban population of the globe is currently living in slums and is poised to reach 50% in 2050.

- the development of digitalisation technology, including Robotics, the Internet of Things, Blockchain (for cryptocurrencies and other secure transactions), Artificial Intelligence, Big Data, as well as fields as diverse as cloud computing, 3-dimensional printers (or additive manufacturing, with associated biotechnology developments), driverless cars and drones, wearables and vocal interfaces (see UNCTAD, 2017). Digitalisation will generate extraordinary opportunities, especially in the longer run, but in the shorter run it raises great dangers of mass unemployment, re-structuring needs, large scale retraining and re-distribution. For instance, Frey and Osborne (2017), investigating 702 professional qualifications in the United States, estimate that as many as 47% of US employees are at risk of being replaced by machines; similar risks are envisaged by recent

studies of the International Labour Organization (ILO).

- the reclamation of cumulated pollution and more generally the conservation of non-reproducible natural resources, which at present are being consumed at non-sustainable rates;

- the reduction of “greenhouse gases” that have contributed to global warming (euphemistically labelled “climate change”); such a need is controversial but increasingly less so, and the downside implications of such conjecture being right are so catastrophic that countervailing measures are worth undertaking even under some residual doubt.

It is true that past doomsday predictions have all proven wrong, from Irving Fisher's depletion of world coal reserves to the Club of Rome's *Limits to Growth* or the demographic predictions of a global population explosion. But never before have there been so many and so serious causes for concern. Moreover, Stein's Law (1976) is bound to operate: “If something cannot go on for ever, it will stop”. Failure to handle these challenges is raising further income and wealth inequality, thus exacerbating the risks involved.

7. European countries

In the European Union additional problems arise because of the malfunction of European policies and institutions, especially in the Eurozone. Fault lines are exemplified by Brexit; the disintegration trends between North and South and between East and West, as well as internal centrifugal forces within states; trade policy (with a democratic deficit that allows 3.5mn Wallonians to block a treaty affecting 545mn European citizen, or the imposition of a Comprehensive Economic and Trade Agreement CETA with Canada after 7 years of *secret* negotiations on terms particularly favourable to international investors offered ISDS Investor State Dispute Settlement provision protecting their profits

from regulatory legislation). Then there is the abolition of internal EU borders (Schengen) without strengthening external EU borders, and without adopting a common migration policy, thus practically allowing migrations without borders; a ridiculously tiny budget of the order of 1% of GDP, always balanced ex-post, compared with the US federal budget of over 20%; the “stupid” (Prodi’s verdict) austerity constraints to public deficit and debt; tax competition between member countries. There is the divergence of welfare policies (with wide dispersion across countries of the Social Justice Index, computed by the Bertelsman Foundation on the basis of poverty prevention, equitable education, labour market access, social cohesion and non-discrimination, health, intergenerational justice – that reached its lowest point in 2012-14 and is still below the pre-crisis level); the tolerance of illiberal regimes of Member States, as well as candidates for membership and allies; the lack of a common foreign policy and a common defence policy.

Moreover, the creation of a Common Currency was premature (ahead of political, fiscal and banking integration), handicapped by Central Bank inability to act as Lender of Last Resort to the Union (let alone to Member States), distorted by progressive divergence between members, due both to the neglect of parameters that should have been verified on admission and were not, and to the divergence generated by failure to coordinate national policies and to observe statutory obligations (such as the maximum trade surplus of 6% of GDP).

Disentangling a member country from the Union is hard enough for Britain that kept its own currency; it is particularly difficult for a Eurozone member, given the threat of adverse financial speculation at the slight hint of a possible exit or even suggestions of possible reform. There are possible remedies, such as the exclusion of public investment from the computation of the public deficit; the exclusion from that deficit of the

payment of government arrears owed to households and to enterprises, which involves a change in creditor and not an increase in public debt; the adoption of a different methodology along OECD lines for the calculation of potential income, leading to a more flexible determination of permissible deficit; the penalisation of trade surpluses above the maximum ceiling (preferably reduced to 4% of GDP symmetrically with the maximum permissible trade deficit) not with a token fine as it is at the moment but with the obligation to run a fiscal deficit at least as large as the excess surplus; the issue by member countries of debt indexed to their growth rate, that would enable an EC agency investing in a balanced stock of them to subsidise countries growing less than the average out of the profit made on debt issued by countries growing faster than the average; finally, the retirement of outstanding public debt of all ECB shareholding countries in proportion to their ECB shares, funded out of ECB current seigniorage or the securitisation of future seigniorage revenues, which would reduce all members’ indebtedness without implementing a “Trasfer Union”, because there would not be transfers from stronger to weaker members.

The trouble is that voices by the Southern members of the Eurozone are unlikely to be well received, and their insistent requests for reform may unleash a financial crisis. The only way out of this impasse seems to be a consistent refusal, by at least two member countries, to implement common policies (for instance on the EU budget, or trade agreements) no matter how advantageous: the removal of voting powers from a member state requires unanimity of all others, therefore a Coalition of two or more Unwilling member states can paralyze further integration and possibly overcome the Nordic-German hegemony that is blocking a more functional working of the EMU.

General and diffused concern about these problems has generated political opposition to

current policies and institutions, leading to the constant, spectacular rise of opposition parties and movements, usually labelled as “populist”, but in truth representing the workings of representative democracy.

These “populist” parties have occasionally succeeded in forming governments, as in Italy, but are unlikely to succeed in implementing radical changes capable of facing the problems listed here, because these parties represent different sections of the population, are inspired by different ideologies, and have conflicting objectives that come up against biting fiscal constraints.

Over time, it can be hoped that “populist” successes might favour movements and parties of traditional social democratic inspiration, also aided by the progress of internet communications. In Germany, for instance, the appearance of the *Aufstehen* (Stand Up) movement is a Green and Left alliance, Eurosceptic and anti-immigration and with domestic social concerns about schools, housing and poverty. Other initiatives of this kind, less controversial and more promising, might arise.

8. What future socialism?

What kind of socialism might be suitable to deal with the challenges and problems raised here?

Not the “really failed socialism” of Soviet-type central planning, political monopoly of the Communist Party, privileged nomenklatura and officials, and a basically autarkic, shortage economy. Or the equally failed Cuban socialism that Che Guevara saw as depending on the creation of a new Socialist Man: the system will have to take human beings as they are.

Nor a contemporary Chinese model, supremely successful economically but increasingly less so, undemocratic, authoritarian and repressive, congenitally corrupt in view of the necessary

discretion in the application of the law to keep private capitalists under control. Although certainly one would have to replicate the full panoply of instruments of economic policy successfully employed by the Chinese government to maintain macroeconomic control over their economy in spite of its exposure to domestic and international market competition.

Nor a Yugoslav type of self-managed “micro-socialist” market economy, due to its inequality between regions, sectors, enterprises, its replication of most of the drawbacks of capitalism also in terms of unemployment, inflationary pressures, fluctuations, migrations. Of course there will be room for self-management institutions like German *Mitbestimmung*, for co-operative enterprises, non-profit organisations and employee participation in enterprise ownership and results, but not in a dominant role and without the inflated expectations raised for instance by Weitzman (1984) for a “Share Economy”.

What I have in mind in my recommendations is a social-democratic economic model, characterised by its institutions and policies rather than by a specific allocative “system”. Fundamentally this would be a market economy, fully furnished however with all the traditional instruments of economic policy (*a’ la* Tinbergen 1952 and 1956): fiscal policy through the determination of the level and structure of public revenues and expenditures; monetary policy through the management of the level of credit, the interest rate and the exchange rate (preferably floating), acting as a lender of last resort to commercial banks and to the government, co-ordinated with fiscal policy and responsible for the management of national debt; the use of the price and investment policies of state enterprises, though limited to sectors of strategic national importance; whenever necessary, direct controls as a last resort.

Such a model would be characterised by a policy of high and stable employment, a full-fledged welfare state, with provisions for unemployment insurance, poverty relief, health insurance at least for basic treatments (the cost of unrestricted medical assistance is prohibitive and higher treatments would have to be contributory or subjected to expensive insurance), free primary education, secondary and university education provided at cost except for generous allowances for deserving students, public provision of low-cost housing (in place of subsidies for owner-occupied house purchases). Pensions might be provided either on a contributory basis or a distributive basis but with a minimum pension guaranteed by the state and without ever facing the costs of moving from the distributive (Pay As You Go) basis to the contributory even if the latter was regarded as preferable at full regime.

There would be generous facilities for public consumption (libraries, swimming pools, gyms, parks, hospitals, in preference to a Universal Basic Income, which raises the prospect of its being wasted by recipients, the danger of forcing citizens to buy social services from privatised institutions, and may be unaffordable anyway). There would be an industrial policy, with the state not "picking winners" arbitrarily among individual enterprises, but facilitating technical progress and innovation in general, and encouraging activities characterised by high value-added-per-man, and export-oriented.

International trade policy would be accompanied by compensation measures for the losers of whatever trade policy is adopted (whether trade opening or protectionism). In the almost certain absence of compensatory international transfers, additional revenues would have to be raised by the government for the purpose. These might be raised by possible and desirable concerted efforts to tap the potential tax revenue obtainable from multinational companies (that usually minimise their tax

liability through arbitrary transfer prices in international transactions with their own subsidiaries abroad), and from their web operations (which are gradually being successfully tapped, often voluntarily, in the case of trillion dollars companies like Apple and Amazon). A concerted effort to end fiscal paradises would have to be drastically implemented.

You should not think that I am an optimist, I am deeply pessimistic: the alternative to this conjectured systemic evolution is too dismal to even contemplate: it involves the certainty of our children, if not ourselves, ending up very soon facing a monumentally unjust inequality of income and wealth; a conflictual world with warring regions, religions and ethnic groups; a depleted, desertified and unviable planet, dominated by squalor, ignorance, want, idleness and disease.

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4. CALL FOR PAPERS

4.1 Workshop on “Inequality and Social Protection in South East Europe”

22 October 2018 FREN, Faculty of Economics, University of Belgrade

Background: Since the collapse of Yugoslavia twenty five years ago, the successor states have followed different transition paths, especially in relation to the varieties of capitalism that have evolved the forms of welfare systems that have been put in place. This has led to very different outcomes in terms of the distribution of incomes. For example Slovenia now has one of the lowest income inequalities in Europe (as measured by the Gini coefficient), Croatia has an average level of inequality, while Serbia has the highest Gini coefficients in Europe (according to Eurostat data:

<https://ec.europa.eu/eurostat/web/products-datasets/-/tessi190>) and similar high levels of inequality can be observed throughout the Western Balkan region. In the latter countries, levels of social cohesion in the Western Balkans are threatened by extraordinarily high levels of inequality that have arisen as a consequence of the models of transition to market economies that have been adopted. One reason for such high levels of income inequality is that social protection systems are inadequate, and tax and benefit systems are regressive. Most tax revenues are derived from regressive VAT and

excise arrangements, and the income tax systems are mainly based on proportional flat taxes set at low levels that generate little revenue. Moreover, the high level of regressive labour taxes discourages engagement with the formal economy and consequently informal economic activity is a major problem, reducing access to social benefits, health care and pensions. In addition, labour markets are weak and education systems are problematic leading to poor labour market outcomes characterised by skill gaps and widespread mismatches. The workshop is designed to gain a greater understanding of the nature and drivers of inequality in the countries of South East Europe, and to analyse the causes of different trajectories of transition and evolutions of welfare states in the region and learn lessons from the most successful examples of transition models that have achieved a combination of redistribution with growth. It also aims to engage with policy makers and social partners to discuss possible remedies to the more extreme instances of inequality in the transition processes in South East Europe.

Aims

The workshop aims to provide a forum for the presentation, dissemination and discussion of the latest research on inequality and social protection in South East Europe (SEE) among researchers and key stakeholders. After the workshop, papers will be considered for publication in an edited volume published by LSEE. Researchers are invited to submit abstracts of their papers by 1st October 2018.

Workshop Themes

- The political economy of inequality
- Economic transition and inequality
- Inequality of incomes and wealth in SEE
- Inequality and social protection systems in SEE
- Inequality and the welfare state in SEE

Important Dates

1st October 2018: Deadline for submission of abstracts

5th October 2018: Notification of acceptance

12th October 2018: Registration for workshop

22nd October 2018: Workshop, FREN, Faculty of Economics, Belgrade, Serbia

Abstracts

Abstracts of no more than 300 words should contain the title, author(s) name and affiliation, and contact details. Abstracts should clearly state the aims of the paper, the methodology used and the workshop theme to which the paper is addressed. Abstracts should be submitted by 1st October 2018 via email to Will Bartlett (w.j.bartlett@lse.ac.uk) or Jelena Žarković Rakić (zarkovic@ekof.bg.ac.rs).

Travel, Accommodation and Catering

There is no fee for participation at the workshop but participants will have to cover their own travel costs and accommodation. Coffee/tea and buffet lunch will be provided on the day of the workshop.

Organisers

The workshop is organised by the International Inequalities Institute (III) at the LSE in collaboration with LSE Research on South Eastern Europe (LSEE), with the support of the Atlantic Fellows in Social and Economic Equity (AFSEE) programme. AFSEE is one of seven interconnected programmes who support Atlantic Fellows in working together to think critically about the root causes of social and economic inequalities and apply this to real-world practice. This workshop emerged from an AFSEE-supported project titled "Goodbye Tito: The Role of Diverging Welfare State Trajectories on Income Inequality in Four Former Yugoslav Republics". LSEE is based within the European Institute of the LSE. The workshop is an activity of the LSEE Research Network on Social Cohesion

in South East Europe, and in particular its Working Group on Social Cohesion.

4.2 Workshop on "Readiness for the 4th Industrial Revolution in the European Union"

3rd EACES workshop in Szeged, Hungary

5-6 April 2019

Industrial competitiveness, expected and ongoing technological changes – labelled as the 4th industrial revolution – are in the focus of the EU agenda. Even if future scenarios are surrounded by considerable uncertainty, some crucial factors can be identified, e.g. the increasing importance of innovation and education systems. In these fields there are substantial differences between the more developed North-western and the less developed Mediterranean, Central and Eastern European countries. Moreover, the differences in economic structures and the level of industrialization mean different starting positions in forthcoming European and global competition.

We call for papers which address the questions of readiness for the 4th industrial revolution in the European Union in the following topics:

- de- and reindustrialization processes,
- new business models,
- governmental policy toolkit for supporting industrial changes.

Venue: Faculty of Economics and Business Administration, Szeged, Kálvária sgt. 1.

Details will be available from 15 October:

<http://www.eco.u-szeged.hu/english/research/conferences-workshops/conferences-workshops>

5. JOURNALS

Note: With this issue of the EACES newsletter, we discontinue the copy-paste of the tables of content of a multitude of journals in the area of comparative economics. Many responses from (an admittedly non-representative) sample of colleagues we asked gave us the impression, that in the time of instant and almost ubiquitous internet access, newsletters, feeds etc. this service is no longer necessary.

We will, however, continue to enlist the two journals that are more closely linked EACES. Any suggestions from members concerning this section in future issues are welcome.

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