

## SEE NEED NEW MODEL WITHIN NEW ECONOMIC SYSTEM BASED ON THE KNOWLEDGE

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### **Abstract**

*The excellent idea within EU Lisbon strategy - knowledge (based) economy - unfortunately, failed. In addition, the Lisbon strategy is failed because knowledge is failed. There are a number of diagnoses of current world crisis called the Great recession that hit western hemisphere economies, however, knowledge economy failure is one of the main causes of the crisis. Mostly, knowledge economics is moved from West to Far East. On the other hand the SEE, South East European countries have been hit hard by the global economic downturn, which started in 2008. SEE economies now practically all of them had a lower development level compared to EU than in 1989. Let's stress again: knowledge economy failure is the main causes of those economies contraction.*

*SEE economies are facing solving current crisis and to establish economic system with growth and sustainable development. A challenge for the economics has been to find metrics to gauge the extent to which society has become more dependent on knowledge production. Although there is wide recognition of the importance of knowledge and intangible capital in fostering economic growth and social change, devising useful measures of these assets has been difficult. To establish new economic model within new economic system is primarily task of each SEE economy though need to put theory into practice by moving sustainable development into mainstream economics where that knowledge creates relations across sectors and institutions.*

*The new model and new economic system would not discuss extreme relations between market and state and similar relations and not to design regulation on some ideal of what a market should be rather than provides a mechanism through which conduct can be regulated and certain problems of resource allocation can be solved. Like all policy instruments, the use of free markets should be contested and assessed in the same way as democratic societies would assess tax policy, legislation, and economic subsidies. Also there are some dangers of "cyberbalkanization" in US, EU and elsewhere. Yet structural change is a key: as the Great Depression was part of the transition of the economy from agriculture to manufacturing, the Great Recession is part of the transition from manufacturing to a service-sector economy. However, knowledge is a main tool.*

*Developing, sustaining, and governing knowledge commons will also require significant investment in education and knowledge that is indeed new economics and development paradigm, which would prevailing the global society in the time ahead.*

*In order to achieve wealthier status by all the people of each SEE country it is necessary to leave current economic model and to establish the new one as the new economic paradigm, the key element of that model would be knowledge, education, innovation as a third factor in production factor and balance between saving and investment (S - I). Economic growth as one part of new economic model should be at least 5% of GDP annually in long term. One of the precondition to achieve some of mentioned is competitiveness products that should be realized by regional cooperation.*

**Key words:** SEE countries, economic crisis, new paradigm of economics, new economic model, knowledge economy.

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*"Talent hits the target others cannot hit;  
genius hits the target others cannot see".*

Arthur Schopenhauer

## 1. Introduction

SEE, South East European countries<sup>1</sup>, SEE, though countries with 77 million population, GDP 1,3 trillion US dollars (PPP), 8.2% of EU GDP, 18.6% of EU population and 858.897 km<sup>2</sup> those countries in 2011 practically all of them had a lower development level compared to EU than in 1989. The average annual GDP in the period 1990 – 2010 amounted to only 0.89% and some countries experienced a real GDP fall. The countries of SEE have been hit hard by the global economic downturn, which started in 2008. The debt crises (of Greece, but also coming in Hungary, Croatia, Slovenia and other countries) are aggravating the downturn. Taking all that it is correct statement that region of SEE is „most sharply affected by falling capital flows<sup>2</sup>“ and „worst hit by this economic crisis<sup>3</sup>“.

Followed by political and economic analytical approach, however, Vladimir Stipetić, Negoslav Ostojić and Tihomir Domazet, in the ECPD book<sup>4</sup> practically the first amongst a number of analysts predicted the Greece crisis. During the crisis, the Great Recession, all SEE countries, except Albania and Macedonia, in the year 2011 did not achieve development level of 2008 year measured by GDP in PPP as it shows table below.

Table 1: GDP<sup>5</sup> index 2011 in related 2008 year

	<i>Index (2011-2008)</i>
Albania	109,6
Bosnia and Herzegovina	99,9
Bulgaria	96,7
Croatia	93,5
Greece	88,2
Hungary	95,7
Macedonia	103,9
Romania	93,2
Serbia and Montenegro	99,8
Slovenia	94,2

Source: The Conference Board Total Economy Database, Groningen

This region represents one seventh of the total European population, but is producing only 6% of European GDP per capita – we should conclude that this region is poorest in Europe – with widening discrepancy with Europe in the standard of living. In 1913 the average man in this region has got 53% of European GDP per capita; sixty years later (1973) it had 48% of European standard and in 2010 only 41%.

<sup>1</sup> *Candidate/potential EU members*: 1. Albania, (potential EU candidate), 2. Bosnia and Herzegovina, potential EU candidate), 3. Croatia, (EU member by July 1, 2013), 4. Kosovo (potential EU candidate), 5. Macedonia, (EU candidate), 6. Montenegro, (potential EU candidate), 7. Serbia potential (EU candidate), *EU members*: 8. Bulgaria, (2007), 9. Greece, (2001), 10. Hungary, (2004), 11. Romania, (2007), 12. Slovenia (2004),

<sup>2</sup> World Bank Doing Business Report, 2009.

<sup>3</sup> Joseph Stiglitz in Belgrade, during his visit.

<sup>4</sup> Tihomir Domazet, Negoslav Ostojić, Vladimir Stipetić, The Region of South East Europe, Recent economic development, Crisis, Exit strategy, Brijuni, Croatia, October 2009,

<sup>5</sup> GDP of 2011 US\$ (converted to 2011 price level with updated 2005 EKS PPPs)

Table 2: Balkan (South Eastern Europe), 1913 – 2010 and its role in Europe (Stipetić, 2010)

Year	South Eastern Europe			% in Europe		
	Population (000)	GDP (mil.) PPP US\$ from 1990	GDP/cap.	Population	Volume of GDP	GDP/cap.
1913	42.730	69.223	1.620	12,5	6,7	53,2
1950	57.991	95.403	1.645	14,8	6,0	40,8
1973	71.467	338.693	4.739	15,2	7,3	47,8
2003	77.220	486.720	6.303	15,0	5,6	37,6
2010	75.865	578.947	7.631	14,6	6,0	41,3

It should note that annual average growth in period 1981 – 2010, measured by GDP EKS\$ PPP of Western Europe was only 1.95%, though the lowest against other World economies. The average growth in period 1981 – 2010, measured by GDP EKS\$ PPP of other countries where as follows: China 8.71%, India 6.27%, Turkey 4.27%, USA 2.76%, Brazil 2.66%, and Japan 1.96%.

In this circumstances, where Western Europe economies lagging more and more from other developed economies, SEE economies are far below of Western Europe, though, the level of development each SEE economy in the year 2011 is on relatively lower level than it was in the year 1989 compared with level of Western Europe.

This study is dealing not only with the causes of this trend rather than to establish new way of development.

## 2. Some Remarks on the Great Recession

The Great Recession, as it is called the third world crisis beginning 2008, following the Great Depression of 1929 and The First World Crisis of 1873. This study is not dealing with causes of current crisis though the Great Recession, but today it should be clear that “Bretton - Woods collapse is beginning of this crisis: Bretton - Woods collapse in 1971 is inaugurated a new stage, characterized by the development of globalised production and the domination of an international financial market. When the US pulled the rug from under the previous system it did so in order to maintain its position of global hegemony in the new economic order which was beginning to emerge. It managed to do so but at great cost.

The free market program it has so strenuously promoted over the past about 40 years has intensified all the contradictions of this mode of production. At the same time, starting with the unilateral decision of August 15, 1971, the basis for collaboration between the most developed economies has been narrowing. The combined impact of these two processes has created the way for the current global economic crisis, which erupted in US 2008, and extended to the rest of the world, but it also emerged as social and political upheavals in the global world economy.

Between Bretton - Woods collapse (1971) and this global financial crisis (2008) there was a number crises as a consequence this collapse: In 1987, differences between US and German authorities over interest rate policies directly contributed to the October stock market collapse. The decade of the 1990s saw the sterling crisis of 1992, followed by the turbulence in bond markets in 1994 and the Mexican bailout of 1994-95. Then came the Asian crisis of 1997, followed by the Russian default of 1998 and consequent threat to the US financial system in the wake of the collapse of Long Term Capital Management in September 1998.<sup>6</sup>

As it is previously mentioned, the SEE countries have been hit hardest by the crisis through economic downturn, and in general the definition of the causes of the crisis (the first point is not related to Greece, directly) are as follows:

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<sup>6</sup> Tihomir Domazet, Facing the future of economic policy – Causes of the crisis from the political economy point of view, Symposia organized by Croatian institute of finance and accounting, Zagreb, 2010, p25/26

- Transformation into a capitalism system and private ownership on a inappropriate way, so called tycoon's privatisation former state assets or state enterprises;
- Inadequate economic policy based on neoliberal economic thought;
- Great recession overflow;
- Corruption; and
- Insufficient knowledge within economic policy.<sup>7</sup>

In order to put another light on the SEE economies crisis table below shows the difference between Gross national income, GNI and GDP. This is very significant relations that make difference among available amount in any country measured by GNI and produced amount measured by GDP. If GDP is larger than GNI, the difference that mostly related to the interest and dividends of non-residents would outflow from original country. This is explained in System of National Accounts of UN.<sup>8</sup> Gross National Income, accounts for these flows in and out of the country. For many countries, the flows tend to balance out, leaving difference between GDP and GNI.

Table 3: SEE countries GNI and GDP per capita 2010

	GNI pc US\$	GDP pc PPP US\$	Index: GNI/GDP
<i>A/ EU Candidate</i>			
Albania	3960	8817	44,9
Bosnia and Herzegovina	4770	8590	55,5
Croatia	13870	19516	71,1
Kosovo	3290	-	-
Macedonia	4570	11159	41,0
Montenegro	6750	13016	51,9
Serbia	5630	11281	49,9
<i>B/ EU Member</i>			
Bulgaria	6270	13780	45,5
Greece	26940	27805	96,9
Hungary	12850	20029	64,2
Romania	7840	14287	54,9
Slovenia	23860	27063	88,2
<i>C/ SEE countries main EU trade partners</i>			
Germany	43110	37260	115,7
Italy	35150	31555	111,4
Austria	47060	40005	117,6
France	42390	33820	125,3

Source: World Bank, Golden growth, Restoring the lustre of European economic model, 2012

The table 3 above suggest while all the SEE economies produce a lot of income per inhabitant, GNI shows that less of it not stay in the country, it means GNI per capita is lower than GDP.

<sup>7</sup> Tihomir Domazet, Facing the future of economic policy – Causes of the crisis from the political economy point of view, Symposia organized by Croatian institute of finance and accounting, Zagreb, 2010

<sup>8</sup> Levels of GDP or, alternatively, gross national income (GNI) per head in different countries are also used by international organizations to determine eligibility for loans, aid or other funds or to determine the terms or conditions on which such loans, aid or funds are made available. When the objective is to compare the volumes of goods or services produced or consumed per head, data in national currencies must be converted into a common currency by means of purchasing power parities and not exchange rates. It is well known that, in general, neither market nor fixed exchange rates reflect the relative internal purchasing powers of different currencies. When exchange rates are used to convert GDP, or other statistics, into a common currency the prices at which goods and services in high-income countries are valued tend to be higher than in low-income countries, thus exaggerating the differences in real incomes between them. Exchange rate converted data must not, therefore, be interpreted as measures of the relative volumes of goods and services concerned. Levels of GDP, or GDP per head, in different countries are also used to determine, in whole or in part, the size of the contributions which the member countries of an international organization make to finance the operations of the organization.

GDP produced in the country flows out of that country, it means that available for domestic residence are ranking from 44.9%, in Albania to 96.9% in Greece. The differences are related to interest, dividend etc. On the other hand all old EU countries (instead of Luxembourg) have larger GNI rather than GDP meaning the differences are result of inflow related to the interest and dividends also from SEE countries. In addition, perhaps it would be conclude although currently without precise data that the differences between GNI and GDP before transition were not so huge, if they existed.

The Great Recession is the worst crisis since World War II and probably the hugest crisis ever. The only relevant comparison is with her balloon rupture of the Japanese real estate market 1991st and the Great Depression of the 30s. Since the Great Depression differs in that it now does not allow the collapse of the financial system, but it is given artificial respiration. However, disaster rescue Lehman Brothers changed all financial markets have stopped functioning and she had found a system of artificial life support. This meant that the government must guarantee that it will truly allow to lose any other institution that might threaten the system. It should understand that the global financial system remains fundamentally unstable because it largely accepts the false assumption that financial markets can be safely left to their own forces and mechanisms. Therefore, the broken and therefore can not be compiled without a thorough and important reforms. Global markets need global regulation, but regulation that is now in force is based on the principles of national sovereignty. There are some international agreements, above all, the Basel agreement on minimum capital requirements. But, always a source of power is a sovereign state. This means that it is not enough to trigger a mechanism that is stopped: the world as a global economy need to create a regulatory mechanism that has never existed. In parallel, the global economy needs measure to protect them on the crisis in the future.

### **3. Evolution and Trajectory as a Path to the New World**

From 1990s transition is impose to use on former socialistic countries, probably in order they to transform to market economy like western style economy. However, today the world is in transition. Washington consensus, the document issued by World Bank and International Monetary Fund was not helpful to assist those countries, as result most SEE countries are hit the worst by the crisis. According to previously mentioned, as the real beginning of the Great recession is Bretton – Woods collapse, hence it should be aware that the post-WWII economic and geopolitical order dies a little every day. The transition is ongoing, and it might be long and difficult.

The world is in the midst of a transition from the post-WWII era to something new.<sup>9</sup>

In order to understand transformation of The World it is necessary going back far in the history. On the other hand this understanding should be based on acknowledge that West World is facing with greatest own changing, which dominated in the World through centuries.

“Western culture is based on three foundation stones: the religious aspect of the Jewish culture, the scientific aspect of Greeks, and imperialism of the Romans. The Jewish tradition are based on patriarchal social order – God the father in heaven, priest and king in society, and father in the family. The religious characteristics of the Jewish tradition are also found in Christianity. Early Christianity challenged the legitimacy of the Roman Empire because it failed to impart justice and love to people. At that stage Christianity appeared as a symbol of revolutionary movement to the downtrodden. However, in the fourth century, Christianity changed its character and become a state religion. The institution of Catholic Church consolidated its power and appeared to people just as authoritarian ruling machinery. All the gospels of love and justice just stayed in the pages of scriptures. It changed its character by introducing superstitions, dogma and religious fanaticism. The idea of freedom become a far city.

Greek civilisation was based on a scientific attitude. It was responsible for scientific analysis, intellectual cultivation, and unveiling of mysteries of nature. This psychology could not

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<sup>9</sup> Tihomir Domazet, *New model and new economic system*, Summary (not published yet), Zagreb, Croatia, 2012.

influence the Roman society until the sixteenth century, when the struggle against religious institutionalism, dogmas and superstition developed. It was the Greek scientific influences that brought about the age of Renaissance. Roman imperialist traditions were manifest in the colonial design of the European nations.”<sup>10</sup>

Albert Einstein, one of the greatest man in all the history, one of the great figures the world had ever produced, before the Great Depression, before WWII, 80 year ago on wisely way explained then what even today mankind need and have to attracted philosophers, economists and other people they are looking for the New World. “I never coveted affluence and luxury and even despise them a good deal.

My passion for social justice has often brought me into conflict with people, as did my aversion to any obligation and dependence I do not regard as absolutely necessary. I always have a high regard for the individual and have an insuperable distaste for violence and clubmanship. All these motives made me into a passionate pacifist and anti-militarist. I am against any nationalism, even in the guise of mere patriotism. Privileges based on position and property have always seemed to me unjust and pernicious, as did any exaggerated personality cult. I am an adherent of the ideal of democracy, although I well know the weaknesses of the democratic form of government. Social equality and economic protection of the individual appeared to me always as the important communal aims of the state. Although I am a typical loner in daily life, my consciousness of belonging to the invisible community of those who strive for truth, beauty, and justice has preserved me from feeling isolated.”<sup>11</sup>

### 3.1 Evolutionary Economics

Today, most of the governments, societies, economies, companies worldwide are trying to resolve crisis using so called technical tools. Unfortunately, there are not results, and the crisis is overflow to all parts of society. First, to understand and then solving the accumulated problems in society it should rely on re-establish relations between philosophy and economics. Philosophy and economics need to engage in more effective dialogue. The trickiest problem at present is the sharp contrast between, on the one hand, the urgent demand for theory presented by the major social changes arising from the burning realities of economic reform practice and, on the other, the “absence” to some extent of philosophy and the positivist character and narrowness of theoretical vision of an economics that has become increasingly quantified and mathematical. Why is it that philosophy and economics, seemingly so closely related, have lost touch? How can we break down interdisciplinary barriers so that philosophy can abandon its abstract speculation and become “present” and economics, which is already present, can reflect “the standpoint of the masses,” with a view to promoting theoretical innovation in both disciplines? These are the problems that professionals in these two fields have raised and want to resolve<sup>12</sup>.

It should underline that philosophy is the source and foundation of all social sciences, including economics. It means a philosopher who does not understand economics cannot possibly give a scientific and convincing analysis and explanation of the basic contradictions of modern society and their laws of motion. Without the support of economic theory, philosophy will forever float on the surface of society, unable to plumb its depths, limiting itself forever to empty talk. On the other hand, an economist who does not understand or acknowledge political economy that is explained below will never be able to help solve the real problems of modern society.

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<sup>10</sup> Shoumitra Sharma, *Reflections on the Philosophical Foundations of Economics*, Microrad, Croatia, Zagreb, 2010, p63.

<sup>11</sup> Albert Einstein in his own words, *Quotes Bank*, The World Wisdom Bank, p30; Speech delivered to the German League of Human Rights in Berlin, 1932

<sup>12</sup> Bu Xiangji and Zhang Feian (2009): The presence of philosophy and the position of economics: a review of the National Symposium of “Facing a Shared Future: A Dialogue between Economics and Philosophy”, *Social Sciences in China*, 30:4, 73-89.

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The second, political economy should be revitalizing science that was diminished or moved from universities. For the development of the economies and societies political economy would become a leading discipline in society. There is not doubt, capitalism for long period is main and leading mode of production, but the logic, principles and nature of capital have not changed, hence this system is in crisis, too. Another mode of production, especially on the East (China) has to be analysed from the contemporary political economy point of view.

Modern and contemporary political economy should provide answer on the crucial question though whether the modern capital is a factor of production as it is west thought or it would be a relation of production. This is so important because role of the knowledge in the future depends on the answer. Obviously, development urgently needs a dialogue between economics and philosophy. Perhaps, it should an early and clear understanding the fact that a great variety of problems about human relations were hidden in the realm of political economics, though, studying economic issues from the perspective of a philosophical world. On the other hand, it would be aware that its greatest sorrow also lies in the weakness of "political economy", and to find out appropriate solution it that sense.

The third, it should solve the question regarding the "consumption society" and "consumerism", primarily using political economy. The transformation of the mode of economic development should not be confined to the area of production, but should also give due weight to the positive effect that developing a rational consumption mode will have on this transformation. Although the importance of consumption for society and the economy is becoming increasingly obvious globally and although it shows features different from traditional societies in terms of consumption contents, form, speed and level, it is hard to support view that present-day society has comprehensively entered a "consumption society" that has overturned the "production logic". Some of researchers who belong to the revitalised political economy are convinced that one of the causes of the crisis relies on divergence between "consumption society" and the "production logic".

The fourth, currently *modernity* has been a major focus in philosophical and economic circles in recent years. Since it directly concerns questioning the theoretical tradition of the current economics and involves theoretical innovation in philosophy and new or "new" economics, it is a major theoretical issue.

The fifth and finally *evolutionary economics* should become a new economic paradigm that will replace mainstream mening current economics that implies that it would explore the philosophical foundations of evolutionary economics. This branch of economics came into being at the end of the nineteenth century. Its influence waned after the 1920s, but it started to revive during the 1980s. Thorstein Veblen and J. A. Schumpeter were the two major pioneers of evolutionary economics, but also has to be included economic theory of Karl Marx and Carl Menger. For the time being, a major reason for the slow development of evolutionary economics is that most of its followers are engaged in other economic. It should conclude, however, there is a fundamental philosophical difference between evolutionary economics and modern current economics that dominate worldwide, because current economics is based on a static, mechanical and closed world outlook. On the other hand evolutionary economics is based on a dynamic, organic, open and modern world outlook. After all evolutionary economics is facing with future including preventing crisis as it occupy most of crativity world.

### **3.2 Looking for a New Relation between Labour and Capital as Well as Mode of Production.**

Regarding the capital and labour relations, it is necessary, first of all, to recognize the most important relations in an economic life as well as the great complexity of the problem involved. The question is not wholly a question of material and financial inequality; there are social, ethical, and spiritual elements mixed up in it. The economic life of the early capitalism societies was relatively simple because there was no differentiation of work activities. Labor was an effort in which every worker participated in order to realize a product. The products of that labor were

shared amongst the community according to need. The dominant form of labour in that world, so called *wage-labour* and the archetypal commodity, was a tangible *thing*, with very few type of services. In that early capitalism societies capital's role was relatively simple too, because its main goal was profit.

Despite the domination of capital, people organise to act *independently* of capital, and they do not labour in order to live, but live in order to labour. Capital and labor are mutually dependent interests. Today is the time of global economic crisis "as the worst crisis since the 1930s," as many have pointed out, although the first great world crisis was in the year 1873. However, a number of them have addressed as a crisis of humanity, of civilizational proportions. The stakes are so high, the means of destruction so massive, the unfolding ecological holocaust so severe, that our very survival is at risk.

Any solution to the crisis requires not just political action but also historical-theoretical understanding of this moment. The most known an influential people around the world are correctly explained on the crisis including Joseph Stiglitz, George Soros, George Akerlof, Ken Rogoff, Robert Skidelsky, Bruce Caldwell, Pehry Mehrling, Roman Frydman, Marcus Brunnermeier, Michael D. Goldberg, Tony Lawson, Simon Johnson, James K. Galbraith and others. However, no one of them has mentioned capital-labour relation as a cause of the crisis as well as solution the crisis.

Recently it is disclosed by the US Congressional Budget Office incredible results of the study<sup>13</sup>: 1 per cent of the population with the highest income, average real after-tax household income grew by 275 per cent between 1979 and 2007, reaching 17 per cent of the total. For the others in the top quintile of the distribution, average real after-tax household income grew by 65 per cent. For the 60 per cent in the middle (the 21st to 80th percentiles), the growth in average real after-tax household income was a little less than 40 per cent. For the bottom quintile, average real after-tax household income rose about 18 per cent.

The OECD, Organisation for Economic Co-operation and Development states that "the wealthiest Americans have collected the bulk of the past three decades' income gains". It is easy to conclude that is America's inequality as a consequence of the relation between labour and capital, but harder question arise whether this trend, as well as similar trend in other advanced EU economies would be sources of other unpredicted. This trends and studying whether discovered or not, must cover employment, education, corporate governance and financial reform and, however difficult, also elements of redistribution. It will be unavoidably divisive. This studying cannot be avoided if western democracies are to stay legitimate in the eyes of their peoples.

It is necessary to remind that allocation of national income between workers and the owners of capital is considered one of the more important in any economy or society. The character of the capital-labor relation forms a basic aspect of each institutional form of capitalism. Historically capitalism has taken different forms at different times and in different locations. That is, while still remaining capitalism, the current meaning capitalist mode of production has been associated with a significant variety of specific institutional structures. This has been expressed in the Marxist literature in various ways.

The capital-labor relation contains, however, a contradiction. It is argued that the two major institutional forms of capitalism which have predominated during the period after WWII that is history of mode of production can be understood as alternative ways of structuring the capital-labor relationship and the struggle for new relations. According to the theory of neoclassical economics though, labor receives income reflecting its (marginal) contribution to production as well as also providing compensation for labor's (marginal) sacrifice in production. Similarly, capital receives income from production, in the form of interest and/or profit, that reflects capital's (marginal) contribution to production as well as also providing compensation for

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<sup>13</sup> CBO, Congress of the United States – Congressional Budget office, Trends in the Distribution of Household Income Between 1979 and 2007, October 2011.

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capital's (marginal) "sacrifice" in production. That is, capital income arises from the marginal productivity of capital, from time preference, and from risk aversion. The income of capital and labor are entirely parallel in this theory, and there is no surplus and no exploitation.

On the other hand the theory of the capital-labor relation found in Marxist political economy differs sharply from that of neoclassical economics. It should not that in the period 1948 – 1973, notably during Bretton – Woods effective work, a specific institutional structure of economies emerged after World War II in the industrialized (capitalist) countries, with related international institutions as well. This is institutional structure, or social structure of accumulation (SSA). The postwar SSA included institutions affecting not only capital-labor relations but also state-economy relations, capital-capital relations (affecting the form of competition), and a new dominant ideology. In all of the advanced countries during that period, the state actively regulated the economy in various ways, competition among owners (capitalists) tended to be co-respective rather than unrestrained and cut-throat, and the dominant ideology endorsed capital-labor cooperation, an active state, and "civilized" competition. However, the central feature of that SSA was the relatively restrained and carefully regulated form of struggle between labor and capital.

A key component of the post-war SSA was the rise of a "welfare state," that is, a set of state social programs that benefited the labour or working class. As a result of the institutions that made up this capital-labor compromise, the pattern of capital accumulation that characterized this period included relatively rapid growth in real wages. In the US, the real hourly wage of production workers rose at 2.2% per year during 1948-73, while labor productivity rose only slightly faster, at 2.4% per year. After 1973 to today is the period to a new SSA. Around 1979 a neoliberal SSA emerged, initially in the UK and USA, and consequently the neoliberal SSA spread to many other countries. The U.S. Government was able to shift the main global economic institutions toward neoliberalism in the 1980s, although a neoliberal SSA did not take hold domestically in all of the advanced countries. Some of the European social democracies have moved only a small distance toward the neoliberal model, with some weakening of the trade union movement and some cutbacks in social programs, but without entirely adopting a neoliberal SSA. The neoliberal SSA has involved a new set of institutions affecting new relations as follows: (1) capital-labour relations, (2) state-economy relations, (3) capital-capital relations, and (4) the dominant ideology.

The consequence of the SAA in last period is income inequality as it is previously mentioned for US experience. According to the contemporary political economy view, the contradictory nature of the capital-labor relation cannot be permanently overcome within the system with domination of capital, which is in crisis, too. An SSA can effectively regulate the capital labor relation in a particular way for a period of time, but eventually the contradictory character of that relation reasserts itself and the SSA ceases to operate effectively. That sets the stage for a transition in the institutional form of society. Thus, the post-World War II SSA, based on capital-labor compromise, may have produced relatively rapid economic progress for a period of time, and most analysts believe the key contradiction of the postwar SSA was the relatively strong position of the labour in that relations, which eventually would be solid basis for new role of labour and looking for a new system in the new world.

### **3.3 SEE economics for the future**

SEE countries should establish new sustainable economic model following theoretical approach of development that has five basic goals as follows:

- *Economic growth to secure fundamentally requirements (food etc.) for the population;*
- *Social justice to reduce inequality;*
- *Employment as means of earning an income but, as well, because of its ethical and social value;*
- *Participation as political involvement and social sharing;*

- *Independence as freedom from external domination.*

More concrete development strategy 2025/2030 should take into account the region competitiveness advances as well as sectorial approach too:

- Technological development with the goal of economic and overall development as well as the changing economic structure of society.
- Energy development, including the use of renewable sources.
- Reindustrialization through a competitiveness and productive sectors.
- Development of modern agriculture.
- Infrastructure - rail infrastructure - and enabling the use of geolocation.
- Water and irrigation in the development.
- Tourism.
- Systematic environmental protection.
- Possible regional networking and strengthening of certain companies in order to appearances and placements in the international market.

The political system also needs to be a function of the objectives of development strategy. New paradigm of economic policy as well as new economic/development model would have characteristic in a manner of new approach:

- Labour and capital in production function with a new attitude and a quality characteristic (where the work is not neglected).
- Knowledge (innovation, education) is a key element of future economic policy as the "third factor" in the production function.
- All policies (fiscal, monetary and otherwise) must be a function of the objectives.
- Growth model will be based on production, especially production for exports, investments, and the primary importance given national savings.
- The new investment policy: the use of marginal investment rate (i) the public sector investment.
- (6)Managing on none/equilibrium for the sectors.
- Relative prices as a function of economic policy.
- Obligations as a (future) EU member.
- Economic policy to be based on development strategy.
- Other.

SEE obstacles of sustainable development and economic policies, on the other hand, should move, which are as follows:

- Low competition;
- Low knowledge;
- Insufficient national saving;
- Inappropriate investment policy;
- Indebtness.

### **3.4 Framework that Determines SEE Model**

Framework that determines SEE model is as follows:

- (a) Globalisation
- (b) EU
- (c) Crisis and own model

The first, *globalisation*, we live in a world that is simultaneously shrinking and expanding, growing closer and farther apart.. National borders are increasingly irrelevant. And yet globalism is by no means triumphant. The economic dimensions of globalization have attracted the most popular attention, much of which has been negative due to the frequency and variety of conflicts for which the process is blamed. The economic realm is also an area in which it can be argued that conflict has led to some creative responses from the international community. Much of the literature distinguishes between conflicts which focus on issues of culture and identity, and others which appear to be primarily economic, and the discussion that follows adopts this approach while acknowledging that in practice the two elements are interrelated. Conflicts of world views and interests should not, however, be seen as inherently threatening or negative. Indeed many of the tensions of social change are largely unavoidable, and some are undoubtedly creative in their effects. At the same time, however, the analysis which follows suggests that if the human needs and rights issues involved are not adequately addressed, the incidence and intensity of social conflict associated with globalization are likely to increase steadily in the years ahead.

It should be acknowledged that, as Austrian economist Joseph Schumpeter (1942) argued, capitalism inevitably involves a process of "creative destruction." Competition stimulates firms to innovate, both in products and in production, in order to outdo their rivals. However, entire industries and regions can be "destroyed," or at least marginalized, as more innovative competitors take the lead in a given sector. This is demonstrated, for instance, by the change from the horse and cart to the automobile, or from canals to railways.

The second. EU, The European Economic and Monetary Union (EMU) was born on 1 January 1999 as a bold attempt to unify Europe by monetary policy as an intermediate step between a loose confederation and full political union. Many experts said it would fail, primarily because of unclear and unfinished economic and political union. The 2008 – 2009 crash exacerbated imbalances that had accumulated from the EMU's flawed design. Each stage of the EMU's death throes was a crisis, met by measures that were slow, late, incremental, and too small. Each crisis larger than the previous in both euros and territory.

Each response was known to be inadequate when made (despite the giddy applause greeting each new package). Nothing more was possible. The leaders of the EU, ECB, and IMF operate within narrow ranges of freedom. Bold actions work only when a nation's leaders and people will support them. Europe's elites and peoples want two incompatible things. Political science is, in a sense, the study of how people resolve incompatible goals and values. Europe has been unable to do so for two years. Nothing can be done until they square this circle. The current EMU is a jury-rigged halfway house, now in ruins. Europe must unify or fragment. Each crisis provides an opportunity to take decisive steps, but the necessary political consensus remains elusive. So Europe's leaders glue together the widening cracks in the EMU while planning for the future. That's probably all they can do now. Many people believe that leaders have the ability to mold public opinion. A large body of research shows this to be false. Events often shape public opinion; political theater and pretty speeches seldom do.

The latest measures taken to solve EU crisis are to establish so called banking union and promote two-speed EU. The European Commission called recently for the formation of a "banking union", a proposal which the ECB seems broadly to support. However, like the fiscal union which came before it, the banking union may fail to impress investors sufficiently to end the crisis. A banking union would need to have several different features, all of which are problematic. The key features are:

- *Common capital requirements and supervision;*
- *A common deposit guarantee system (DGS); and*
- *Common funds to recapitalize banks.*

Urgent requirement to establish banking union is following Jeffrey Sachs "If the eurozone is to save itself, it will have to face the real crisis: its banking sector. Far too much time has been

spent on fiscal policy when the existential threat to the eurozone is the ongoing collapse of bank lending in the weak economies. Yes, fiscal policy counts, but the debate commonly framed between “austerity” (more deficit reduction) and “growth” (more deficit spending) is a serious distraction to the survival of the currency union. The 2008 financial crisis in Europe and the US arose from excessive bank lending during the 2000s caused by deregulation and excess liquidity from the Federal Reserve and the European Central Bank. The excess liquidity found its way to a variety of sub-prime borrowers. There was a housing bubble in the US, UK, Ireland and Spain; a corporate-acquisitions bubble in Iceland; and a public sector spending binge in Greece. When the easy credit stopped in 2008, the banking sector was over-leveraged and under-capitalised. Bank assets – including mortgage-backed securities, corporate acquisitions, and government bonds – were heavily impaired, so that bank capital plummeted.”<sup>14</sup>

Following the bank union it is expected new EU economic model:

First, it is a new source of long-term growth, not a short-term Keynesian bridge to consumer-led growth.

Second, the highest social returns can be achieved by bringing the new technologies – information, communications, transportation, materials, and genomics – to bear on the problems of sustainability and the quality of life. Long-term growth (and quality of life) should be based on an investment-led transition to a low-carbon, low-pollution, and high-amenity built environment, drawing upon the cutting-edge advances of science and engineering.

Third, the transition to sustainability requires a mix of public and private investments. As one example, private investments in low-carbon energy (wind, solar, nuclear) need to be linked to public investments in long-distance transmission grids. Similarly, the transition to smart electric-powered urban mobility will require a mix of private investments and public infrastructure. The public investments should be financed in part through long-term borrowing backed by dedicated future revenue streams (e.g. public-sector tariffs and gradually rising carbon taxes).

Fourth, rather high levels of taxation as a share of national income (as in the highly successful economies of northern Europe) are needed to keep budget deficits low.

Policy of Two – speed Europe is more important for SEE. Multi-speed Europe or two-speed Europe (called also variable geometry Europe or Core Europe depending on the form it would take in practice) is the idea that different parts of the European Union should integrate at different levels and pace depending specific circumstances in each individual country. Indeed, two-speed Europe is currently a reality, with only a subset of EU countries members of the eurozone and of the Schengen area. Like other forms of differentiated integration such as a la carte and variable geometry, multi-speed Europe arguably aims to provide a solution to the dilemma between unity and diversity, widening and deepening of the European Union.

Taking into account policy of two-speed Europe creating new economic model for SEE countries get momentum.

The third, *SEE countries* have to find out own model. Ensuring that developing countries have the time – and the financial and technical support – to make the transition to sustainable development ultimately benefits all. Promoting fairness and inclusion is the right thing to do – and the smart thing to do for lasting prosperity and stability.

No expert panel, including ours, has all the answers. But if we work together, we can help to steer our world onto a safer, more equitable, and more prosperous course. We call on leaders across all sectors of society to join us. The need is urgent; the opportunity, enormous. Let us seize it. The most important skills to be successful in the 21st century, for a nation, an enterprise and an individual: Every single human being is creative and maximizing that creativity is critical to an individual’s happiness and to economic growth. As economic growth is driven by creativity, if we want to increase it, we have to tap into the creativity of everyone. For the first time in human history, the basic logic of the economy dictates that to further economic development is to furt-

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<sup>14</sup> Financial Times, Jeffrey Sachs, To save the eurozone, save the banks, May 21, 2012,

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her the development and use of human creative capabilities. The great skill of our time – for nations, enterprises and individuals – is to find ways to tap into every human’s creativity.

#### **4. Knowledge**

Our 21st century predicament is that these moral strictures have mostly vanished. On the one hand, the power of self-interest is alive and well and is delivering much that is good, indeed utterly remarkable, at a global scale. Former colonies and laggard regions are bounding forward as technologies diffuse and incomes surge through global trade and investment. Yet global economic system has mostly shed its moral constraints. Self-interest is no longer embedded in higher values. Consumerism is the world’s secular religion, more than science, humanism, or any other -ism. “Greed is good” is not only the mantra of a 1980s Hollywood moral fable: it is the operating principle of the top tiers of world society.

Capitalism as a economic system is at risk of failing today not because we are running out of innovations, or because markets are failing to inspire private actions, but because we’ve lost sight of the operational failings of unfettered gluttony. It should emphasise that the countries like SEE states in creating new development model have to based on sources other than they are in deficit. It is easy to conclude that each country should not have enough national saving, but foreing accumulation would be not available. It means that all forces to be push to the knowledge, as a source of sustainable development.

The important one today is what kind of knowledge capital played the role of a moving force behind this development. This knowledge capital has to be broadly defined to explain what happened, including the social capital that facilitated, or allowed the radical change in the circumstances of the ordinary citizen that took place. Another question is: Is something similar happening now, as we enter the New Economy? Describing and representing growth statistically is now standard economics in various forms of macro production function analysis, including new growth theory. There is always a way of proxying in a performing measure of knowledge in the econometric equations. Understanding the role of knowledge in growth is more difficult. After that it has to open up the macro box called technology and let all the actors out in their capacity of being carriers of competence (dynamics). In addition, it has to open up the Keynesian demand box to allow the customers to play the roles of competence contributors and final arbiters of value that they play in reality.

Definition of the Knowledge Economy usually consists of as follows:

- (a) *An economic incentive and institutional regime* that provides good economic policies and institutions that permit efficient mobilization and allocation of resources and stimulate creativity and incentives for the efficient creation, dissemination, and use of existing knowledge.
- (b) *Educated and skilled workers* who can continuously upgrade and adapt their skills to efficiently create and use knowledge.
- (c) *An effective innovation system* of firms, research centers, universities, consultants, and other organizations that can keep up with the knowledge revolution and tap into the growing stock of global knowledge and assimilate and adapt it to local needs.
- (d) *A modern and adequate information infrastructure* that can facilitate the effective communication, dissemination, and processing of information and knowledge.

Knowledge economy as it is above mentioned thus asserts that investments in the four knowledge economy pillars are necessary for sustained creation, adoption, adaptation and use of knowledge in domestic economic production, which will consequently result in higher value added goods and services The knowledge in general has to cover three areas:

- (a) The contribution that knowledge can make to sustainable growth;
  - (b) The best mix of policies to create, disseminate and use knowledge; and
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- (c) The role of the various actors in creating a knowledge society.

SEE knowledge economics should be rationale and objectives aiming as follows:

- (a) Foster dynamic competitiveness of the economy
- (b) Selectively address specific market failures; address knowledge-specific and systemic failures; coordination failures; capability failures
- (c) Help market agents and other stakeholders jointly achieve mutually agreed goals
- (d) Enhance connectivity between agents/stakeholders
- (e) Help discover the nature and size of externalities and related remedies
- (f) Help/coordinate market agents in jointly establishing acceptable "rule(s) of the game"
- (g) Create an enabling environment for desired changes in the behaviour of market agents to happen; facilitating the transition to new behaviour
- (h) Facilitate risk sharing among agents and stakeholders

SEE countries should establish appropriate research policy like the creation of the European Research Area, and raising the rate of R&D spending to 3-4% of GDP. The actions to do the following:

- (a) To stimulate universities and public research institutions to compete for excellence, to specialise and to create networks and virtual communities;
- (b) To develop world class as an European-level research infrastructures;
- (c) To encourage coordination and mutual opening of national and regional programmes;
- (d) To develop a culture of innovation and cooperation between research organisations and the private sector; and
- (e) To enable the best researchers in Europe to work anywhere in SEE and vice-versa, while attracting to the shores best in the world.

There is competence theory growth where the organised economy and competence bloc theory together define the dynamics of endogenous growth, and they together use technologies in establishing a new industry by way as follows:

- (a) created (*innovation*),
- (b) identified (*recognition*),
- (c) selected (*competition*),
- (d) commercialized and diffused (*market support*), and
- (e) competently introduced in production (*receiver competence*).

Knowledge economics should be consistent with evolutionary economics by meaning:

- (a) The economic system is in a process of continuous evolution and change.
- (b) There is no steady state but rather multiple equilibrium and transition is the rule.
- (c) Highly uncertain outcomes of economic behaviour.
- (d) The socio-economic context matters as well as judgment and experience matter for the behaviour of agents.
- (e) Incentives motivating different types of behaviour need to be bred.
- (f) Economic performance is prone to systemic failures (such as coordination, institutional, framework, network failures).
- (g) Knowledge is more than information: it contains tacit and specific elements that cannot be formalized and diffused in the form of information.
- (h) Innovation requires interaction and technological cooperation among firms and access to new knowledge through collaborative networks.

New paradigm in microeconomics would be new, though SEE companies as microeconomics cooperation aiming global competition by: (1) Triple helix model ~ interconnections between the (a) **university**, (b) **industry** and (b) **government** and (2) 3 T's: Technology, Talent and Tolerance.

Although an analyst may be able to specify this uncertainty, the assumption of the non-trivial (social) machinery of a Triple Helix with an overlay adds to the uncertainty. For example, other players may see options for codification that the analysts could not possibly have seen given their necessarily contingent positions as also participants. Reflexivity and uncertainty prevail in a knowledge-based economy.

Biological evolution theory assumed variation as the driving force and selection to be 'naturally' given. Cultural evolution, however, can be considered as driven and reconstructed both by individuals and groups who make conscious decisions and by the appearance of a variety of unintended consequences of interactions with which one may have to cope in a next stage. Since the sources of innovation in a Triple Helix configuration are not synchronized *a priori*, the possibilities for innovations and rearrangements generate puzzles for participants, analysts, and policy-makers alike.

This network of reflexive relations operates as a knowledge-intensive subdynamics of intentions, strategies, and projects that adds surplus value by reorganizing and harmonizing the political and economic structures in order to achieve a better approximation of the variety of (uncertain) goals. The issue of how much and under which conditions anyone is in control given this layer of interacting expectations specifies a research program for innovation studies.

In the case of knowledge-based innovation systems the expectation is that 'what you see is *not* what you get'! What you see, are the historical footprints of previous operations. The definition and consequently the delineation of innovation systems is knowledge-intensive.

**In respect of 3 T's, Technology** means that technology and innovation are critical components of a community or organization's ability to drive economic growth. To be successful, communities and organizations must have the avenues for transferring research, ideas, and innovation into marketable and sustainable products; It's the responsibility of governments to set a better climate for **tolerance**; Creative **talent** defies classification based on race, ethnicity, gender, appearance, or sexual preference.

## 5. Conclusions

It is necessary to consider the ideas of a number of worldly known economists, sociologists and philosophers about the emergence of new socio-economic and civilization model, which has already started at the turn to the new millennium. But the new model to be constructed for SEE countries, too. As a matter of fact, the existing neoliberal model is. Besides, the new technological paradigm personified in informatics revolution causes profound changes in forms of economic, political and social life, imposing the formation of new economic, social and ideological paradigm, or the formation of new socio-economic model. The SEE needs it urgently. But without theoretically approach that would be the way in unknown. The economics or better political economy has to provide input and solutions. Generally, although various authors consider the new socio-economic system in different ways, all these different visions have in common similar fundamental human or ethical principles: social justice, human solidarity and compassion, tolerance, dignity and freedom of human being, equilibrium of individual and social interests, ethnical, cultural and religious pluralism, and free development of human creative potentials.

Which model will prevail in particular countries will depend upon civilization tradition and other local specific conditions. The existing model of neoliberal economy would profound more dangers, more crisis and more questions.

The model that is explained here is looking for a new society, economy based on knowledge but evident crisis, and its resolution will be mostly conditioned by maturing of collective consciousness about the necessity of social changes and transformation of this consciousness in massive movement for formation of the new just, human and functional society.

SEE economies now practically all of them had a lower development level compared to EU than in 1989. Let's stress again: knowledge economy failure is the main causes of those economies contraction. SEE economies are facing solving current crisis and to establish economic system with growth and sustainable development. A challenge for the economics has been to find metrics to gauge the extent to which society has become more dependent on knowledge production. Although there is wide recognition of the importance of knowledge and intangible capital in fostering economic growth and social change, devising useful measures of these assets has been difficult. To establish new economic model within new economic system is primarily task of each SEE economy though need to put theory into practice by moving sustainable development into mainstream economics where that knowledge creates relations across sectors and institutions.

The new model and new economic system would not discuss extreme relations between market and state and similar relations and not to design regulation on some ideal of what a market should be rather than provides a mechanism through which conduct can be regulated and certain problems of resource allocation can be solved. Like all policy instruments, the use of free markets should be contested and assessed in the same way as democratic societies would assess tax policy, legislation, and economic subsidies. Also there are some dangers of "cyberbal-kanization" in US, EU and elsewhere. Yet structural change is a key: as the Great Depression was part of the transition of the economy from agriculture to manufacturing, the Great Recession is part of the transition from manufacturing to a service-sector economy. However, knowledge is a main tool.

Developing, sustaining, and governing knowledge commons will also require significant investment in education and knowledge that is indeed new economics and development paradigm, which would prevailing the global society in the time ahead. In order to achieve wealthier status by all the people of each SEE country it is necessary to leave current economic model and to establish the new one as the new economic paradigm, the key element of that model would be knowledge, education, innovation as a third factor in production factor and balance between saving and investment ( $S - I$ ). Economic growth as one part of new economic model should be at least 5% of GDP annually in long term. One of the precondition to achieve some of mentioned is competitiveness products that should be realized by regional cooperation.

Following the saving and investment ( $S - I$ ) relation it should recall on Schumpeter who saw investment as being primarily financed not out of income, but out of the increase in the money supply caused by banks issuing loans to entrepreneurs—where this increase in the money supply was exactly matched by and caused by an increase in debt.

Schumpeter's entirely theoretical arguments on both the nature of banking and the ultimate source of finance for investment received subsequent support from empirical researchers. Some of them overturned the "money multiplier" model of money creation correlations between investment and the change in corporate debt levels confirm the impression that debt plays a key role in accommodating year-by-year variation in investment. However, rising debt does not only finance investment, though it also finances speculation, but SEE would solve this issue by together and coordinated measures in finance regulation.

Tanking into account growth as a precondition for any further measure to be taken, , it is important as follows: SEE economies rate of economic growth is a function of convergence, and closing existing gaps in knowledge and capital-labor ratios; but convergence is conditional that depends on doing the "right things". On the other hand growth rate of rich countries is largely irrelevant, unless it affects possibilities of catch-up; but it is not clear what the "right things" are.

SEE economies have two prerequisites for convergence. First, economic: ongoing structural transformation from low to high-productivity activities : (a) key role of modern tradable, (b) need to focus on entire economy, not just misallocation within modern industries and (c) "excessive" capital inflows and high commodity prices may be good in the short-term, but not in the medium to longer-term. The second is political, where the main is building resilience to shocks through institutions of conflict management with key role of democratic governance. It

should emphasize that presence of a large convergence gap ensures significant potential for rapid economic growth in SEE countries, regardless of what happens in the rich countries, but fulfilling this potential requires ongoing process of diversification and structural change.

Regarding the construction of the model that would be appropriate SEE countries it is important:

- Need to be dynamic, stochastic, and general equilibrium
- But need to simplify somewhere
- Problem is that standard model made wrong simplifications
- Going forward: explore implications of different simplifications.

In construction the model would take into account theoretically: a) Markets are not, in general, efficient, even when all market participants are rational. Have rational expectations, and all markets are competitive; b) Whenever risk markets are incomplete and information is imperfect (there are information asymmetries), pecuniary externalities matter and are pervasive. Actions which affect prices affect the well being of others (Individuals in their lending and borrowing decisions take the prices of real estate - in each state of nature - as given, even though (collectively) their actions affect the magnitude of the collapse of real estate prices; c) Whenever there are externalities, there is a role for government intervention to mitigate the consequences; d) It is not, in general, the case that price interventions are always the optimal form of intervention; e) In economies with information imperfections, agency problems are pervasive.

But whenever there are agencies problems, individuals' interests are typically not perfectly aligned with those in whose interests they are suppose to represent. Private market solutions to address agency problems may not be socially efficient. And in any case, private market solutions exist under the "umbrella" of a legal structure. • There are alternative legal structures (laws governing corporate governance), and some may lead to "better outcomes" than others.<sup>15</sup>

To conclude this model that emphasize changes, however, require the integration of theoretical insights and a program of concrete actions. At last but not least, there is a strong sense of theorizing individuals in different countries and bringing forth a new model as a call for all to join in a broad movement of social reform towards wealth society, which has to understand the governments, international community, and different groups. The driving force is indeed growing. Proposed model is on that path.

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<sup>15</sup> Joseph Stiglitz, Presented at the Inaugural Conference @ King's College, April 8, 2010, INET

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