EAEPE Newsletter
EUROPEAN ASSOCIATION FOR EVOLUTIONARY POLITICAL ECONOMY

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Editorial

by Andreas Reinstaller

The most important event for EAEPE in 2007 is - as every year - the annual conference, which brings together heterodox scholars from many different schools of thought. This year it will take place in Porto of Portugal. Aurora Teixeira is the committed head of the organising committee. Thanks to the efforts of Aurora and all other members of the local organising committee the conference is well on track. In this newsletter we publish the call for papers for the 19th EAEPE conference. The conference theme will focus on economic growth, development and institutions.

This newsletter also features the programme of the 2nd EAEPE Symposium on "Privatisation and Regulation: On the co-evolution of Technology, Policy and Institutions" that will take place the 22nd and 23rd of March in Delft in the Netherlands. John Groenewegen has organised a fine event, that features a number of very interesting papers addressing the question of regulation of public utilities and infrastructures from an evolutionary-institutionalist perspective.

The newsletter also features three interesting books reviews. While Reinhard Pirker discusses a recently published handbook of economic sociology, Angelo Reati critically assesses three recent publications on European integration. Finally, Jackie Krafft reviews Mario Morroni's most recent book on the theory of the firm.

After two years, since it's first issue was published, we are proud to see that the Journal of Institutional Economics (JOIE) has established itself as a high quality outlet for researchers working in the field of institutional economics. EAEPE sponsors this journal, which EAEPE members get for free. Read more about its achievements in it's first two years on page 20.

To conclude, I am pleased to announce that we

Contents of this issue:

will have a new column in the newsletter from the next item on. *Charlie Rock* from Rollins College in Winter Park, Florida, USA, will write a periodic **"Letter from America"**. He will give us his thoughts about heterodox economic thinking, academic life and politics in general in the US. This should help fostering EAEPE's ties with the heterodox community in North America. I wish to thank Fred Lee for his help in getting this project started.

Communications by the EAEPE Council

Autobiography of Janos Kornai, Honorary President of EAEPE, published

One of EAEPE's Honorary Presidents Janos Kornai has published his autobiography in English. It was published in January 2007 by the MIT Press under the title By the force of thought: Irregular memoirs of an intellectual journey (see http://mitpress.mit.edu/catalog/item/default.asp?ttype=2&tid=10984). More information about all Honorary Presidents of EAEPE is available on http://eaepe.org/eaepe.php?q=node/view/219.

The joint AFEE-EAEPE Veblen 150 Prize: Call for submissions

Thorstein Veblen was born on 30 July 1857. In order to commemorate the 150th anniversary of his birth the Association for Evolutionary Economics (AFEE) and EAEPE will co-sponsor the Veblen 150 Prize Competition.

Anyone may submit a written work. Those who submit written work will be considered a candidate for the prize. Candidates will be expected to submit written works on the nature of institutions, the theory of institutional evolution, the philosophical foundations of institutional and evolutionary economics, or the application of institutional or evolutionary theory to economic policy. These specialist themes reflect Veblenian concerns.

Contestants will be divided into two groups, (1) and (2):

1. Candidates born on or after 1 January 1973, or currently enrolled PhD students, or candidates who were awarded their PhD on or after 1 January 2003.

2. Candidates who do not qualify under (1) above.

Submitted works may be unpublished, or published no earlier than 2005. Books, articles or PhD theses may be considered. Submitted works should be in English. We shall award up to four prizes. For each of group (1) and group (2) there will be up to two prizes of 2,000 GBP each.

Candidates must submit their work to Geoff Hodgson, to be received by 30 June 2007. Submissions must be on a single electronic file (to G.M.Hodgson@herts.ac.uk) or six printed copies of the work (to Prof G Hodgson, The Business School, University of Hertfordshire, Hatfield, Hertfordshire AL10 9AB, UK). Current Trustees of FEED as well as members of the councils of EAEPE and AFEE in 2006 or 2007 shall be ineligible to enter this competition.

The prizes will be judged by a panel nominated jointly by AFEE and EAEPE. The results of this competition will be announced in about September 2007. The awards will be made at the EAEPE Conference from 1-3 November 2007 in Porto on Portugal. The prizes are funded by FEED.

Further updates on the Veblen 150 Prize Competition will be available on the EAEPE web site under http://eaepe.org/eaepe.php?q=node/view/189.

Other EAEPE Prizes and Competitions

All other prize entries for the 2007 and 2008 prizes should be send to the EAEPE Prize coordinator, Gráinne Collins. Her address is 17 Celtic Park Avenue Beaumont Dublin 9 (Ireland), grainne.collins@oireachtas.ie. Entries to the joint AFEE-EAEPE Veblen 150 Prize should be sent to Geoff Hodgson as indicated above and not to her. Please consult the next sections on the submission deadlines.

The Herbert Simon Young Scholar Prize 2007: Call for submissions

The Herbert Simon Young Scholar Prize is awarded annually to the best conference paper by a young scholar.

Amount: Euro 1.000 (all funded by EAEPE)

The rules for competition:

1. 'No applicant shall have reached his or her 35th birthday in the year of the prize award (those

who are within 3 years after completion of his or her PhD may also be considered)."

2. Applicants must be fully paid-up EAEPE members by 1st September of the year of competition.

3. All applicants must have the abstract of their paper accepted for the EAEPE conference and they must submit the electronic version of their paper by the advertised due date for inclusion on the EAEPE web site.

4. Applicants must submit to Grainne Collins (grainne.collins@oireachtas.ie) by **15 October 2007** their conference paper for the Herbert Simon Young Scholar Award. Their date of birth should be clearly stated.

5. Applicants must attend and present their paper at the EAEPE conference for that year.

Kapp and Myrdal Prize Competitions: Call for new entries for the 2008 competition

The **K. William Kapp Prize** (2000 Euro - half funded by the William Kapp foundation) is awarded annually for the best article on a theme broadly in accord with the EAEPE Theoretical Perspectives (minimum 5,000, maximum 12,000 words) to a paid-up EAEPE member.

The **Gunnar Myrdal Prize** is awarded annually for the best monograph (i.e. a book, and excludes multi-authored collections of essays) on a theme broadly in accord with the EAEPE Theoretical Perspectives to a paid-up EAEPE member.

Entries for the 2008 Kapp and Myrdal competitions are now welcome. The **closing date is the 1st of January 2008**. The 2008 prizes will be awarded at the 2008 EAEPE Conference. It is planned that the Council will judge both prizes by April 2008. The EAEPE Council reserves the right not to award a prize if the entries are below the required quality.

Details on the prizes and the submission guidelines should be consulted on EAEPE's web site if you follow `http://eaepe.org/eaepe.php?q=node/view/9`. Entries should be sent to the EAEPE Prize Committee Coordinator, Gráinne Collins, (see the contact details at the beginning of this section or at the end of the newsletter).

Membership benefits and subscription rates

If you were 2006 EAEPE member you have received the 2006 issues of JOIE (The Journal of Institutional Economics) free of charge! If you are a 2007 member you will receive the 2007 issues of JOIE free of charge as well![1]

Besides getting the Journal of Institutional Economics you will benefit from EAEPE membership insofar as it offers you:

- A voice at the annual conference (next conference: Porto, Portugal, 2007).
- The possibility to promote your research area with access to the EAEPE research area seminars and web site forums.
- The EAEPE Newsletter twice a year.
- A reduced price for the EAEPE volumes published in collaboration with Edward Elgar Publishing.
- A reduced subscription rate to journals as the Cambridge Journal of Economics, Industrial and Corporate Change, International Review of Applied Economics, Review of International Political Economy and the Review of Political Economy.
- The possibility to publish a special theme volume in the EAEPE series of Edward Elgar Publishing.

Many reasons to join EAEPE for 2007! The membership fees are as follows:

	Euros	
Life Membership	350	
Three year ordinary membership	200	
Ordinary rate (gross income > 45000 Euros p.a.)	70	p.a.
Reduced rate (25000 < gross income < 45000 Euros p.a.)	40	p.a.
Special rate (gross income < 25000 Euros p.a.)	20	p.a.

The membership forms and the classification of the areas of expertise can be downloaded from the EAEPE web site at `http://eaepe.org/eaepe.php?q=node/view/87&PHPSESSID=9b64c695511be5c8d95d7a03b3c8741e`. Payments may be made by MasterCard/Visa/Eurocard. Contact: Albert Jolink, `ajolink@rsm.nl`.

Scientific development plan

Details on the scientific development plan of each research area are published on the web site under the following URL `http://eaepe.org/eaepe.php?q=node/view/52`. Please consult these pages for more information.

[1] The subscription to JOIE for other individuals in 2007 will be 30UK£.

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New Research Area coordinators

In Research Area E, "Theory of the firm", *Erik Stam* and *Mike Dietrich* have taken over as research area coordinators. Erik is currently at Cambridge University and Mike is at the University of Sheffield.

In Research Area D, "Innovation and Technical Change", *Jackie Krafft* from CNRS-GREDEG at the University of Nice Sophia Antipolis in France joins Andreas Pyka as a research area coordinator.

Charlie Dannreuther replaces John Grahl in Research area G "Macroeconomic regulation and institutions" as a coordinator.

Announcements

Research Area activities

Research Area G "Macroeconomic regulation and institutions" has organised a workshop on the theme "Regulation approaches: The next agendas", to be held at the University of Lausanne, 22-23 March 2007. You can download the programme of this workshop on http://eaepe.org/images/lausanne_workshop_ra_g_032007.pdf.

Calls for papers of interest to EAEPE members

* DRUID Summer Conference 2007 in Copenhagen. Final call for submissions: Deadline **28-02-2007**. http://eaepe.org/eaepe.php?q=node/view/85#DRUID07
* 3rd International Conference on Organizational Routines in Strasbourg Call for Submissions: Deadline **28-02-2007**. http://eaepe.org/eaepe.php?q=node/view/85#ICOR
* Interdisciplinary Conference on Analyse(s) and transformation(s) of the firm: Confrontation between economics, management and law in Lyon (LEFI) Call for submissions: Deadline **15-03-2007**. http://eaepe.org/eaepe.php?q=node/view/85#LEFI
* ENEF Meeting on 'Innovation and Firm Dynamics' in Cambridge (UK) Call for submissions: Deadline **31-03-2007**. http://eaepe.org/eaepe.php?q=node/view/85#ENEF
* AFEE Association for Evolutionary Economics Annual Meeting. January 4-6, 2008, New Orleans, LA, USA Call for submissions: Deadline **15-04-2007**. http://eaepe.org/eaepe.php?q=node/view/85#AFEE08

Summer schools of interest to EAEPE members

* Call for Applications: First Graz Schumpeter Summer School 'Evolutionary Economics 25 years after the seminal contribution of Nelson and Winter: Problems and Perspectives'. 15-22 July 2007, Graz, Austria Call for Applications: Deadline **30-04-2007**. http://eaepe.org/eaepe.php?q=node/view/85#GRAZ07

ICAPE

EAEPE is affiliated to The International Confederation of Associations for Pluralism in Economics, ICAPE an organisation which carries invaluable information about organisations, conferences, journals, etc.

ICAPE's Statement of Purpose
There presently exists a number of societies and associations of economists and other social scientists, all of which are united by their concern about the theoretical and practical limitations of neoclassical economics. In addition, they share the conviction that the current dominance of the subject by mainstream economics threatens academic freedom a nd is contrary to the norm of methodological pluralism. Furthermore, this dominance is highly detrimental to scientific creativity and debate, and to the development of realistic, innovative, and useful economic analysis and relevant policies. There is a need for greater diversity in theory and method in economic science. A new spirit of pluralism will foster a more critical and constructive conversation among practitioners of different approaches. Such pluralism will strengthen standards of scientific inquiry in the crucible of competitive exchange. The new pluralism should be reflected in scientific debate, in scholarly conferences, in professional journals, and in the training and hiring of economists. and other studies of economic behavior. Contact Information: Professor Frederic S. Lee, Department of Economics, University of Missouri-Kansas City, 5100 Rockhill Road, Kansas City, Missouri 64110, USA email: leefs@umkc.edu.

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The 19^{th} EAEPE Conference: 'Economic growth, development, and institutions - lessons for policy and the need for an evolutionary framework of analysis'. Call for papers.

November, 1-3, 2007 at Universidade do Porto, `http://www.fep.up.pt/conferencias/eaepe2007/`, Portugal.

It is now widely accepted that knowledge in technology and innovation is a crucial factor in promoting economic growth and that business firms are an essential locus of technological accumulation. The broad conviction that technological advance was the driving force of economic growth gave a strong impulse to the emergence of the neoclassical endogenous growth models. In these models technical change is understood as a result of profit-seeking activities of individual agents and increasing returns, technological spillovers and other phenomena from the economics of innovation. In spite of the progress achieved by these contributions, such developments are still very mechanical. These studies do not seem to accommodate the evidence that firms have different capabilities and strategies or that national economic institutions, for example the university research system, are crucial determinants of economic growth. In evolutionary theorizing the economic system is characterized by changing diversity and evolving processes of adaptive behaviour, where novelty has a fundamental role. The explanation of the system involves both random and mechanic elements, with the former generating variation among the variables and the latter systematically improving the existent variation. At the same time forces exist that make for the survival of the "fitter".

The clear emphasis on dynamics and on bounded rationality is not consistent with the traditional neoclassical concepts of equilibrium and optimisation. Alternative theoretical frameworks need be further developed. Here, respecting the philosophy of agent based theory, particularly conceiving the firms as heterogeneous and bounded rational agents that face uncertainty associated with the innovation process, and the understanding of learning and the generation and transmission of knowledge, play an essential role. Such topics lead inevitably to the study of the firm as learning set of capabilities, to different forms of corporate organization and to the economic evolution of the region and/or the country. Also, it requires to pay attention to the social and institutional structures that sustain the creation and diffusion of knowledge. These issues may be analysed from different perspectives such as theoretical/empirical, micro/macro/meso, comprehensive analysis/case study, comparative studies/ historical analysis. The analysis can be interdisciplinary in that it draws upon relevant material in psychology, sociology, anthropology, politics and history, as well as economics itself.

Keynote lectures

- Opening Keynote Lectures:
  - Maria João Rodrigues, (Advisor of the EC and President for Social Sciences at the EC; full professor of ISCTE)
  - Gerald Silverberg, (UNU-MERIT, Maastricht University)
- Closing Keynote Lecture:
  - Stan Metcalfe, (University of Manchester)
  - Chair: Vítor Constâncio, President of the Bank of Portugal

Submission of Proposals

For papers proposals: Upload a 600-1000 word abstract to `http://www.eaepe.org/upload_abstracts.php` by **April 1st 2007**. The abstract should clearly mention: - Title of the paper - Name of the author(s) and full address of the corresponding author (postal address, phone, fax and email) - the aim of the study and methodology - (expected) results and/or conclusions - up to 5 keywords and code of the (closest) EAEPE research area (see eaepe web site) All the submitted abstracts will be refereed by the scientific committee.

For complete session (four papers): Please upload the abstracts of the session papers on the EAEPE web site and send your proposal separately to `eaepe2007@fep.up.pt`.

Note that most of the EAEPE Research Area Coordinators (RACs) will also send out a Call for Papers concerning the specific domain of their research area. If you submit your paper to a RAC then the RAC will make the selection and the papers the RAC cannot accommodate in the RAC session(s) will be sent to the scientific committee to be judge for the general program.

Note also that you can only participate in the conference with only one paper.

Important dates

- Deadline for abstract submission: 1st April, 2007
- Notification for abstract acceptance: 1st May, 2007
- Deadline for paper submission: 3rd June, 2007

In order to be included in the final program, the paper has to be submitted before the above stated date and at least one of the authors has to be registered, has paid the conference fee and be a paid EAEPE member. Please note that you have to be an EAEPE member in order to attend the Conference. The program of accepted papers will be published in the July Newsletter.

See `www.fep.up.pt/conferencias/eaepe2007` or `www.eaepe.org` for further information concerning the conference.

The scientific committee

- Ahmet Insel, Galatassaray University
- Jackie Krafft, CNRS-GREDEG, Sophia Antipolis
- Ioanna Minoglu, Athens University of Economics and Business
- Mário Graça Moura, Faculdade de Economia, Universidade do Porto
- Eva Niesten, Erasmus Center for History in Management and Economics, Erasmus University Rotterdam
- Andreas Reinstaller, Austrian Institute for Economics Research (WIFO), Vienna
- Isabel Salavisa, ISCTE - Instituto Superior de Ciências do Trabalho e da Empresa
- Ana Teresa Tavares-Lehmann, Faculdade de Economia, Universidade do Porto
- Aurora Teixeira, Faculdade de Economia, Universidade do Porto

The local organising committee

- Aurora Teixeira, Universidade do Porto, Faculdade de Economia, (Chair), `eaepe2007@fep.up.pt`
- Joana Almodovar, University of Manchester
- Ana Paula Delgado, Universidade do Porto, Faculdade de Economia
- António Figuereredo, Universidade do Porto, Faculdade de Economia
- Cristina M.S. Matos, Universidade do Minho, Escola de Economia e Gestão
- Isabel Mota, Universidade do Porto, Faculdade de Economia
- Mário Graça Moura, Universidade do Porto, Faculdade de Economia
- Argentino Pessoa, Universidade do Porto, Faculdade de Economia
- Isabel Salavisa, ISCTE - Instituto Superior de Ciências do Trabalho e da Empresa
- Mário Rui Silva, Universidade do Porto, Faculdade de Economia
- Sandra Silva, Universidade do Porto, Faculdade de Economia
- Ana Teresa Tavares, Universidade do Porto, Faculdade de Economia

2nd EAEPE Symposium: 'Privatisation and regulation of core transactions in critical infrastructures. On the co-evolution of technology, policy and institutions.'

22 and 23 March 2007 at the Delft University of Technology, The Netherlands.

Transactions in infrastructures used to be centrally coordinated by ministries and vertically integrated state owned firms. Liberalisation and privatisation created markets and fundamentally changed the modes of governance of the transactions with the aim to increase efficiency. To safeguard the public interest the coordination of core transactions in critical infrastructures are regulated, or the property as well as the decision rights are in public hands.

What has been the performance of the markets with respect to the technological integrity of the systems (unbundling and segmentation have implications for the technological performance of the system), the economics (the allocative as well as the dynamic efficiencies) and last but not least the social impact (universal service, security of supply, labour conditions)?

The symposium is supported by Next Generation Infrastructures (Delft University of Technology), the section Economics of Infrastructures of Delft University of Technology, Faculty Technology, Policy and Management and PRESOM (Privatisation and the European Social Model).

Programme

Thursday 22 March 2007

9.00 - 10.00 Registration

10.00 - 10.15 Opening by the Dean of the Faculty Technology, Policy and Management, Prof.dr. Hugo Priemus

10.15 - 11.00 Jean-Michel Glachant (Professor & Head of the Department of Economics, Head of GRJM Team at ADIS Research Center, University Paris Sud, Faculty of Law & Economics), Why Electricity Reforms Are So Diverse And Quite Impossible To Organise on A Simple Competition Model.

11.00 - 11.30 coffee break

11.30 - 12.30 Parallel sessions

12.30- 14.00 lunch

14.00- 15.30 Parallel sessions

15.30- 16.00 Tea break

16.00 - 17.00 Parallel sessions

Friday 23 March 2007

09.00 - 10.00 Registration

10.00 - 11.00 Barbara Baarsma (SEO, Amsterdam), Competition Issues Related to Vertical Restraint

11.00 - 11.30 Coffee break

11.30 - 13.00 parallel sessions

13.00 - 14.00 lunch

14.00 - 15.30 parallel sessions

15.30 - 16.00 tea break

16.00 - 17.00 closing sessions

Further information

Further information on the venue and other details of the Symposium are available under `http://www.eviconference.nl/presom/PRESOM.html`.

Chairperson of the local organising committee

John Groenewegen

2nd EAEPE Symposium: Detailed Programme

Parallel sessions

Thursday 12.00 - 13.00

Regulation General ▼

- Ernst ten Heuvelhof, Strategic Behaviour After Privatisation and Liberalisation
- Frans van Waarden and Youri Hildebrand, Freer Markets, More Lawyers?

Privatisation & the European Social Model ▼

- K.J. Cseres, The Impact of Consumer Protection on Competition and Competition Law: The Case of Deregulated Markets
- Bauke Steenhuisen, Marc. de Bruijne and Hans de Bruin, Regulating Infrastructure Performance?

Sectors Rail ▼

- Karl Strang, Public-Private Partnerships (PPPs) in the Field of Rail Infrastructure - The First European Experiences
- Dario Peirone, The Challenge of Governance in Complex Infrastructures: Analysis of Financial, Technological and Regulatory Transactions in Privatised Railways

Thursday 14.00 - 16.00

Electricity ▼

- Albert Jolink and Eva Niesten, When Regulation Becomes Co-Adaptation: Lessons From the European Electricity Regulation
- Rodrigo López González and Jean-Michel Glachant , Electricity Distribution: Is Quality Really Regulated or Just Given?
- Alan Hutton, Shortcomings of the UK Regulation in the Energy Sector
- Rolf Künneke, Aligning Institutions and Technology in the Electricity Sector

Regulation general ▼

- Maarten Pieter Schinkel and Jan Tuinstra, Limits to Liberalization
- Jüri Sepp and Diana Eerma, Competition Creation in Exceptional Spheres - Regulation and Deregulation in Estonia
- Nikos Ebel and Yassine Lefouili, Yardstick Competition Under Cost-Plus Regulation: An Analyis of Investment Incentives

Privatisation & the European Social Model ▼

- Bernhard Wieland, Special Interest Groups and Transport Pricing
- C.V. Fiori, M. Florio, S. Salini and P. Ferrari, Consumers' Attitude on Services of General Interest in the EU: Accessibility, Price and Quality 2000-2004
- H. van Maasakker, From General Agreement on Trade in Services to General Agreement on Public Services

Institutional arrangements ▼

- Ernst Mönnich, Public Private Partnership, Blessing or Plaque?
- Johannes Fuhr, The Role of Contract and Public Ownership - An Explorative Analysis on the Contractual Arrangements Between US Airports and Airlines
- Gilson Schwartz, Universal Web Access - Digitalization X Emancipation in Brazil

Thursday 16.30 - 17.00

Telcom-1 ▼

- Joost Poort, Conditions for Government Investment in Broadband Infrastructure
- Jackie Krafft, Profiting in the Info-Coms Industry in the Age of Broadband: Lessons and New Considerations - David Flacher, Liberalisation of the Telecommunications Sector: Stakes and Limits

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- Jolien Ubacht, "ICT End Users From Passivity To Activity. Exploring The Implications For Governance".

Water-1 ▼

- Dan V. Jackson, The U.S. Water Industry: A Study in the Limitations of Privatization
- Delphine François, Transactions in the Water Sector: When Water Supply Meets Sanitation
- K.-U. Rudolph, D. Gregarek and M. Harbach, Private Sector Participation in Europe and South East Asia: Past, Present and Future Developments in the Water Market

Friday 11.30 - 13.00

Roads ▼

- Marek Ratajczak, State and Market: Polish Motorway Construction Program
- Sonia Moldovan, Private Sector Participation and Challenges in Afghanistan's Transport Sector
- Mark Lijesen, Sieds Halbesma, Joost Kolkman and Han van der Loop, Public Interest as Performance Indicator of Road Networks

Telcom-2 ▼

- Kuno M.H. Buyze, Liberalisation and the Public Desire to Again Intervene in the Telcom Realm
- Wolter Lemstra, The Telecommunication Sector: A Performance Assessment Across the Period of Market Reform
- Richard A. Cawley, The New EU Approach to Sector Regulation in Network Infrastructure Industries

Water-2 ▼

- Arjen Frentz, Performance of the Dutch Drinking Water Sector With Benchmarking. Governance In the Dutch Drinking Water Sector: Between Quality and Cost
- Alexandra Domanski, Regulation in a Liberalised Water Sector: How Institutional Weaknesses Can Lead to Dysfunctions
- Meine Pieter van Dijk and Klaas Schwartz, Regulation and Regulators, the African Experiences With the Drinking Water Sector

Friday 14.00 - 16.00

Privatisation, Regulation and Finance ▼

- Huffschmidt Privatisation, Regulation and Finance
- Marica Frangakis, tba
- John Groenewegen, Private Equity and Hedge Funds the Battle of Control Over Private Public Firms

Differences & similarities between sectors ▼

- Atle Midttun and Catherine B. Monsen, Deregulation and Innovation: Exploring Factors Behind Performance Differences in Electricity and Telecommunication
- Aad Correljé, The Problem of Externalities, Economic Regulation and Policy-Making: The Energy Sector
- Christine André, What Place of Privatisation in the Reform European Health Systems?

EAEPE 2006 Awards: The winners in 2006

At the last EAEPE Conference in Istanbul in November 2006, John Groenewegen, EAEPE's General Secretary, handed over the three prizes EAEPE awards to some outstanding contributions in the fields in line with EAEPE's theoretical perspective. The Kapp Prize is awarded by EAEPE and the Kapp Foundation. The winners in 2006 were *Otto Steiger* for his paper 'Property Economics versus New Institutional Economics' (published in the JEI march 2006) jointly with *Guido Buenstorf and Johann Peter Murmann* for their paper 'Ernst Abbe's scientific management theoretical insights from ninetieth-century dynamics capabilities approach' (published in Industrial and Corporate Change, 2005). The Myrdal Prize is awarded every year to a monograph that makes a substantial contribution to any of the fields of research covered by EAEPE's theoretical perspective. In 2006 it was jointly awarded to *Wilfred Dolfsma* for his book "Institutional Economics and the Formation of Preferences" that was published by Edward Elgar Publishers in 2004 and to *David Reisman* for his monograph entitled "Democracy and Exchange" also published with Edward Elgar in 2005.

Finally, the Herbert Simon Young Scholar Award to the best EAEPE Conference paper of a scholar younger than 35 was awarded to Georgina M. Gómez for her contribution "A Market in the Making; the Argentina Red de Trucque".

Quotes from the prize committee reports

The Kapp Prize 2006

Otto Steiger, 'Property Economics versus New Institutional Economics', ***Journal of Economic Issues*** **40: 183-208** "Otto Steiger highlights an important distinction between the institutions of property and the institutions of possession rights. That distinction provides new insights into the explanation of the differences of economic development between countries and also for designing property reform programs to stimulate economic development in poor countries. The article is a fine example of a policy relevant institutional analysis".

Guido Buenstorf and Johann Peter Murmann, 'Ernst Abbe's scientific management theoretical insights from ninetieth-century dynamics capabilities approach', ***Industrial and Corporate Change*** **14: 543-578.** "The article presents an historical case which is of high relevance and provides empirical evidence for present day theory of the firm. It is a fascinating story of a contemporary of Taylor for whom scientific management had a completely different meaning. A very good example of explaining history and linking it then to theories of the firm".

The Myrdal Prize 2006

David Reisman (2005), ***Democracy and Exchange*****. Cheltenham: Edward Elgar Publ.** "David Reisman has taken the impressive task to examine the relationship between democracy and exchange. He assesses the theories of the two pillars of political economy of five main figures in the history of economic thought (Schumpeter, Smith, Titmuss, T.H.Marshall and Galbraith). He does so in a very profound way providing a novel interpretation of the concepts of democracy and exchange".

Wilfred Dolfsma (2004), ***Institutional Economics and the Formation of Preferences*****. Cheltenham: Edward Elgar Publ.** "Wilfred Dolfsma provides an institutional analysis with insights of other social sciences to analyse the way in which preferences are formed in a social context. The theory is applied to the case of pop music using an original way of integrating empirical data with the theoretical discussion on the construction of value".

The Herbert Simon Young Scholar Award 2006

Georgina M. Gómez, 'A Market in the Making; the Argentina Red de Trucque', EAEPE Conference 2006, Istanbul. "The paper very neatly configures an institutionalist model of economic action by which agents create markets and institutions in general. It then explains the case of a market creation in Argentina reading the case through the eyes of the model. This is done in a very eloquent and accurate way especially the part on reflexive action".

These quotes, as well as pictures of the awarding ceremony are available on the EAEPE web site under `http://eaepe.org/eaepe.php?q=node/view/206`. A list of past prize winners is also available on the EAEPE web site under `http://eaepe.org/eaepe.php?q=node/view/192`.

Book Review: 'Knowledge, Scale and Transactions in the Theory of the Firm'

by Jackie Krafft[1]

Morroni, Mario (2006): Knowledge, Scale and Transactions in the Theory of the Firm, Cambridge : Cambridge University Press, 358 pages; Hardback ISBN: 0521862434 £50

The theory of the firm is certainly one of the most prolific fields of research today. Even if the origins of this domain of investigation trace back to the late 30s, and especially to the seminal contribution of Ronald Coase (1937), the past two decades have been marked by an explosion in the number of contributions. As an illustration, the editorial platform JSTOR notifies 4506 articles containing the exact phrase 'theory of the firm' over the period 1986-2006. Though very dynamic, the domain may be considered in the meantime as relatively young, still far from reaching a maturity phase. This is certainly why the debate and potentially the conflicts between alternative theories is so intense, and why even the object of study - the firm - may be captured in so many different ways.

Mario Morroni considers that the fragmented development of the theory of the firm observed so far is not necessarily beneficial. More crucially, he argues that it is now high time to think about an integrated framework for the theory of the firm. The original idea of the author is thus to overcome the usual conflicts between capabilities, transaction costs and scale and scope approaches to the theory of the firm, and explicitly consider the possible complementarities between them. In the same vein, though the literature provides extensive studies on particular kinds of firms, the author argues that it is possible to build a theoretical framework designed to describe and understand the multifarious and changing nature of the firm.

The key question analysed in the book, providing a common ground for the elaboration of an integrated framework, is how (i) basic conditions, (ii) decision making mechanisms, and (iii) organisational coordination influence the performance of the firm. In examining this question, and important related issue raised by the author is that the interplay between capability, transactions and scale/scope aspects in moulding the individual firm's performance and growth occurs whenever learning processes, complementarity and uncertainty matter. The interaction is even more important when technical and transactional knowledge are costly, inputs are indivisible and complementary and, more generally, when knowledge is tacit, non transmittable, and characterized by set up processes and high fixed costs. The structure of the book is very coherent with the problem analysed. The author first clarifies the key question in a simple setting, showing that this question effectively necessitates the combination of different approaches of the firm, and not the exclusion of one by the other. Then in a more complex setting, the author analyses how uncertainty, complementarity and learning processes reinforce the connection between capability, transactions and scale/scope approaches, and what is the impact on the performance and the growth of the firm. The contribution is essentially theoretical, but refers regularly to empirical results obtained in the literature from case studies and historical archives.

In a central introductory chapter, Mario Morroni decomposes the basic elements of his reasoning, and proposes some key definitions that will structure the different chapters. He argues that a causal chain can be elaborated, as a toolbox to characterize the strengths and weaknesses of the firm, and derive some conclusions about how and why strategies and policies can contribute to increase competitiveness. The causal chain relates thus (i) basic conditions, such as the characteristics of information and knowledge, the characteristics of techniques and equipment, the individual motivations and aims, the indi-

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vidual abilities, uncertainty, structural change, institutional and market conditions; (ii) decision making, such as property structures, control rights, aims of the firm, incentives and rationality; and (iii) organisational coordination, and essentially capabilities, transaction and scale and scope issues. The interaction between these different conceptual blocks have an impact on the competitiveness of the firm, namely on its efficiency (in terms of input requirements) and efficacy (in terms of matching current and potential market needs), and furthermore on the growth of the firm. The author advocates that with weak uncertainty, costly knowledge and perfectly rational agents, the interaction among competence, transaction and scale considerations may be significant. But, the interaction described from the causal chain is significantly reinforced in the presence of cognitive limitations that prevent individuals from computing all possible pay-offs of their actions, thus obliging them to operate under radical uncertainty. The outcome is that, for the author, as soon as we look for a comprehensive theory, we need to consider both situations of radical uncertainty and farsightedness.

Chapter 1 then characterises the role of the 'basic conditions' that structure the integrated framework proposed by Mario Morroni in the introductory chapter. These basic conditions influence the firm's decision making in two ways. Basic conditions defined as "external" create an objective set of opportunities and constraints for the firm but, in the meantime, decision making mechanisms are shaped according to the subjective "image" of the environmental conditions that entrepreneurs and managers have developed in their mind. Consequently, basic conditions influence decision making, organisational setting and competitiveness, but there are important feedbacks to consider on how basic conditions are themselves affected by changes in the domain of decision, organisation, and performance. Here, the author provides an interesting discussion on how the transfer of information (and potentially the non transferability of tacit knowledge), and the characteristics of production processes shape these influences and feedbacks. He analyses especially how production processes that are characterized by indivisibility, non saturability, and complementary play a role in shaping organisational settings, in 4 different contexts of uncertainty (complete and incomplete forecasting, incomplete theoretical framework and incomplete information-processing abilities).

Chapter 2 clarifies the author's notion of processes of decision making. He defines them as an outcome of a complex combination between property structure, power and control, the aims of the firm and the relationships between shareholder, manager and stakeholder; the incentives and motivations schemes implemented, and the degree of rationality of the different actors involved. Here the author's contribution is to provide an analysis of this complex combination in a context of perfect rationality, cognitive rationality, and multiple rationalities.

Chapter 3 deals with organisational coordination. Here, the issue is to develop the integrated framework that links directly the three approaches to the firm, i.e. capabilities, transactions and scale/scope. To do so, the author examines different situations: (i) there is no significant weight of these three aspects, namely capabilities, transactions and scale/scope, and therefore no interaction among them, leading to an organisational coordination oriented towards full decentralisation; (ii) there is no interaction among the three aspects because one aspect clearly dominates, here a tendency toward vertical integration or cooperation is likely to appear; (iii) there is a significant weight of all three and interaction among them, involving a tendency towards vertical integration through unified ownership or forms of collaborations within and among firms ; (iv) there is significant weight of all three and intense interaction among them, generating a strong tendency towards an expansion of the boundaries of organisational coordination within and among firms.

Chapter 4 goes back again on the central issue of uncertainty, with new results. The author argues that uncertainty may be tempered in different contexts. Within markets, for instance, when autonomous parties are present, there may be some special contracts implying screening, signalling, monitoring, incentives that reduce uncertainty. Within firms, also, one should think about organisational devices that ensure information, enforcement, regulation and dispute resolution activities. Finally between firms, the virtue of hybrids or networks of firms is to decrease uncertainty.

Chapter 5 investigates the last two points. Firms, by keeping reserves and by designing long term relational agreements, may be apt to manage appropriately situations of high uncertainty. In addition, employment relationships, division of labour and learning processes contribute to limit uncertainty.

A conclusive chapter draws some new lines on the growth of the firm as the interplay between the three aspects of organisational coordination. Here the author identifies the potential advantages that are derived from the cross-linked effects between the development of capabilities, arrangement of transactions and design of the operational scale. When capabilities and scale/scope issues are significant, economies of scale imply the development of capabilities necessary to solve problems of scaling up processes. In the meantime, an increase in dimension of scale allows an increase in division of knowledge that, in turn, potentially involves changing individual skills and increasing returns of scale. Finally, in producing specific goods, firms may develop capabilities that turn out to be useful for producing new goods in complementary technology, generating then economies of scope. When capabilities and transactions are taken into account, then outsourcing and co-specialisation requires the development of internal and external capabilities in order to mitigate transaction costs deriving from costly productive and transactional knowledge. Alternatively, internalising requires the development of the firm's capabilities. Finally, when unified governance favours learning, the firm has a strong incentive to integrate. When transactions and scale/scope issues dominate, then the integration of some intermediate processes could involve economies of scale in other intermediate processes at different operational levels. But there are also counteracting forces to consider, that may limit firm's growth, including market and institutional constraints limited market dimension or downward sloping demand curve, errors of strategy due to cognitive inertia and myopia, and rising organisational costs.

In summary, Mario Morroni develops a convincing argument on the necessity to move towards an integrated framework on the theory of the firm, including capabilities, transactions and scale and scope issues. The book is thus an interesting read for experts in the theory of the firm who might either be looking for a progressive definition of common assumptions, or at least willing to know more about how such a progressive definition might be generated. One of the key values of the book lies certainly on how the author, first, decomposes the mechanisms that justify the emergence of the firm and its changing boundaries in different frameworks and, second, articulates these distinct mechanisms within an integrated framework. It certainly is also an interesting base for empirical work, as it provides a lot of key assumptions to test, and a lot of significant issues to solve, such as for instance how the growth of the firm may be a reliable indicator of its performance. Finally, the book provides a rich background on the theory of the firm, making it valuable to Master and PhD students as well.

A review of three essays on European integration

by Angelo Reati[1]

* Miroslav N. JOVANOVIC (2005) The Economics of European Integration. Limits and Prospects, Chelteham (UK): E. Elgar, 918 pp., Paperback ISBN 1 84376691 4, £35.00.

** Marco BUTI and Daniele FRANCO (2005) Fiscal Policy in Economic and Monetary Union. Theory, Evidence and Institutions, Cheltenham (UK): E. Elgar, 320 pp., Hardback ISBN 1 84542 017 9, £69.95.

*** Jörg HUFFSCHMID (Ed.) (2005) Economic Policy for a Social Europe. A Critique of Neo-Liberalism and Proposals for Alternatives, London: Palgrave Macmillan, 308 pp., Hardback ISBN 13: 978-1-4039-4354-0, £65.00.

1. These three books form a set of complementary contributions to the study of economic policies of the European Union. The first one - written by a civil servant of the U.N. Economic Commission for Europe - is a textbook that can be used as main reference for a one-year course on the political economy in European integration. The second book is more specialised: it offers a thorough analysis of fiscal policy - the most important and constraining dimension of economic policy of the Union. Its main value added comes from the combination of a solid theoretical background with the practical experience of policy makers. In fact, M. Buti is a senior official at the Directorate general for Economic Affairs of the European Commission, with direct responsibilities for the macroeconomic policy of the Union, while the second author (D. Franco) - who is currently director at the Research department of the Italian Central Bank - has also had policy responsibilities as advisor in the same Commission's department.

The third volume balances the mainstream approach of the previous books by presenting, first, a penetrating critique of the current neo-liberal drift in European policies and, secondly, by suggesting feasible alternatives for a social-democratic Europe. The book is the outcome of the work of a research network on "Full employment and social cohesion" financed by the European Commission (6th Research Programme) as well as by the activity of the "Euromemorandum group", a group of economists coordinated by Jörg Huffschmid that, since 1995, produces every year a critical assessment of the European economic policies (the "Memorandum"; see `http://www.memo-europe.uni-bremen.de`).

2. The non-specialist reader will find in Jovanovic's thick volume a good initiation to the com-

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plexity of European economic policies. After an introductory chapter on the origin and evolution of the European Union, the author deals successively with the monetary and fiscal policies (chapters 2 and 3), the agricultural policy (chapter 4), competition (chapter 5), industrial and trade policies (chapters 6 and 7), regional policy (chapter 8), factors mobility (chapter 9 - capital; chapter10 - labour), social policy (chapter 11), environment and transport policies (chapters 12 and 13), and concludes with enlargement (chapter 14). Science and technology policy and aid to development are not described in specific chapters but we can find some information on chapter 6 for the first policy and on chapter 7 for the second one.

The description and analysis of the European policies are usually preceded by a summary of their theoretical background and, when relevant, by the explanation of the rationale for public action. This theoretical background is mainstream, with special attention to the new developments of the theory of international trade (imperfect competition, economies of scale, etc.) and strong emphasis on the benefits of market liberalisation. Other theoretical paradigms are completely neglected. For instance, Keynes's General Theory is never referred to and, when dealing with monetary theory, it is the same for the Keynesian approach of endogenous money. Being a specialist of economic geography and spatial location of firms and industries,[2] special attention is given, in almost each chapter, to these aspects.

Generally speaking, I have appreciated the quality of the book, although it would have strongly benefited from more concision. For instance, same statistical tables are excessively long and the arguments are often repeated.

However, I was struck by the author's firm belief in the most extreme neo-liberal thesis. This is particularly apparent in the chapter on social policy, in which he takes an a priori negative a attitude towards the Unions and the European Social Charter, and where he maintains that "the EU must adapt its welfare state social policy in order to create a competition state" (p. 790), that "the best way to solve unemployment problems is .... greater flexibility in the labour market and an increase in ... growth" (id.), that "strengthening of employees' rights [as it is foreseen by the European legislation in the pipeline] represents a potential threat during times of ... high unemployment and job insecurity" (p. 788). Jovanovic also advocates a "downward adjustment" through competition of European labour laws (p. 787), and so on and so forth with this kind of arguments.

In some cases I was unsatisfied on technical grounds. On competition policy, for instance, there is confusion between "competitivity" and "competition" in the sense of the EU Treaty. Also, excessive room is given to the spatial distribution of production and allocation of resources at the expenses of the basic notions required to understand competition policy - such as the relevant market, the concept of workable competition and, more generally, to the phenomenon of market power. This chapter on competition quotes numerous case studies, but this evidence appears more anecdotic than a true means to clarify how the European Commission and the Court of Justice interpret and implement the legal provisions of the Treaty.

On monetary policy, the book would have been improved by illustrating the theoretical inspiration of the European Central Bank - something that is clearly specified in the ECB publications. Thus, no mention is made of the basic tenets of the New Classical economics that directs the ECB behaviour, particularly the (controversial) facts that, for the ECB, inflation is ultimately a monetary phenomenon and that, in the long-run, money has no effects on real variables (ECB 2004, p. 115; p. 41). ECB accountability and transparency of its decisions are not discussed.

On fiscal policy, the Maastricht parameters for deficit (a ceiling of 3% of GDP) and debt (obligation to reach 60% of GDP) are not assessed, and no consideration is given to alternative definitions of the sustainability of public finances. On "taxation principles" (p. 150-152), under the heading "fairness" there is no reference to progressive income taxation as the fundamental means to have a fair system. The expenditure side of public finances is neglected.

3. Buti and Franco's book is an excellent means to understand the budgetary constraints established by the Maastricht Treaty and further reinforced by the 1997 Stability and Growth Pact. As it is known, the Pact made the Maastricht's prescriptions even more stringent by fixing an objective of budgetary position close to balance or in surplus over the business cycle - something that would prevent any discretionary policy, the only possibility to smooth the cycle being the automatic stabilizers. The authors are strong supporters of these rules and concentrate their efforts on showing the positive aspects of the rules in question. Their thorough analysis takes advantage of an accurate review of the mainstream literature and is supplemented by mathematical models as well as by projections resulting from the neoclassical econometric model QUEST built in the European Commission.

The argument is developed in 13 chapters reproducing previously published essays; this explains the repetitions one finds here and there. The European fiscal rules are first presented in a historical perspective (chapter 1), which is followed by a detailed analysis of their institutional technical aspects (chapters 2 and 3). Chapters 4, 5, 6 and 7 are devoted to specific aspects of economic policy under the Euro-

[2] Jovanovic's internet page announces the publication of two books on these subjects in 2007, and another one for 2008.

pean rules, i.e. the possibility of cyclical stabilization (chapter 4), the interaction between monetary and fiscal policies (chapter 5), the constraints to public investment (chapter 6), the sustainability of public finance (chapter 7). The question of sustainability is resumed in chapter 10 from the point of view of the statistical aggregates required for policy monitoring. Chapters 8 and 9 are on political aspects dealing, respectively, with the question of fiscal decentralization and the influence on fiscal policies of major electoral periods. In chapter 11 - on "Reforming EMU's fiscal rules - the authors assess critically the various proposals to change the present regulations, such as the establishment of an independent authority to enforce fiscal rules at national level, a "golden rule" for public investments (see below) and several other institutional and procedural changes. They conclude that, "[w]hile the Pact presents some drawbacks .... it is not evident that any alternative would be preferable on every account" (p. 210), and suggest to improve the existing regulatory framework essentially by redefining the medium-term budgetary targets in order to diversify countries' fiscal commitments according to their specific economic and financial features. The book ends with a chapter on "National budgets and the EU budget", and with a postscript on the recent reinterpretation of the Pact, following the deficit problems of Germany and France.

The book has many merits, and represents an important contribution to the controversial topic of European fiscal policy. I appreciated in particular the high quality and rigor of the analysis and the fact that the pros and cons of the contending opinions are presented in a fair way. It is a rewarding reading, although it failed to convince me that the present rules go in the right direction to attain the objectives of the Union - a high level of employment and social protection, sustainable and non-inflationary growth, social fairness in general. Rather, it seems to me that they represent a serious obstacle towards those goals. Consider, for instance, the two crucial questions addressed in chapter 6 and 7.

In chapter 6, public investment is examined on a double perspective: (i) whether the binding constraints of the Stability Pact may worsen slowdowns, particularly by limiting public investments; (ii) the opportunity to introduce the Keynesian "golden rule", that would exclude public investment spending from the computation of deficit.

The answer to the first question is obvious. In fact, as the authors admit (p. 104-105), the achievement of a balanced budget makes impossible to spread the cost of investments over all the generations of taxpayers who benefit from it. Intergenerational equity is thus negatively affected, as the deficit ceiling implies that taxes rather than debt are to be preferred to finance investment. This also entails a disincentive to undertake large projects.

On the second point, it is worth recalling that the Keynesian "golden rule" states that, while public consumption must be entirely financed by current receipts (taxation), public investment can be financed by debt without introducing an unbalancing factor into the system. In fact, public investment is productive, and the flow of income that directly or indirectly produces gives the possibility to pay interest and gradually refund the debt. Such a "golden rule" would introduce a healthy correction to the present rigid European framework.

The authors discuss in detail the positive effects of this proposal as well as its possible drawbacks. They maintain, for instance, that "the possibility to borrow, without strict limits, in order to finance investments can lower the attention paid when evaluating the costs and benefits of each project" (p. 113).[3] They also draw attention on some practical difficulties of implementation. The distinction between public consumption and public investment - they argue - is not always clear-cut and this could leeway for opportunistic behaviour. In my view this is a false problem. Within national accounting we have indeed a well-established definition of public investment, and it would just be enough to stick on it; if necessary, the definition could be further refined. The authors' overall conclusion is that the "golden rule" is incompatible with the current European rules and, consequently, should be rejected. They add that "a reduction in [public] investment ... should not be too worrisome since it is not the most appropriate measure of change in public capital" (p. 120). At this purpose they suggest to consider safeguard clauses to avoid investment cuts resulting from fiscal consolidation[4], and to involve private capital in funding projects of public interest (id.)

Chapter 7 touches the heart of the problem: the notion of sustainable finance and the possible justification of the Maastricht parameters. The question the literature tried to answer is the following: when a public debt becomes excessive, in the sense that it would require higher and higher taxes to cover debt servicing? Domar (1944) provided a decisive answer by demonstrating that, if the total Deficit/GDP ratio in nominal terms remains constant over time, taxes needed for interest payments will converge to a finite value as share of GDP. Pasinetti (1998) reformulated Domar's result showing that public debt is sustainable when the ratio Debt/GDP in nominal terms decreases or, at least, remains constant. The reason is intuitively clear: the constancy of the above ratios means that nominal GDP growth provides the necessary resources to face government's engagements, and this holds for any level of Debt/GDP not just

[3]We find here the traditional mistrust on public initiative.

[4]In explicit terms this would mean that, given the current ceiling for deficit, the priority for investments will correspondingly reduce the current expenditure for the day-to-day functioning of public administration.

for a specific value. Buti and Franco recognise that the Maastricht parameters for deficit and debt are "somewhat arbitrary", but they maintain that they are "justified by the difficulty to firmly base on theoretical grounds any benchmark against which asses sustainability" (p.121) "The arbitrariness sometimes attributed to the choice of actual thresholds appears to reflect ambiguities in the theory rather than poor design of rules" (p. 188), and "EMU rules ... provide applied economists with benchmark the theory has not produced" (p. 121).

In my view these arguments are wrong. In fact, the theory did not quantify sustainability for the very simple reason that, for such a purpose, we do not need quantitative targets to be uniformly applied to member States. The stability or decline of the Debt/GDP ratio in nominal terms is entirely sufficient. Thus, instead of these arbitrary Maastricht figures[5], member States could declare the level of Debt/GDP ratio on which they take the (absolutely) binding engagement not to exceed.[6] Obviously, this engagement implies a strict fiscal discipline, but has the double advantage of taking into account the historical path of each country and, above all, it refrains from imposing the unnecessary burden to refund the debt in order to reach the mythic value of 60% of GDP.

What precedes fully justifies action to change the Maastricht criteria, and we were lucky that the attempt to insert such a criteria in a solemn text having the word "Constitution" in its title failed. Obviously, this must not be understood as a preconceived hostility to the very idea of a European Constitution. Quite the opposite! I am indeed deeply convinced of the necessity of a Charter stating the fundamental rights of citizens, the institutional architecture and procedural rules, but I am against the manoeuvre to transfer in a so basic document the main prescriptions of the now prevailing neo-liberal doctrine.

4. J. Huffschmid edited 25 interesting essays written by himself and by 9 other members of the abovementioned "Euromemorandum group", i.e. E. Altvater, W. Blaas, M. Etxezarreta, M. Frangakis, J. Grahl, A. Kleinknecht, J. Mazier, P. Petit and M. Sawyer. As announced in the subtitle, the book has a dual structure: part I provides a critical description and assessment of the European policies (the first 13 chapters), covering the macro economy, financial integration, public sector, social policy and employment, the environment, structural policies, agriculture, trade coordination.

In the second part ("Proposals for alternatives", chapters 14 to 24), each of the topic finds its "dual" in proposals for reform, written by the same authors who analysed the subject in part I. As pointed out in the introduction (chapter 1), this corresponds to the two main theses that inspire the book. The first one is that the present weaknesses and insufficiencies of EU are "neither the inevitable consequence of globalization .... nor the result of insufficient adjustment to external changes. They are mainly the result of neo-liberal economic policies" (p. 4). More explicitly, "the combination of market radicalism plus monetary and fiscal austerity is a harmful policy framework, which has led to economic weakness, persistently high unemployment, growing social inequalities and insecurity, and environmental degradation in the EU" (p. 181).

The second thesis is that "alternatives can be developed and implemented" (p. 6). This is at odds with the widespread opinion that there is no possibility to escape from the present course of economic policy. Obviously, the authors are fully aware that the final issue will crucially depend from the results of social struggles, to which the book can contribute in a twofold manner: (i) by unmasking the interests that are behind the current proposals and policies, and (ii) by offering arguments to sustain the social movements.

Considering the wide range of subjects that are treated, it is not possible to summarize here all the main elements of analysis and proposals. Thus, I shall be selective, hoping to stimulate the interest in this rewarding reading, that I can only recommend.

On macroeconomic policies (chapter 3), after having emphasised the advantages of a single currency, it is argued that the framework surrounding the euro created a self-defeating regime. It started with the road to monetary union, that required a "particularly heavy [price] in terms of unemployment and low levels of economic activity" (p. 27). It continued with the deflationary bias of Stability and Growth Pact, which imposes a strait jacket with the 'one fits all' fiscal policy that prevents governments adopting policies appropriate for their own country. In fact, "[e]ven if it is accepted that budget should be balanced over the cycle, there is little reason to think that the extent of the swings in the budget position will be similar across countries" (p. 34). On monetary policy, it is pointed out the ECB's "irresolvable dilemma": in front of an inflation rate above the target and economic slowdown as well as rising unemployment, the ECB has a single instrument to deploy to pursue price stability - the interest rate. This has serious shortcomings. In fact - note the authors - a policy to influence aggregate demand to curb inflation may have some validity when inflation is in-

[5] These figures reflected roughly Germany's public finances at the time of the first discussions on the Maastricht Treaty, and Germany exerted strong pressures to have them in the Union's regulations in order to protect from the "irresponsibility" of some States that, at that time, were far away from German situation. We know how things evolved later....

[6] This proposal was recently submitted to the new Italian government by a group of economists of that country. It implies, of course, a revision of the present rules. See `http://www.appellodeglieconomisti.com/`.

duced by a demand shock, but it is powerless to deal with cost inflation or supply shock inflation. In addition, available evidence shows that "changes in interest rates have only a limited impact on aggregate demand, and aggregate demand only a limited impact on inflation" (p. 36). Besides, "it has never been proved that monetary policy is the best tool for controlling inflation" (p. 39).

The proposals for reform (chapters 15 and 16) suggest that "[t]he objectives for monetary policy should be derived from the overall macroeconomic objectives, and .... should include securing high levels of demand to promote ... employment and ... growth" (p. 189). We are far from the present approach that subordinates price stability to any other goal. Indeed, the authors "reject the notion that politicians cannot be trusted to make 'good' macroeconomic decisions and that unelected bankers can be trusted to do so" (p. 190). They also maintain that the ECB should be made accountable to the European Parliament, and involved in the coordination of fiscal and monetary policies. At this purpose, in chapter 16, there are suggestions for a new institutional structure serving this purpose. Also, the ECB should undertake the role of lender of last resort and accept the responsibility for the European financial system. This too requires changes in the present institutional setting. On fiscal policy there is a strong plea in favour of an enlarged EU budget and for new rules of coordination (chapter 16). One can also find proposals to go beyond the Stability and Growth Pact, particularly by excluding from the deficit constraints public investments as well as expenditure on research and education.

Although I agree with most proposals of these chapters, I found that they are not always sufficiently backed by theoretical analysis. For instance, no mention is done of the notion of sustainable finance provided by the theory (see above), and the same applies for the "golden rule". This latter point is implicitly referred to without any discussion. Also, several sentences of chapter 16 gave me the impression that, in order to counter the unjustified rigour of the Stability Pact, the authors go too far in the opposite direction, adopting a too lax attitude - a laxness that is excluded if one adopts the above mentioned rule of a stable or declining Debt/GDP ratio.

The book goes on showing how the neo-liberal agenda produced an "attack on the public sector" that materialized through privatisation and liberalisation of public enterprises (chapter 5) and in a shift from public to private schemes for pensions, that should function through capital markets (chapter 6). These changes were motivated by the aim of alleviating budgetary constraints as well as for ideological reasons. To this we should add, as one of the main drivers for "reforms", the interests (and pressures) of private firms in search for new profit opportunities. The impact of private interests is particularly evident in the case of pensions, where financial institutions could obtain command over billions of contributions to invest in financial markets, thus exposing pensioners to the huge risks inherent to these markets.

On public services, the role of the State changed from direct provider to the function of regulator of private managed activities. Such a move was supposed to generate efficiency and welfare gains, but the evidence quoted in the book does not support these expectations. Chapter 19 (for "A strong and democratic public sector") puts forward detailed proposals to re-balance the roles of private and public sectors in Europe.

On pensions, in chapter 6 there is a qualitative assessment of the arguments for the above-mentioned shift from public to private schemes, leading to the conclusion that public system is superior to the private one on several aspects. Chapter 20 explores the possibilities to improve and expand the present public system and, since private schemes are increasingly adopted, it also discusses the ways to defend the interests of pensioners. As it is the case for other topics, the proposals are in contrast with the present political trends, but they certainly contribute to the struggle for democratic reforms. To conclude on this point, I would like to signal that I was deceived by the analysis of chapter 6 because it is not supported by sufficient econometric evidence on the foreseeable impact of demographic change, on the evolution of working population as well as on the productivity of the system that could provide the resources to face the burden of ageing population.

I end this overview by mentioning chapter 7 ("Employment through labour market flexibility?"), that shows the drawbacks of the neoclassical view that inspires the European policies, namely that unemployment mainly arises from malfunctions in the labour markets, that are not flexible enough. A close examination of long-term statistics relative to the main EU countries and the USA leads to the conclusion that "flexibilization of labour markets, lowering of labour standards and reduction of wage-cost pressure can be associated with impressive job creation. However, this is achieved at the expense of economic dynamism because innovation and productivity growth are impaired" (p. 93). According to the authors of the chapter, a true solution for the unemployment problem can only come from shorter working time and, at this purpose, they advocate a social pact between trade unions and employers to use large parts of productivity gains for the financing of reduced labour times rather than for wage increases (p. 89).

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Book Review: 'International Encyclopedia of Economic Sociology'

by Reinhard Pirker[1]

Beckert, J. and Zafirovsky, M., editors, 2006. International Encyclopedia of Economic Sociology, London and New York: Routledge, 773 pp.; Hardback ISBN 9780415286732 £145.

Jens Beckert and Milan Zafirovsky have undertaken the impressive task of editing an *International Encyclopedia of Economic Sociology*, taking into account the huge increase in interest in the subject, particularly in the last thirty years. We should credit them for this achievement.

This scientific discipline is not entirely new as Max Weber's studies on *Economy and Society* put economic sociology on the scientific agenda as early as a century ago. In contrast to the discipline of economics, which devotes itself to explaining the mechanisms of the pricing process and the related efficiency of market economies, economic sociology is more concerned with the influence of non-economic institutions on the functioning of the economy, i.e. with the influence of political und religious institutions for instance, in which we can also draw on Weber's examination of the *Protestant Ethic*.

A further difference between economics and economic sociology can be seen in the prevailing scientific methodology. Whilst economists largely favour an analytical-deductive approach, which can be traced back to Carl Menger in the *Methodenstreit*, proponents of economic sociology tend to apply a historical-empirical method. The latter are less interested in mechanical, universally applicable (nomothetic) statements about human behaviour; rather they embed behaviour into social (and therefore also historical) models, with the implication that the degree of generalisation of scientific statements must also be taken into consideration.

Max Weber (1904; 1921) and Werner Sombart (1916) quite deliberately focussed their research on a specific historical period, that is, the emergence and triumph of capitalism. They comment on the complex cultural and institutional requirements legitimising, encouraging and facilitating the emergence of market relations. Weber's comparisons between the "western" and "eastern" worlds, in particular, show that this process was more difficult in some parts of the world than in others because cultural und institutional conditions stood in the way.

Emile Durkheim (1893) and Joseph Schumpeter (1942) inquired about the social foundations of markets and came to the conclusion that non-utilitarian dynamics such as fairness and trust are indispensable for the stability of market economies. Durkheim called this the non-contractual elements of contracts, while Schumpeter affirmed that contracts concluded for exclusively utilitarian purposes would never warrant the desired social cohesion.

Above all, Thorstein Veblen disputed the atomism and utilitarianism of the economic theory, particularly with regard to consumer behaviour. Offhand, nobody would find consumers who bustle about with given, stable preferences, sufficient information and an accurate utility function, and make their purchase decisions completely independently of the behaviour of others. Veblen's analysis of "conspicuous consumption" (1899) suggested that consumption is dependent on social status or the comparison of status. He elaborated convincingly that increased access to mass goods represents an important instrument in the integration of previously disadvantaged social groups.

For me, as a trained economist, the upsurge of economic sociology in the last thirty years can be explained by the theoretical and practical need to finally take the variety of economic organisations into account. The transaction cost theory, which dates back to Ronald Coase (1937) and which was brought back into play by Oliver Williamson (1975) in the early 1970s, is geared for this instance. For decades, the difference between economic institutions was rarely raised as a topic in economic discourse. This is because the origins of prevailing economic method are to be found in classical physics (mechanics) (Georgescu-Roegen 1978). As such, this approach exhibits an anti-institutionalist thrust of reasoning. Transaction cost theory can indeed pro-

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vide the theoretical foundations of different institutions. As this is done exclusively based on the comparison of transaction costs, however, this approach inevitably remains within the theory of rational choice (applied here to organisational forms rather than goods). Nonetheless - and here I am in agreement with many partisans of economic sociology - this does not afford a satisfactory grounding of behaviour when faced with uncertainty. The existence of the *economic man*, that rational calculating machine, as a pattern of behaviour is simply imputed. The economic man simply reduces uncertainty (risk) to costs and opts for the organisational form with the lowest cost.

I consider the criticism of transaction cost theory as practiced by the proponents of an *institutionalism* (cf. Hodgson 2006) standing in the tradition of pragmatic philosophy and *economic psychology* (Dewey 1922; Veblen 1919) to be extremely important in this context. Veblen ultimately puts all economic change down to a change in the habits of thought. To understand habits, it is necessary to accept that reasonable thought and action are only possible when certain routines of thought have already been socially acquired. The term *habit* means nothing less than this and consequently forms the basis for all behaviour. These ideas, which were suppressed for decades, have in any case now been confirmed by the results of modern research in evolutionary psychology and cognitive science (Twoomey 1998).

At any rate, economic sociology has made a significant contribution towards the replacement of that sinister mathematical wizard, the economic man, with a more sustainable basis for the theory of behaviour. It seems to me, in any case, that the time has come for the reintroduction of scientific economics into the canon of social science.

This encyclopedia briefly outlines the scientific development that I have sketched here. It is divided into entries covering more than 250 topoi of the discipline, all of which conclude with relevant references, and spans almost 800 pages. Anyone interested in the social sciences will discover something of use in this book. This oeuvre will thus prove to be an extremely valuable reference work, capable of filling a substantial gap that has existed to date.

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Publications

JOIE: Contents of recent issues

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In this section we list communications about recent or forthcoming publications submitted by EAEPE members. It is necessarily incomplete, but it should give EAEPE members an overview on the work of other EAEPE members. We therefore invite all, but especially less senior or younger EAEPE members to submit to the editors a list of their publications published or forthcoming the year 2005, together with web-links to the work and a short abstract. This is a way to inform other people about your research.

Papers

1. Woerdman, E. and F.P. de Vries (2006), 'An Evolutionary Defense of Emissions Trading', in: G. Meijer, W.J.M. Heijman, J.A.C. van Ophem and B.H.J. Verstegen (ed.), Heterodox Views on Economics and the Economy of the Global Society, Wageningen: Wageningen Academic Publishers, pp. 243-254 (ISBN-10: 90 76998 96 5)
2. Hölzl, W. and Reinstaller A. (forthcoming 2007). The impact of technology and demand shocks on structural dynamics: Evidence from Austrian manufacturing. *Structural Change and Economic Dynamics* `http://dx.doi.org/10.1016/j.strueco.2006.10.002`.
3. Reinstaller, Andreas, Windrum, Paul, Hölzl, Werner (forthcoming 2007). Organisational innovation, information technology, and outsourcing to business services. In: Kox, H. and Rubalcaba, L, editors. *Business Services in European Economic Growth*, London: Macmillan
4. Schönfeld Susanne, Andreas Reinstaller (forthcoming 2007). The effects of gallery and artist reputation on prices in the primary market for art: a note. *Journal of Cultural Economics* `http://dx.doi.org/10.1007/s10824-007-9031-1`.

Monographs

1. Thomas Colignatus (2006), The Political Economy of the Netherlands Antilles and the Future of the Caribbean DRGTPE supplement on a Caribbean islands economy. Leiden: Samuel van Houten Genootschap, 170 pages, ISBN-10: 90-802263-3-5. `http://www.dataweb.nl/%7Ecool/Papers/PENAFC/Index.html`.

PhD abstracts

1. Maseland, R (2006) Embedding Economics: The Constitution of Development and Reform in Malaysia and the Philippines, Nijmegen, The Netherlands: Dissertation Radboud University Nijmegen.

   Abstract: This dissertation addresses the idea that the economy should be viewed in its social, cultural, and historical context. Three examples of this idea are discussed: Douglass North's New Institutional Economics, the idea of Asian Culture underlying Malaysian development, and the idea of structural, moral roots of the Philippines' development experience. The dissertation argues that to view the economy in its social-cultural or historical context in a consistent way requires placing the construction of this context as relevant for the economy in its social, cultural, and historical context as well, instead of viewing it as given fact. In other words, reflexivity is required. The central question, therefore, is where the idea of economic development as embedded in culture and history comes from, and why it is constructed. More specifically, the dissertation places the emergence of the idea of cultural context as relevant for economic development in Southeast Asia in its social-political context. It argues that the construction of development as embedded in Malaysian culture can be understood from a power perspective. Essentialisation of development policies and governance structures created perceived institutional continuity. It has thereby been supportive of reform and rapid development, but also of increasingly authoritarian tendencies in Mahathir's Malaysia. Similarly, the idea of structural, moral problems underlying the Philippines' supposedly dismal development experience is related to the political and historical context in which this idea has been produced. The essentialisation of problems results in a revolutionary discourse and a tendency towards extra-institutional action. It has thereby supported the position of technocrats, while hampering reform and development. This focus on power relations and history, in turn, is viewed in its historical-political context as well, questioning the framework. The conclusion is that the current theoretical and policy trend of addressing economy in its context is not helpful unless it is reflexive. Weblink to electronic document: `http://webdoc.ubn.ru.nl/mono/m/maseland_r/embeec.pdf`

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Between 1991 and 2005 EAEPE has published a series of conference volumes with Edward Elgar Publishing. On the EAEPE web site under the URL `http://eaepe.org/eaepe.php?q=node/view/62` we list all books published in this series. In 2005 EAEPE has decided to launch a new series of volumes that are more focused than the previous conference volumes were. First volumes in this new series have already been published with Edward Elgar. More information on the New EAEPE Volumes Series and the new volumes is available on the EAEPE web site under `http://eaepe.org/eaepe.php?q=node/view/201`. Volumes from both series are available to EAEPE members at a highly discounted price from Laura Wyer at the Publicity and Marketing Department Edward Elgar Publishing. Details are available at the EAEPE web site under the `http://eaepe.org/eaepe.php?q=node/view/62`. We invite the readers to visit this page.

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The Fred Lee's Heterodox economics newsletter Fred Lee maintains a email list of people interested in heterodox economics issues. He also maintains a website `http://l.web.umkc.edu/leefs/htn.htm` which has information on calls for papers, conferences, jobs vacancies, papers, journals, books and website. In fact pretty much everything that is going on in heterodox economics. He produces a regular newsletter which is posted out on email and is on the site (check out the latest issue at `http://l.web.umkc.edu/leefs/htn39.htm`). If you are not on his mailing list, how have you escaped? If you would like to be on this very useful list contact Fred on `leefs@umkc.edu`.

The Post-Autistic Economics Review

The Post-Autistic Economics Review is edited by Edward Fullbrook and publishes on a regular basis articles by heterodox economists on methodological issues. Please visit the web site `http://www.btinternet.com/~pae_news/join.htm`.

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