

# Savings, but not as a Strategy

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## Abstract

Our starting point is the diagnosis that the instrumentation of savings (austerity) in the current economic and political constellation is the dominant form of the involvement of different countries in global flows. In this sense of the word, savings refer to a certain context determined by deflation, which is realized through a reduction in rents, public expenditures. Such a type of savings is promoted in order to boost competitiveness and establish stability. Consequently, the center of the economic policy today is not the fiscal stimulants but rather on the savings in the sense described. Savings cannot be understood only as instrument of the ruling economic policy, but it is obvious that it also represents a certain ideological orientation that conceptualizes the way to economize on. Thus, savings in this conceptual-ideological sense is at least characterized by: a) a view of the position of the state in relation to economic flows, b) the treatment of demand. The paper criticizes reliance on savings as a policy that manages both stabilization and channels integration in globalization processes. First, we consider the promotion of savings as a guiding light for the economic policy to be hiding a logical error, namely, the replacement of a part for the whole. Because there is no doubt that in a thematized meaning savings are a rational economic instrument, but only in certain strategic frameworks, as a subordinated segment dosed economic rationalization. Therefore, savings cannot take the place of the economic strategy. Second, savings address not ultimate causes of a crisis but rather and only certain forms of manifestation, i.e. only symptoms. Third, savings as a strategy do not contribute to the overcoming of asymmetric processes of globalization, just as it does not contribute to convergence processes, either, i.e. leaves peripheral countries in peripheral trajectories. Fourth, in the ideological sense, savings suggest an image of the state which per se is a burden for economizing, i.e. the government expenditures are assumed to automatically squeeze out private investments. Our claim is supported by empirical data. Fifth, expansive savings with a focus on short-term fiscal consolidation has a contraction effect compared to aggregate demand. Pursuant to that, it does not create conditions for the dynamization of investments and the nominal GDP. Only the criticism of savings as a strategy can a more dynamic growth of peripheral countries be planned.

## Keywords

Savings, crisis, government.

## 1. Austerity as a paradigm

Austerity is an extremely widespread notion in an economic reflection. For us, it is relevant that the term is present not only in economic, but also in non-economic disciplines; it is obvious that it is not a concept that draws the attention of economists only (Macilwain, 2010). Various terms are used in economic reflections, such as an “idea”, an “ideology”: we opted for the term “paradigm”, which already occupies a prominent place in describing the orientation in economic science. It

can even be considered that austerity can be directly correlated with the determining of the basic notion of economic science, which was postulated by Lionel Robbins a long time ago, namely with the notion of scarcity. Moreover, in some economic discourses, austerity is equated with scarcity (Tellman, 2015).

For the sake of simplicity, we will be satisfied with the indication that austerity as a paradigm is connected with:

- a) voluntary deflationary processes,
- b) corrective mechanisms aimed at the restoration or establishment of competitiveness (in Europe, the Lisbon Strategy that refers to Europe as the most competitive economy, is possibly mentioned many times), i.e. the “confidence of investors”, “confidence-boosting effects” (JC Trichet),
- c) the reduction in public spending, i.e. the cutting of the budget and appropriate consequences based on that.

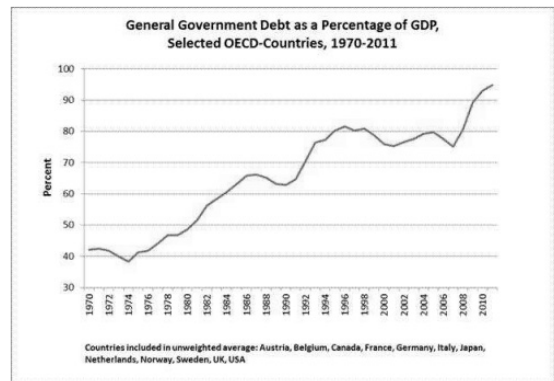
There is no doubt that the issue of austerity involves many economic problems, but, for us, it will be sufficient that austerity:

- a) can be understood in the context of the accumulation of the debt since the 1970s century, as an attempt to deal with the problem of the debt,
- b) is necessarily understood as a “paradigm” in terms of integration into the global economic mainstream in terms of “peripheral” countries.

Let the assertion be clarified:

- a) In terms of debts, empirical data regarding the perception of trends are convincing enough, as it can be seen in the following Figure. The first figure shows an unambiguous growth of the government debt with respect to the GDP dynamics; the fact that we have chosen only the selected OECD countries clearly shows the determining dynamics. The second figure, based on one selected and thus representative example (the USA), demonstrates the dynamics of the government debt as well as the debt of households, and last, but not least, the inflation rate. In economic theory, the situation evokes an old description of significant theorists I. Fischer on debt-deflation.
- b) When related issues are raised, there are different concepts of ‘periphery countries’ joining the world economic flows; the import-substitution strategy; the so-called Washington consensus; as a reaction to homogenized concepts of the joining of the mentioned countries after the fall of the Berlin Wall, the theory of the variety of capitalism was developed, emphasizing the differentiation of the former socialist countries regarding initial resources, the degree of involvement in global trends, the ac-

quired modes of collective learning in relation to market operations, the subtleties of business culture, etc. If the logic of austerity is treated as a paradigm in the indicated terms, then the mechanisms of fiscal consolidation can be said to represent certain modes of the inclusion of “periphery countries” in the world economy. Namely, these countries are forced to follow “competitive austerity”, “competitive disinflation”, in order to integrate into the circulation of the global economic dynamics. To that extent, we want to analyze the balance of the effects of austerity policies regarding adjustments in relation to global processes, including Serbia, which is to go through the integration process. As is well-known, integrations are rule-based. To what extent may “the paradigm of austerity” help conceive the integration strategy?



**Figure 1** General Government Debt as a Percentage of GDP  
Source: Streeck, 2014



**Figure 2** Dynamic of government debt, household debt, and inflation rate (USA) — US Government Debt.....US Inflation Rate.—.—. US Household Debt  
Source: Streeck, 2013

## 2. Austerity: lock-in?

Economic history advises caution that must not be overlooked: quantitative aspects need to be analyzed together with qualitative moments. Therefore, we are familiar with such economic constellations when the public debt was very high, which did not prevent the said country from stepping onto the robust path of development and growth (the British public debt in the 1920s was about 260% in relation to the GDP, yet it was followed by a significant developmental sequence in the Victorian period). This means that the debt does not have to be understood as an absolute obstacle in a developmental expansion, although it must be contextualized. Therefore, quantitative aspects should be explained through a qualitative horizon. Furthermore, this argument assumes that the debt/austerity-regime must operatively be connected with qualitative criteria. If there is a criticism addressed to “expansionary austerity”, it must be understood in the sense that, in the last decades, there has been a lack of dialectic between the quantity and the quality, namely there were vicious circles between quantitative and qualitative aspects.

Let us now take a look at the different summaries of the selected critical considerations about austerity.

- 1) The fallacy of composition: There cannot be a guarantee of a harmony between the individual and the collective levels; it is not certain that individual austerity will transpose onto the collective level; more precisely, even if individual austerity can be imagined to be relevant, it is not certain that such collective austerity will be fruitful; in economic theory, it is refracted through the relationship between micro- and macro-economic aspects: what is true at the individual level may not be true for the whole;
- 2) The fallacy of simultaneity: This critical argument is linked to the first one: the simultaneous monitoring of all collective austerity is impossible without regressive moments for the economy;
- 3) The fallacy of homogenization: “Austerity policies suffer from the same statistical and distributional delusion because the effects of austerity are felt differently across the income distribution... although it is true that you cannot cure debt with more debt, if those being asked to repay the debt either

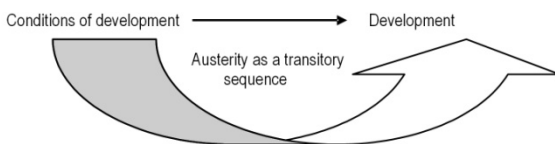
cannot afford to do so or perceive their payments as being unfair and disproportionate, then austerity policies simply will not work” (Blyth, 2013);

- 4) The austerity policy is not sensitive to the demand side and reduces the spill-over effects of public investments;
- 5) Critical recapitulations, empirical arguments of both theorists and actors influencing the economic policy after the implementation of austerity measures and claiming that austerity must be made relative, that the anticipated results are overestimated and that austerity must be combined with other measures (Blanchard, 2012; Lagarde, 2011; Konzelman, 2014) in order to adjust the existing courses.
- 6) Based on these indications, it can be argued that there is a significant range of critical analyses of austerity as a paradigm and that these evaluations have even been done by the highest global scene. Of course, these indications differ; there is a scale by which the aforementioned estimates are differentiated. So, we discovered that there is a strong criticism about austerity emphasizing the negative synergy between the forces of the economy and the bifurcations of vicious circles regarding the application of austerity measures, even claiming that austerity policies inflicted damage especially in the European Economic Area; we also noticed, however, a minor criticism directed only to the combining of measures of austerity with other paths of the economic policy, or to the temporal arrangement of these measures in terms of long and short deadlines. The dilemma whether the debt is of a structural or conjectural character could be problematized: where is it claimed that austerity has only indirect economic effects, because it “only” proves the credibility of the State concerned, that it only wants to endure paths of fiscal rationality? However, it can be confirmed that even in minimalist terms, austerity must be problematized as a defining and long-term orientation towards integration, i.e. it must problematize austerity as a meta-framework for inclusion in the global economy.

### 3. "Development" that overwrites austerity in terms of integration: the selected forms of operationalization

Based on the implied claims, the situation can be problematized in such a way that austerity cannot be accepted as a form that manages integration. In fact, austerity can only be a subordinate and transitory moment in the integration process, and can only be meaningful in the case when there is a development strategy which austerity is subordinate to. In other words, the operationalization of development is herein assumed to be a mechanism considered as constitutive for the concrete involvement in the world trends. In fact, the goal of the economic policy and involvement in global trends is to prevent perpetual austerity. Namely, critics of austerity continually emphasize the fact that there is a risk of the economy being set on the path that becomes permanent. We think that such a danger is very real unless there is a distinctive and non-simulative articulated development strategy.

The following figure shows a constellation which appears as relevant at this point; thus, austerity as a subordinate mechanism can achieve relevance only from the perspective of development, rather than vice versa.



**Figure 3** Austerity as a mechanism subordinate to development

Source: The author's source

The development is, of course, a non-trivial term repeatedly used in economic considerations. We may recall the well-known term of "sustainable development", used in various studies for nearly thirty years. In addition to that, if integration processes are to be thematized for Serbia, no avoidance of the respective term is possible, especially taking into account the crucial importance of the operationalization of sustainable development for the European Union. However, in accordance with the dynamic of development conditions (technological, biophysical, innovative etc.), development must constantly be re-conceptualized, i.e. the concept cannot only be adopted as a simple "blueprint". Actually, this is not at all possible here, nor is it necessary that the concept of development should be analyzed in

detail from an economic perspective; we have already tried to do this elsewhere (Lošonc, 2005). We are only interested in emphasizing the two aspects that will be reflected in the treatment of the public sector and consequently in the positioning of austerity. Accordingly, we will offer two unavoidable aspects in view of our topic.

#### 3.1. Development and innovative modes: a state that creates conditions for development

We are not abandoning the field of macroeconomic considerations, but rather feel it is necessary that the results of multiple different analyses on innovation should repeatedly be taken into account. They can help us in respect of:

- a) the fact that they shed light on those forms of pro-active roles of the state that are frequently ignored in various macroeconomic considerations,
- b) the fact that they problematize the position of the state with respect to critical aspects of austerity as a paradigm,
- c) the fact that they bring us closer to the concept of the pro-active role of the state in terms of "globalization" and "internationalization" and allow the re-conceptualization and modes of the inclusion of "periphery countries" in these processes.

Therefore, we would like to combine the macroeconomic insights in relation to the logic of austerity and certain indications regarding the regimes of innovation. In fact, based on macroeconomic knowledge, we reached a conclusion that demonstrates the problematic aspects of austerity. However, we will now focus on certain knowledge leading us to innovative modes that also, but in a different manner, of course, warn us of the inherent limitations of austerity as a paradigm. Namely, austerity as a paradigm reduces the possibility of the state to maneuver in terms of development: in comparison to the austerity state, lock-in is predisposed to have a minimalist-defensive role. It should not be forgotten that we live in a time when there are many dilemmas about conceiving the strategy of the economic aspects of development (de-industrialization: yes or no?, the range of the tertiary sector of the industry; what to implement for "periphery countries" regarding de-industrialization; whether the existing forms of de-industrialization on the periphery are "premature", etc.) (Rodrik, 2015) and that new uncertain-

ties arise from it. Here, one must be categorical: the environment of the world economy is extremely uncertain and it can be claimed without any big risk that the same uncertainty and complexity will spread further. Our thoughts on the developing state and integration into global flows stem exactly from our knowledge of the presented type of uncertainty.

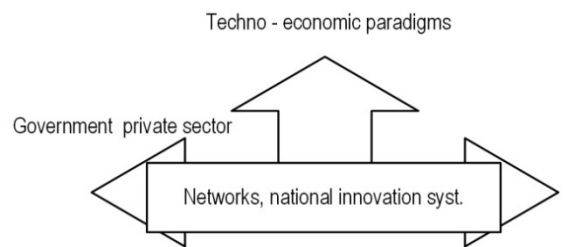
It seems that this situation brings new elements in the process of repositioning the state. Namely, it is not the case for the active position of the state to adopt the minimalist-state defensive perspective. It hardly needs to be proved that innovation is celebrated everywhere as the foundation of growth; it will be more than enough to allege the already mentioned Lisbon Strategy. However, as it can be seen from various studies of collective learning in technological systems as well as the impetus stimulating technological innovation and the completion of national innovative systems, it originates from the state. (In such a country as the USA, there is an entire government-based shadow system generating streams of innovation and pro-actively working so as to promote various modes of innovation) (Block & Keller, 2011). In this case, the consideration only insisting on the quantity (the ratio between the government spending and the GDP) misses important things. No matter how much it has been the subject of various attacks and reviews, the role of the state cannot be reduced to the role of creating legal preconditions, i.e. a framework of preconditions for the functioning of the market economy. Accordingly, different networks combining public and private aspects should be discussed: this situation is unaffected by any type of a strict and strong gap between the private and public spheres.

It should be noted that the activity of such a state will not be exhausted with traditional classifications of the state-imposed influence on the economy, i.e. on the basis of focusing on sectorial policies. If the Lisbon Strategy is mentioned again, which is certain in the case of Serbia as well, it seems then essential that this type of a country should play the role of an initiator of a dynamic knowledge-based economy. That the state has played a constitutive and creative role in promoting technological (Mazzucato, 2011) waves should, therefore, be taken into account (we have to mention a recent example, which is extremely relevant given the recent realignment of resource regimes on a world scale: shale gas is deeply connected to the activity of the US gov-

ernment) (Shellenberger, Nordhaus, Jenkins, & Trembath, 2012), those instances which, when the relation between technology and economics is discussed, are referred to in the literature as “techno-economic paradigms” (Mazzucato & Perez, 2014). They represent such patterns, connections between technological and economic trends, which:

- a) alter the structure of economizing,
- b) transform the conditions of inclusion in global trends.

Let us demonstrate that in the following figure:



**Figure 4** A synergy between the government and the private sectors in the light of the socio-economic paradigm  
Source: The author's source

Every engagement in the global economy interweaves with significant uncertainties; the global market is dynamic and propulsive: as shown by the tendency of globalization in recent decades, it can be said to be more complicated than the internal market. However, it is important to note that we are faced with uncertainties regarding the introduction and diffusion of different investments: as it is shown by authoritative studies, the degree of risk and uncertainty changes at different stages, but does not disappear. Dealing with the modes of risk and uncertainty is a structural moment that explains the configuration of the economy and determines modes of operation.

Let us now take a look at the estimated dynamics of risk with regard to the introduction of innovations in various stages, on the basis of which significant conclusions can be drawn:

**Table 1** The sequences of risk during the implementation of innovation

Point at which investment is made	Risk of a loss
Seed stage	66.2%
Start-up stage	53%
Second stage	33.7%
Third stage	20.1%
Bridge of the pre-public stage	20.9%

Source: Mazzucato, 2011

As we can see, the greatest risk occurs right at the beginning, in the initial stages, when the “nexus of risk and rewards” is exposed to high uncertainties. However, after this initial phase, the degree of risk is reduced, but risk is intensified even in the last instance. We believe that gaining an insight into these sequences can lead to certain consequences for the state, i.e. in relation to the state’s maneuvering. That the forms of the state performance and publicly founded policies vary depending on the dynamics of risk hardly needs any further argumentation: it can be assumed that, in the initial stages, the state should play a significant role. Many times, the state’s activity has been based on an argument that it has not had a surplus of the knowledge of economic entities: consequently, its intervention is likewise determined by a lack of knowledge, on which basis the idea that the state actually crowds out the private sector has been developed. It is undisputed that such situations can be projected. But, it is not about the fact that the state and the public policy have to possess a greater knowledge of technological (and general economic) flows, as much as it is about the fact that, according to its capacity, the state should, of course, be able to become involved in those segments of innovative regimes where there is a serious uncertainty and where there is a likelihood of private equity being hesitant to invest. In terms of investment, there is always some “nexus between risk and rewards”: the state should be involved when this nexus is uncertain for the participation of private capital. When it comes to the relevant sequences of innovative waves, this is definitely what it is about.

Here, we are inspired by the earlier indications made by Nobel Prize Winner Herbert Simon, who says that the public policy can reduce the level of complexity in terms of the context of decision making rather than in order to show off an excess of knowledge. Such a reduction allows better and more efficient decision making, i.e. transforms the environment regarding the performance of economic entities, which can now, in an altered way, evaluate relationships between risk and rewards. We believe that, in terms of the transformation of the environmental economy, the developmental state can be a constitutive factor in the involvement in the world trends. In terms of the indicated meaning, the reduction of complexity is clearly related to practicing certain modes of the public policy, and we think that this can be paradigmatically proved in the case of innovative regimes. In any case, the state focused on consolidation and

being lock-in in relation to austerity faces difficulties in positioning itself in this possible role. We do not underestimate the weight of this orientation for one instance, because it requires organizational learning and the constitution of the capacities of government; however, it seems that it is a prerequisite to a successful placement on the international economic scene. Furthermore, it is obvious that this logic is used for promoting different organizational-institutional forms of synergy between the public and the private sectors. The minimalist articulation of the state reducing the possibility for the maneuvering of the state cannot meet these requirements in any case.

Lately, discussions have been initiated on economic and political alternatives, “austerity” *versus* “stimulus”. With the dominance of austerity, the dilemma seems to have been resolved. Here, however, we have tried to offer another possibility stemming from the field of the mentioned alternative and emphasizing transformative capacities of the state in relation to the technological and economic environment.

### 3.2. Biophysical aspects: beyond the austerity paradigm

A simultaneous orientation towards integration processes and the transformation of the economic structure are impossible to imagine without ecological horizons. It will just be enough to point out the fact that the European Union is highly interested in ecologization and that a profound ecological commitment is inherent to its organizational capacities: it cannot be neglected by anyone, including the countries on the path of integration. The ecological constellation determines biophysical aspects and limitations of economizing concerning demand and supply.

Relatively rarely has economic science recently thematized the problem of the relationship between austerity as a paradigm and the ecological horizon of economizing. Finally, if austerity is associated with scarcity, as indeed it has been indicated at the beginning, it can even be said that, if the effect of austerity is a reduction in resource demand, that could mean a reduced strain on the environment, and even reducing prices of resources. In this case, we do not need to justify in detail how it is applicable to ecological economizing: since a famous economist, Stanley Jevons, has already recognized the so-called rebound effects (usually, it is about a divergence between “non-realized savings” in the practice of the using of resources in relation to “potential savings”), the

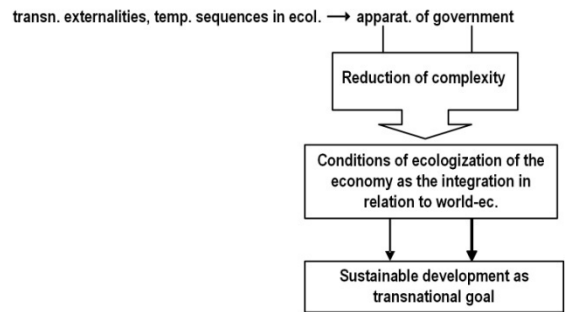
rationalization of resource efficiency is of paramount importance. But here, once more, we cannot ignore the objections against austerity, although we now apply it only to this case. Therefore, austerity diminishes the effects of public services, as well as their financial justification, and the anticipation of employment dynamics. As the research shows, even the impact on resource efficiency is very fragile and it is difficult to realize undeniable trends based on that (Chen & Galbraith, 2011). (There are possible reflections indicating that the alternation between a stimulus and austerity will move towards a blind alley, whereas the structure of fixed costs in relation to biophysical constraints of economizing will remain unchanged.)

Here, we only want to derive further insights on the basis of what has already been said in the previous section. If we found it appropriate to emphasize the intensity of risks and uncertainties, the same intention is even more pronounced here. Namely, in ecological systems, risk and uncertainty, as well as the highlighted complexity, are even more pronounced: the same instances can be said to be comprehensive here. It should not be forgotten that many descriptions that, since their affirmation, have been dealing with the ecologization of the economy, have precisely indicated a high degree of uncertainty in ecological systems (for example, the post-normal logic of the management of the earth resource system). As the same descriptions that, of course, had to be made, have emphasized, they are temporal sequences (the relationship between long and short deadlines) otherwise different from those in the economy, which further complicates the diagnosis and anticipations, as well as the calculation (discounting etc.). Here, there are transnational externalities that further complicate calculations and represent additional moments in terms of the mechanisms of inclusion in the rut of the world trends. Accordingly, if the issue of resource efficiency is to be posed, or another problem connected with the environmental dimensions of production is to be dealt with, the “nexus between risk and rewards” arises once again, but in an altered way, which once again, is impossible to understand through the logic of austerity.

Therefore, the findings about the necessity of reducing the complexity should be applied here as well. In other words, if risk and uncertainty are involved with ecologization, a broad interaction between public and private actors should be considered, as well as the constitutive role of the

state. Finally, the ever-expanding field of ecological innovation cannot be subordinated: so, in this case too, we have in mind the creative role of the state. It should not be forgotten that the ecological horizon of economizing is not only “biofuel”, but rather a new innovative system, a technological regime or a new logic (Mazzucato & Perez, 2014) of obsolescence.

Let us take a look at the following illustration:



**Figure 5** Transn. externalities, temp. sequences, aparat. of government  
Source: The author's source

#### 4. Development as design

The phrase “developmental state” still exists. It has been discussed many times, especially the developmental state of East Asian countries, namely due to their successes and breakthroughs, globally speaking. At the same time, this phrase has been criticized, and it has been indicated that in no case can it be applied to other countries (Song, 2011). We mentioned this because there are certain aspects of our work that intersect with some reflections which can be found within this concept; finally, we have also used the term that makes a connection between the state and development. We have, however, focused on a different way in terms of re-conceptualization. Our orientation relies on certain insights in the revision of certain positions regarding the role of the state in relation to the mode of integration into the international mainstream (Bergh & Henrekson, 2011). Furthermore, we combine the two approaches that we have significantly adjusted to the chosen topic.

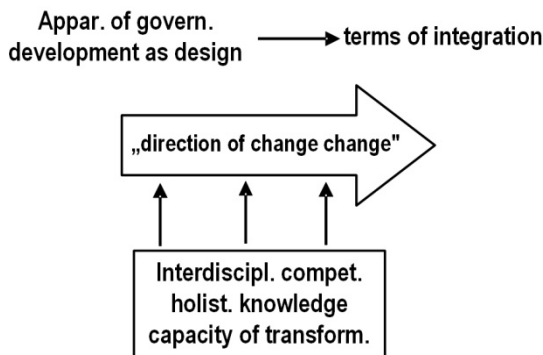
The first approach appears in the research with respect to innovative regimes for “directions of change” regarding the position of the state. That the state does not regulate specific innovative paths, but rather determines “paths of change”, is emphasized. For us, this means that, by reducing complexity, the state directs paths of innovations. Another approach appears in the discourse of the European commission, referring to the concept of

design, emphasizing that the concept should be applied in a broader sense, especially when it comes to sustainability. That the procedural notion of design includes the coverage of complexity in tailoring policies according to a wider environment is highlighted.

We hereby explain the terms in question in the following way. Namely, according to design, there are at least three orientations:

- interdisciplinary competencies,
- holistic knowledge in relation to problem solving and confrontation with risk and uncertainty,
- transformative capacities.

According to the above-mentioned, we are speaking about development as design, namely about the paradigm of development inclusive of these orientations. Since the state following development as design does not remain anchored on the paths of austerity, it creates conditions for development and, thus, for inclusion in the global economy. Let us look at the following illustration:



**Figure 6** Transn. externalities, temp. sequences, apparatus of government  
Source: The author's source

## Conclusion

We started from the notion that austerity as a paradigm is currently a strongly present pattern existing as scenarios of involvement in the global economy. Afterwards, we acknowledged the relevant criticisms related to austerity, and expressed a view that austerity could only exist as a subordinate part of the re-conceptualized idea of development. We attempted to specifically analyze the position of the state in terms of development, taking into account the specific knowledge of the dynamics of innovative regimes and ecology. In particular, we emphasized the issues of risk and uncertainty as well as the role of the state as the

reducer of complexity. At the same time, we illustrated this argument in the context of integrative processes in the world economy. We concluded that the state comprehended in this way can be understood in terms of development as design, and we determined the way we interpret the meaning of this term. **SM**

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