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If Capitalism Can't, Can Socialism?

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In the following comments, excerpted from a longer discussion held in Athens with NPQ Publisher Stanley Sheinbaum and Editor Nathan Gardels, Papandreu offers some surprising observations on the virtues of capitalism and the limits of socialism.

Capitalism's Contradiction Is Socialism's

As a socialist, I am very familiar with the classical Marxist view that capitalism develops social structures, such as the private ownership of production, which hold back the advance of technology and productivity and necessitate social revolution. For Marx, this was the key contradiction of capitalism and the basis of the argument that socialism was historically inevitable. But quite the opposite seems to be true. The capitalist system shows impressive dynamism and changes the perceptions long held by Marxists about the waning future of capitalism.

Capitalism, far more than socialism, has produced new inventions from microelectronics to superconductors that are improving productivity in leaps and bounds. Paradoxically, Marx's prediction is more relevant to the Soviet Union and the Eastern bloc than to the capitalist West. Centralized planning, strict party control and bureaucracy have in fact held back technological change.

Now, the Eastern bloc is going through changes that approach the dimensions of a revolution. Gorbachev is undoubtedly a long-awaited reformer. He is a very impressive personality with the huge task of decentralizing the Soviet economy and introducing the market as much as possible. His reforms are a recognition that there are aspects of the capitalist structure which can be ignored only at a cost.

One of these aspects, which I am prepared to accept myself, is that the consumer side of the economy is best organized by some kind of market mechanism. A price system can clearly allocate goods more effectively to the consumer than any kind of planning. Yet, I still believe that the downsides of capitalism, such as unemployment, are best tempered by planning on the capital accumulation and investment side of the economy.

So, I would have to give a new interpretation to capitalism's problems than Marx did. Capitalism is in a deep crisis not because it is blocked from development, but because of the self-destruction caused by its dynamism. On a global scale, capitalism has to be held responsible for the more nefarious ills of human existence. Inequality in the distribution of income is growing. Technological change is causing the worst kind of inequality - the permanent unemployment of millions of workers. Even in the rich countries, a large proportion of citizens live at the margin of society. Inequality has also grown between the advanced nations and the Third World countries.

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The dangerous and unplanned exploitation by free enterprise of this self-contained ecosystem we call the planet Earth has produced pollution that is not only dangerous to human life, but to all forms of life. It is exhausting what this planet has to offer for humanity's long-run survival.

The buildup of weapons, in particular nuclear weapons between the superpowers, is not the result of just a bad president or secretary general but part and parcel of the system. Elaborating on this point, I think Gorbachev realizes the problem from his side. His peace initiative is part and parcel of the internal reforms. He knows he cannot improve the Soviet standard of living without the reduction of spending on nuclear arms and the military in general. It is not only a question of Gorbachev being a man of peace. Believe me, Gorbachev is a man of peace. But for him, arms reductions are also a matter of dire necessity for the socialist system.

Technological revolutions go hand in hand with periods of crisis. While I don't think the problems I've noted will be solved in the near future, capitalism's perennial crises tend to resolve themselves and move on. My emphasis in the course of things is primarily on the dangers of survival. Environmentalism, peace and citizen participation in all processes of managing the crises are the values which socialists share. That is our role. In Greece, we place key emphasis on empowering our citizens through a structure of decentralized planning.

Redundant Keynes

When John Maynard Keynes developed the theory of "effective demand" in 1936, he provided the solution to the problems of unemployment and underconsumption within national boundaries. If consumer purchasing power was stimulated either by tax cuts or government priming the pump, that would get industry going again to supply the surge in consumer demand, and thus increase employment.

But the new international division of labor has changed all that. If we stimulate consumer purchasing power here in Greece, we create jobs in Italy and Germany. Since we are members of the European Common Market and can't protect ourselves, our consumers buy Italian shoes of the best German cars, and cause a balance of payments problem for Greece. Today a Keynesian would run Greece into bankruptcy within a couple of years!

The United States has the same problem. For whatever reason, the product basket of American goods is not as appealing to the American consumer as the basket produced by Japan. Despite the steep devaluation of the dollar, the US trade deficit has not budged. Perception is very important. In Greece, we don't even think of buying

an American radio or tape recorder. We look elsewhere, usually to Japan.

To keep up today, a country would have to produce goods that not only have a domestic market, but an international market. Without minimal global economic coordination Keynesian stimulation is like banging your head against the wall.

Europe as a whole recognizes this problem and realizes it must pull together to form an effective competitive unit, particularly in the new high-value added technologies. But everyone delivers well-documented speeches. Then decisions cannot be taken or strategies realized because the EEC, Mrs. Thatcher in particular, is not prepared to make the necessary investments.

Despite the general agreement to have a united European market by 1992, the EEC is headed for big trouble. Europe cannot be a global economic challenger unless it decides to invest what is required. The

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resources at its disposal, particularly the Value-Added Tax levels, are not anywhere near sufficient to meet the goal of being a united world class competitor. If we do not have a significant transfer of resources and technology from the north to the poorer south of Europe, then we shall not

have a convergence but a divergence in the European standard of living. This contains explosive dangers for the future. We may end up just creating one great unified market for Japanese goods.

Profits and Productivity

Among socialists, the notion of the welfare state has undergone some changes as we confront the realities of implementation.

We Greek socialists won our first election in October 1981. A friend in the business community came to me six months later and said, "We are facing a problem. Now that you have won, our employees are not interested in maintaining internal discipline in production."

If Greece wants a welfare state with health care, education and secure pensions, we must, at the same time, keep in mind the struggle for rising productivity. If we are to survive in this new international division of labor and production in which national competitiveness has become so fierce, we have no alternative. Unless this attitude is adopted by the working and middle classes, the consequences can be quite severe.

This does not mean we have an anti-labor attitude. But it does mean that without a very positive commitment of the labor force to improving productivity, we lose the battle.

As a mixed economy, Greece also needs more investment capital. We have experienced a "capital strike" from investors for over thirteen years. This was true even during the time of the colonels who gave investors everything they wanted. The reasons are varied; for example, Greek firms are traditionally highly debt-leveraged with equity levels of only 20%. We need to change that and we, a socialist government, are proposing the creation of a stock market.

Greece also has an overgrown public sector. Those who work in the public sector are the privileged workers of Greece. The dream of the average Greek is to be a salaried employee of the government. They have the highest salaries, pensions, medical care and good vacations.

We socialists didn't create this situation, the dictatorship of the colonels did. When we came to power, 90% of all services, from the airlines to banking and electricity, were government owned. Now we have approximately double the personnel required to produce the necessary government services.

Our situation is just like America's. You are stifling private enterprise because the public sector is overgrown. In Greece, our financial resources for investment are squeezed by the budget deficits of the public sector. It may take 10 or 15 years, but our difficult task as socialists is to get this sector under control and increase its productivity.

We are also paying more attention to the concerns of foreign businessmen as we try to attract foreign investment. Businessmen, of course, make many complaints against socialism. But, as a result of our experience since 1981, there are two complaints that I believe.

First, it is important for business to have the right to hire and fire workers, Businessmen say if they don't have this right, workers are not concerned about performing and productivity goes down as a result. This complaint obviously conflicts with the socialist notion of secure employment and is a delicate matter of policy. But I also must accept that there is something to the businessmen's concern.

Businessmen also complain that reinvested profits be tax free. I must give credence to this argument because our other policies have failed to produce new investors. We have been offering up to a 50% subsidy for foreign businessmen to establish operations in Greece. But we've had very few takers. A well known German financier told me bluntly, "We're not interested in subsidies. We are interested in profits."

The issue is profit, and it is an issue of the Greek economy's survival. Workers understand that. If Greece can't attract the foreign investment to finance our participation in the technological revolution, we are basically condemned to being a tourist country. Our young people will emigrate and we will have an old population here tending hotels.

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