

POST-COMMUNIST CAPITALISM: STILL ELUSIVE

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Abstract. *The failure of communism prompted Central and East European nations to opt for capitalism. Yet the central-planning heritage, especially the traces the latter has left in the people's minds, has rendered capitalism's rules hardly applicable in the newly emerged market economies. The difficulty has been further compounded by the effects of the recent global economic crisis, which has severely dented the trust in capitalism as a whole, especially the liberal American-type, where unrestricted financial markets make the rule.*

Keywords: *property, capitalism, communism, market economy, market socialism*

JEL classification: *B24, B25*

1. Ideologues: peddlers of illusions

Ideologues, regardless of their orientation, are incurable peddlers of illusions. Communism's advocates would sell the illusion of property...Actually the communism system worked according to a code that was equally perverse and debilitating: people were enslaved unknowingly but were able to resist it, having been injected with a strong sedative: the fallacy that they owned the factories they worked in. The dichotomy laborers-proprietors acted as an ideological drug, a vulgar mystification of the relationship between labor and property, which empiricist philosophers (e.g. John Locke, 2004) had explained three hundred years before: "Labour, Locke wrote, in the beginning, gave a right of property,...the several communities settled the bounds of their distinct territories, and by laws within themselves regulated the properties of the private men of their society, and so, by compact and agreement, settled the property which labour and industry began...And

thus, I think, it is very easy to conceive, without any difficulty, how labour could at first begin a title of property in the common things of nature, and how the spending it upon our uses bounded it.” Thus, according to Locke, labor was the first landmark in the evolution of property, largely contributing to its definition in early times; afterwards, labor and property will definitely play different roles. “Ultimately, labor will be severed from property. Labor is not supposed to engender ownership rights but to produce value. Property is supposed to conserve this value, to keep it from being dissipated or wasted”, concluded the reputed philosopher.

Marxism-Leninism simply twisted these truths, proposing instead a utopia, brilliantly depicted by George Orwell (1984) in his famous allegory: “Somehow it seemed as though the farm had grown richer without making the animals themselves any richer – except, of course, for the pigs and the dogs. Perhaps this was partly because there were so many pigs and so many dogs. As for the others, their life, so far as they knew, was as it had always been. They were generally hungry, they slept on straw, they drank from the pool, they laboured in the fields...And yet the animals never gave up hope...”⁵ The moral: in the wake of communism, all that is left are crippled economies, hundreds of millions of pauperized and humiliated people and endemic poverty. Reality has confirmed Orwell’s fable. A group of small nations in Central and Eastern Europe, which embraced the communist idea wound up in economic and social disaster, without any possibility to balk. The few moments of upheaval such as the Hungarian Revolution of 1956, the Prague Spring or the uprising led by the Polish Solidarity were but isolated outbursts of revolt. In truth, the oppressed nations pursued the “road to serfdom” (Hayek, 1993) all the way to the end. Even the genuine insurgents eventually surrendered. “Yes, it would have been good to be a hero – avowed some time ago, to a Hungarian reporter, István Csurka, one of the heads of the 1956 uprising. But I decided not to and not only because of harassment and torture. I wanted to give myself a chance to have a life.”¹

By contrast, proponents of capitalism have been selling the illusion of prosperity, reflected in notions such as “commodity fetishism”, “competitive consumption” and other peculiar things. As Heath & Potter (2005) show, since all these “truths” have been transmitted to the younger generations largely through the medium of school, it is no surprise that today, confusion among the youth is almost as high as it was in the 1960s. By then, a group of Marxist

¹ „From the archives / Dredging up Bad Memories” (*Time*, April 4th, 2005, p.33)

hardliners, led by Guy Debord and Jean Baudrillard enflamed young Parisians' minds with "revolutionary ideas", by depicting capitalism as a conventional spectacle, in which any genuine human experience will be turned into merchandise and then resold through publicity and mass media. According to Baudrillard, the cited authors contend, "the commodity has become so abstract that the economy is now nothing than a system of signs. The 'needs' that we express in the marketplace are not a reflection of any underlying set of real desires; they are simply a way of conceptualizing our participation in the symbolic system."

2. Capitalism: still hard to define

Actually, as *Financial Times* noted recently, the definition of capitalism is still elusive.² In the course of the last one-and-a-half century, that is, since it was first used by Marx to this day, the term has stirred hot ideological debate. Ludwig von Mises (1951) considers the terms 'Capitalism' and 'Capitalistic Production' as political catchwords. "They were invented by socialists, Mises argues, not to extend knowledge, but to carp, to criticize, to condemn. To-day, they have only to be uttered to conjure up a picture of the relentless exploitation of wage-slaves by the pitiless rich. They are scarcely ever used save to imply a disease in the body-politic." Judging by the above aspects, the doctrinarian confrontation between capitalism and socialism seems endless and extremely hard to solve, especially by economists who are much too often inclined to overemphasize either mechanistic or normative aspects. Neo-classics for example, were convinced their system was infallible. By contrast, historians' vision is less biased and therefore, integrating and reconciliatory. According to Braudel (1985), "capitalism is unconceivable without an active complicity on the part of society. Obviously it is a reality of a social and political kind and even a reality of civilization, because it is necessary that society, more or less consciously, should accept its values."

Market socialism thus stemmed from this particular dilemma: how to overcome the limits of market economy, highlighted by Nelson (2004), without forsaking the values of capitalism invoked by Braudel? The proponents of the new paradigm believe they found the formula by which the

² *Financial Times*, Sept. 24, 2007, p.2

two systems, capitalism and socialism might cohabit. The basic idea is “to combine the efficiency of markets with the egalitarian goals of socialism.” (Milonakis, 2003) If, as Nelson put it, market economy cannot deal effectively with certain fields of economic activity such as public goods, socialism can. The solution then must reside in a hybrid system, significantly coined “competitive socialism” that should combine capitalism’s chief values, e.g. competitive resource allocation, with socialism’s, especially, public property over means of production. (Bardhan & Roemer, 1992)

3. Neo-liberalism: on the wane

As a doctrine, neo-liberalism is based on the emphasis falling on markets mechanisms and the minimum state intervention. From the economic policy perspective, it sparked a shift of authority from governments to central banks and promoted principles such as: keeping the money supply under strict control in order to contain inflation, even if unemployment is high; reducing state intervention to a minimum and keeping it in strict compliance with the law; maintaining low taxation; flexible exchange rates and openness of the economy to international competition. By following these rules, most western countries scored spectacular results during the 1990s. The control over the money supply combined with high interest rates had beneficial inside effects: they kept inflation low on the one hand and turned financial markets into strong engines of economic growth. In parallel, privatization of a great number of enterprises put a cap on governments’ intervention into the economies. On the outside, the opening of national economies to global competition gave momentum to the development of high technology industries, thereby propping up private firms’ competitiveness. All these accomplishments translated into a general increase in revenues and higher welfare.

However, the bonanza has been short-lived. The recent financial crisis, the most dreadful of the post-war era, has revealed how vulnerable the global system was. Moreover, the crises left weaker and more fragile economies in its wake. The most grievous result is perhaps, the fact that the general confidence in the capitalist system crumbled irretrievably. As Martin Wolf (2014) recently noted, “the financial crises and subsequent malaise destroyed that confidence. Worse, because of the success of China’s state capitalism, the blow to the prestige of Western financial capitalism has carried with it a parallel blow to the credibility of Western democracy.”

4. Post-communism capitalism: mostly state “dependent”

The newly emerged democracies opted without exception for the neo-liberal orientation. However, they failed to reach the same consensus when they had to decide what type of liberalism best suited them, what type of market economy best met their aspirations and particular conditions. The question is extremely thorny. Economists are posing the same question even today: what type of liberalism was most appropriate in the particular case of ex-communist economies, the conservative one or the one of social-democratic inspiration? There is also a third way if one looks at the past experience of certain countries, e.g. Yugoslavia or the Nordic ones such as Sweden, which blended capitalism with socialism with the obvious purpose to benefit by the advantages of both systems.

The fresh democracies' wish to embrace capitalism is arguably a sensible option, considering that the western countries have already shifted into the post-capitalism era. “The developed countries are getting far away from anything that could be called capitalism”, remarked Peter Drucker (1997). However, for the former communist countries, the return to classical capitalism has been widely considered as a critical stage, almost impossible to by-pass. How well-founded this thesis is, nobody knows. Instead, one now knows that the experiment of capitalist principles on the respective countries' distorted and fragile economies mostly engendered disillusion and frustrations. The failure of economic reforms created distrust and discontent. (Edwards, 1992)

Post-communism has ushered in an oddity: capitalism without capitalists. (Eyal, Szélenyi, Townsley; 2002) The liberated economies needed entrepreneurs, while the newly emerged democracies required new ruling elites. Yet that entailed doing away with the former ones, which was by no means an easy task. Communism is a highly resilient system, whose strength resides in the special allure of its ideology, which is extremely hard to rebut by logical argumentation. To drive it away from people's minds is even harder. Lenin's mummy for instance, still lingers in the Red Square Mausoleum, to the consolation of many people who wish to keep worshipping their idol. “To remove him – president Putin once said – would be to tell people who once

espoused his ideas that they had worshipped false values, that their lives were lived in vain.”³

The people’s emotional attachment to illustrious figures from the history of communism is indeed impeding liberal capitalism to make its way in the newly emerged market economies. But there are other obstacles too. The present day international context is by no means favorable: the recent all-out financial crises disrupted the general trust in the capitalist system, its American-type liberal form in particular. In parallel, as *The Economist* emphasized, “the crisis of liberal capitalism has been rendered more serious by the rise of a potent alternative: state capitalism, which tries to meld the powers of the state with the powers of capitalism. It depends on government to pick winners and promote economic growth. But it also uses capitalist tools such as listing state-owned companies on the stock market and embracing globalization.”⁴

The implementation of the neo-liberal doctrine into the fresh market economies of Central and Eastern Europe issued from communism has been, with the sole exception of East-Germany, disappointing, for at least two reasons (Amsden et al., 1997): first, none of the respective countries enjoyed an inflow of foreign capital large enough to support a reindustrialization comparable to the one carried out in East-Germany. Second, none of the respective countries managed to create an institutional framework capable to foster a macroeconomic growth, which would have by itself pushed the reform ahead.

Although the newly emerged democracies opted for liberal capitalism, the central-planning heritage made post-communism capitalism heavily dependent on the state. In fact, states assumed the task to lead the reform process from the very beginning, by organizing and supervising privatization. More often than not, the selling of enterprises to foreign investors ended in huge losses for the selling nation. Suppose a state agency has sold to a foreign investor for, say, one million dollars, a state-owned enterprise whose debts (amounting to, say, one hundred million dollars) had been written off by law; further suppose that, after a while, the said agency finds itself in the awkward position to request the annulment of the agreement (on whatever grounds). In this typical case, the state simply paid a ninety-nine million dollar bill, on

³ *The Economist*, Oct. 8th 2015, p.12

⁴ “The Rise of state capitalism”, *The Economist*, Jan. 21st 2012

account of socialist industrialization.⁵ Yet despite its failures, the state continues to be the linchpin in the building of capitalism within the newly emerged market economies. It is the most sought-after partner in whatever important business, whether infrastructure works or hospitals' revamping.

5. What do young people need to know about communism?

Post-communism is an age of great frets: dredging up bad memories on the one hand, mending the wreckage left by communism on the other hand. While doubt and fear ravage individual minds, the economy is a jungle dominated by lawlessness and fortune-seeking. Newly born politicians scramble to forge themselves new identities, while newly emerged entrepreneurs, released from the grip of central-planning seek revival in the Purgatory of capitalism. Yet however dreary, post-communism is an unavoidable stage: it bridges the gorge between a totalitarian past and a murky future. Insatiable passions will probably keep gnawing at the newly freed societies for a long time henceforth. The latter will be unlikely to become utterly free until the storms of the past cease haunting their present existence and those who have knowledge of the truth are ready to convey it, untrimmed, undiluted and undistorted to the younger generation. Many people who ought to speak the truth behave rather hypocritically, tendentiously,...delivering hollowed speeches,...extolling the order that existed formerly, when an almighty hand was ruling,...and railing against the ongoing chaos, where ostensibly everybody steals...Others ceaselessly preach about the Providential state, which should bestow every citizen with a job and a dwelling unlike "the ongoing savage capitalism, where the youth cannot find jobs and homes and have no future".

⁵ Here is an example: the Romanian government wrote off debts of 1,600 billion ancient lei (about 53 million dollars) on the benefit of Aro (an automobile manufacturer) and 3,600 billion ancient lei (about 100 million dollars) on the benefit of Rafo (an oil-processor and distributor). The privatization of the two enterprises yielded 150,000 dollars in case of Aro respectively 1.5 million dollars in case of Rafo. (*Gândul*, Oct. 27th, 2005, p.5)

Under such conditions, the youth are doubtless vulnerable. Schools and especially universities are supposed to be sanctuaries where the young people should open their mind and soul. Yet in post-communism, this hardly happens. Instead of being standard bearers of society rejuvenation, universities are homes of mendacity, where numerous crypto-communists found shelter. When facing the youth, they wear the coat of liberalism, while deep inside they are nostalgic of the old times when they had enjoyed a lot of privileges. In their heart, they actually distrust democracy. They preach about freedom yet they despise it.

In one of his unmatched articles on trade, Paul Krugman (1993) asked rhetorically: “What Do Undergrads Need to Know about Trade?” His intention was that of guiding young American students back to the genuine sources of knowledge about the importance and benefits of international trade, namely the classics’ works. “In the last decade of the 20th century, the essential things to teach students are still the insights of Hume and Ricardo”, the Nobel laureate prompted. Paraphrasing Krugman, one might state: at the turn of the 21st century, it is essential that young people should know the whole truth about the communist past.

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