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Address by Professor Yannis Tsekouras,
President of the ASECU

**Development: Cooperation and Competitiveness**

Introductory remarks:

**Development**: Economic development – a more comprehensive concept than that of economic growth – remains the main factor in the evaluation and classification of the objectives of different societies. Thus, the economically more developed societies seek greater development in order to improve still further their standard of living, with all the trappings of the good life, while the economically less developed societies strive for development in order to catch up with the developed countries.

Of course, following the first oil crisis in the early 1970's, economists and politicians began to speak of sustainable development. At the same time, since the quantitative expression of economic development was found wanting, failing as it does to give any indication of quality, economics and politics began to concern themselves with the qualitative aspects of development.

Thus, from the early 70's onwards we see a huge increase in the number of studies attempting to measure economic welfare. By way of example –and not with any intention of offering an exhaustive list– we might cite the 1981 Nobel prizewinners William Nordhaus and James Tobin, whose pioneering study *Is Growth Obsolete?*[1] claimed that GDP was not an effective measurement of prosperity and laid down their own guidelines for the elaboration of a **Measure of Economic Welfare**.

Subsequently Xenophon Zolotas[2], drawing on the above study by Tobin & Nordhaus, attempted to calculate **Total Social Prosperity**, identifying as its two components the **Index of Economic Prosperity** (IEP) and the **Index of Quality of Life**. The quantitative approach to the IEP involved deducting from private consumption (a) durable consumer goods, (b) advertisement, (c) natural resources, (d) the social cost of pollution, contamination and destruction of the environment, (e) the cost of transportation to and from the workplace, and (f) private spending on health and education of an investment or corrective character, and adding to private consumption (a) the services of the capital reserves of the state, (b) the services of durable consumer goods, (c) domestic work, (d) free time, and (e) the services of the public sector associated mainly with spending on health and education.

[1] See Nordhaus, W. and Tobin, J., (1972), Is Growth Obsolete?, in National Bureau of Economic Research, *Economic Growth.*
[2] See Zolotas, X., Growth and Declining Social Welfare, New York University Press, 1981.

We might also cite the OECD which, also in the 1970's, presented a list of '**social indicators**'[3]. Also the United Nations which, in 1990, published its **"Human Development Index"**, an average of the per capita gross domestic product, measured in equivalent units of purchasing power (PPP), life expectancy at birth and the weighted average between literacy (weighted at 2/3) and the percentage of inclusion in education (weighted at 1/3). The attempts to frame alternative indices of economic welfare continue, their attention now directed to the assessment of "collective happiness". For example, the Frenchman Pierre Le Roy presented in La Revue "Globeco"[4] his "**Indice du Bonheur Mondial (IBM)**", which covers four thematic areas: peace and security, freedom-democracy and human rights, quality of life, and research-education-information-communication and culture.

In 2006 Marks, Abdallah, Simms and Tompson[5] presented the '**Happy Planet Index**' and their "**Satisfaction with Life Scale (SWLS)**" for each nation. And last but not least, the French President Nikolas Sarkozy commissioned the two Nobel prize-winning economists Amartya Sen and Joseph Stiglitz to prepare a better index of welfare which would reflect the new realities of the inhabitants of the affluent countries who see no improvement in their standard of living even though their per capita GDP continues to rise.

But of course, until all the various studies on the subject reach agreement on one comprehensive index, universally applicable and generally accepted, the GDP will remain the index of measurement most widely used and referred to.

All the above, in combination with the effects of climate change, indicate that contemporary societies – both producers and consumers – must in the long run seek, progressively and consistently, to change their systems of values, replacing the traditional **anthropocentric** growth with a **macro-ecological, biocentric and sustainable** growth which will guarantee a sustainable balance between the satisfaction of the material needs of an increasing population and the consumption of existing, **non**-renewable resources, as well as a balance between all the living species sharing the natural world. And this is because the economic resources are not limitless, or renewable; even those resources we do see as renewable should not be used up at a rate faster than they can be renewed by nature, while climate change caused by human activities has begun to demonstrate the catastrophic impact it may have on our planet. This is a subject to which I shall return.

## Cooperation and competitiveness

We should point out at the start that in the relevant economic literature these two concepts may both complement and substitute one another. Thus, cooperation among businesses, especially when it goes so far as the formation of clusters[6] or, even

[3] See OECD List of Social Concerns, 1973: Health, education, employment and working conditions, free time and use thereof, financial situation of households, natural environment, social environment, security and justice, social opportunities and involvement.
[4] See La Revue "Globeco", Edition 2007.
[5] See Marks, N., Abdallah, S., Simms, A., Thompson, S. (2006). The Happy Planet Index. London New Economic Foundation.
[6] Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g. universities, standards agencies, trade associations) in a particular field that compete but also cooperate. See Michael E. Porter,

farther, when it extends to mergers of two or more businesses, or sub-contracting from one business to another, especially in countries with low labour costs, creates significant advantages for the collaborating businesses.
Such advantages include:
Agglomeration economies in the form of cost minimization, thanks to proximity to inputs or to markets, access to specialized inputs and employees, to information, to institutions and public goods, other complementarities like complementary products for the buyer, marketing complementarities and complementarities due to a better alignment of activities among cluster participants, as well as a clearer perception of new buyer needs and new technological, operating or delivery possibilities.

All these advantages accruing from cooperation, especially on the level of the cluster, contribute to increased productivity and therefore to improved competitiveness. Of course, there are special circumstances in which cooperation, in the form of participation in clusters, may actually slow or hinder innovation; when, for example, "a cluster shares a uniform approach to competing, a sort of groupthink often reinforces old behaviors, suppresses new ideas and creates rigidities that prevent adoption of improvements. Clusters also might not support truly radical innovation, which tends to invalidate the existing pools of talent, information, suppliers and infrastructure"[7].

On the other hand, non-cooperation, or competition among businesses, serves to protect small, independent vendors and their independent suppliers from unfair (or unequal) competition from a (mainly) vertical unification, e.g. a chain of supermarkets, and also to protect consumers in respect of prices and quality of products and services. Of course, between competition and fair collaboration we also have explicit or tacit agreements between businesses, which lead to the formation of cartels, a development which militates against so-called healthy competition. The familiar phenomenon of an oligopolistic market type functions in a similar way: large businesses combine forces so that a new situation (or unit) will be more competitive and will prevail on international markets, since it benefits from economies of scale and more effective coordination of management, planning, supply with intermediate products and other inputs, marketing, distribution and research.

In conclusion, the concepts of competition and cooperation are not only interchangeable, they may in fact co-exist, "because they are on different dimensions or because cooperation at some levels is part of winning the competition at other levels"[8].

Of course, from another perspective fierce, competition among businesses, or even among states or economic blocs (e.g. USA, EU, China, Japan, etc.) in the context of (new-)liberal globalization leads to results of dubious social and even economic value, especially for the workforce, since many employers opt not to hire individuals with more experience, training and skills but instead to use employees who will work for relatively low wages. The employers do not train these workers sufficiently (short-term training) and therefore they cannot produce goods or services of high quality.

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Location, Competition and Economic Development: Local Clusters in a Global Economy in: Economic Development Quarterly, 2000, 14; 15, p. 15.
[7] See Michael E. Porter: Location, …, s.a., p. 24.
[8] See Michael E. Porter: Location, …, s.a., p. 25.

And all this is in pursuit of low labour costs, which will in turn keep production costs low, so that the employer can preserve or acquire a competitive advantage in the sale price of his products or services.

In ranking countries on the basis of competitiveness the International Institute for Management Development (IMD, Lausanne) uses no fewer than 323 criteria, which may be classed as follows:

- For economic performance: 79 criteria
- For government efficiency: 72 criteria
- For business efficiency: 71 criteria, and
- For infrastructure: 101 criteria.

Comparison using all these criteria gives the level of competitiveness and world competitiveness ranking of each economy and each country – with their various institutions and forms of governance.

The governance of a country, and more generally the public sector –alongside capable entrepreneurs and a (highly) trained labour force– play a vital role in the economic and social development and quality of life of its citizens. It is therefore essential that the public sector should rationalize its organization and its management of public finances, starting with the government at the central level and the regional and local authorities, as well as the public-owned enterprises and utilities, the political parties and the parliament. A society cannot expect sustainable economic and social development if it is not prepared to invest in properly evaluated education and research, to respect and protect, effectively, the environment, setting an example for the public to follow, to codify and simplify the whole complex system of laws, to make sure its institutions function effectively and that the laws of the land are enforced, and finally to computerize and link up on-line all the various departments of government, a measure which can slash bureaucracy and reduce the burden of red tape on the public and industry, cutting the enormous costs involved and limiting opportunities for corruption.

Furthermore, the pressure for more competitiveness has impelled various countries to make cuts in social spending (**dismantling of the welfare state**) and/or refuse pay increases and cut capital taxes (flat rate tax)[9], in order to attract (foreign) investment. Apart from the risk this entails of encouraging phenomena of dumping among various countries, even among countries in the Eurogroup, it also deprives them of tax revenue essential to meet the costs of supplying their relatively major needs –in comparison with developed countries– for infrastructure projects. Hence, the contrast of "public squalor and private wealth" and the "social imbalance" of which J. K. Galbraith[10] spoke as far back as 1958, are now even more acute. Because the income elasticity of demand for public goods is greater than that for private goods – it is enough to remember on the one hand the increasing demand for education, health, protection of the environment and, for less developed countries, like those of S.E. Europe, for basic physical infrastructure projects, and on the other hand the inability of the public sector to increase spending as fast as required, when productivity in the

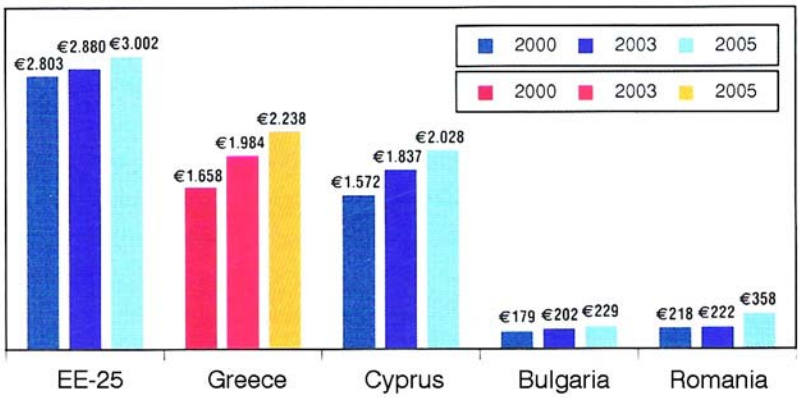
[9] For example, the standard rate of tax on business investments in Greece is (since 1.1.2008) 25%, in Romania 16% and in Bulgaria 10%.
[10] J. K. Galbraith, *The Affluent Society*, Houghton Mifflin Company, Boston, 1958.

public sector is increasing slower than in the capital- and technology-intensive private sector, and/or when prices of inputs required by the state are increasing faster than its revenues.

It remains to be seen, of course, whether our leaders are vindicated in their expectation that the reduction in tax revenues will be offset by the anticipated increase in revenue from new (foreign) investments and higher levels of employment.

We must point out once again that the industries of countries like Greece, come under a twofold competitive pressure, on the one hand from low-labour-cost countries (see diagram 1) and on the other from countries which may have high labour costs and a high standard of living, but are distinguished for the intensiveness or exceptional quality of their research activities, their technological-innovative and productive capacity, countries which have, in other words, entered into the phase of the so-called knowledge economies. It should be noted that for these countries innovation is more important than price competition, since they believe that consumers prefer a new product that is priced above cost to an old product which could be priced at a lower cost.

Diagram 1
Cost of labour on a monthly basis




Source: Eurostat

Moreover, our less developed countries find it difficult to acquire competitive advantages, for the following reasons:

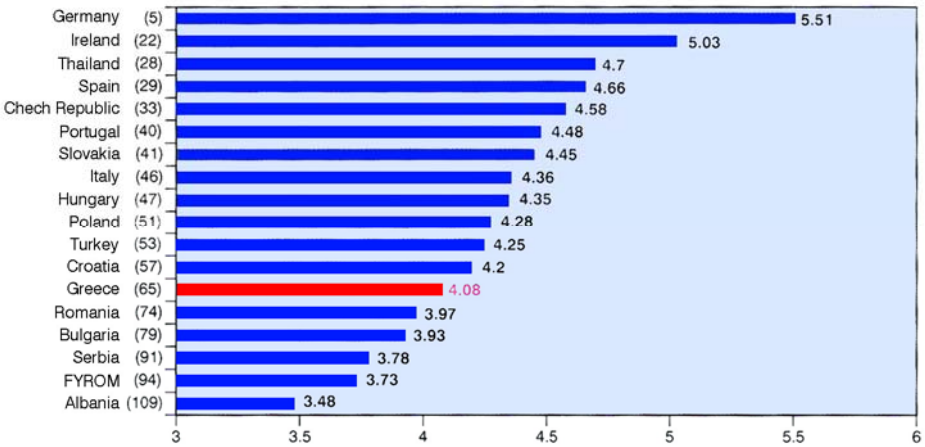
a) their development, based on low labour costs, is necessarily short-lived, especially in the case of Eurogroup countries, where the prices of all saleable goods and services tend to converge
b) their relatively weak businesses are unable to secure any financial assistance from the state, since this would be regarded as interference with free competition
c) the relatively high costs of bureaucracy, estimated by the Secretariat to the Council of Europe to amount to 6.8% of GDP in Greece in 2006, compared with about 1.5% in the UK and Sweden and an EU average of 3.5%
d) the countries of SE Europe are ranked very high in comparative tables of corruption. The index of corruption-bribery in 2007, according to the NGO International Transparency, was 27% for Greece, compared with an EU

average of 5%, 6% for Turkey, 7% for Bulgaria, 33% for Romania and 77% for Albania[11]

e) energy efficiency (i.e. the total energy at the disposal of a country in relation to the energy consumed by final users) in Greece is relatively low (66.1% compared with an EU average of 71.3%), as is the index of energy intensity (i.e. the consumption of energy per unit of manufactured product, or overall distribution of energy to gross domestic product) which exceeds the European Union average by 21.4%.

Let us note here that the countries of our region did not perform with distinction in the World Economic Forum rankings for competitiveness, over the period 2006-07 (see diagram 2). Among the 131 countries in the table, Turkey was ranked 53rd, Croatia 57th, Greece 65th, Romania 74th, Bulgaria 79th, Serbia 91st, FYROM 94th and Albania 109th.

Diagram 2.
Competitiveness index for period 2006-2007
(in parentheses the ranking of each country among the total of 131 is given)




Source: The Global Competitiveness Report 2007-2008, WEF, 2007

Greece, a member of the EU since 1981, lags behind in her approach to all the objectives of the Lisbon Agenda, namely: information, spending on R&D and innovation, the environment, business start-ups, deregulation of transport, telecommunications and utilities, strengthening employment and lifelong learning and training, modernization of social protection and combating corruption.

**Can the countries of SE Europe become competitive?**

In the light of all we have discussed above, we must now address the question of whether the countries of our region –particularly those which have already signed up to the Eurogroup– will be able to overcome the obstacles and encumbrances of underdevelopment, whether their businesses will be able to become more competitive, either by increasing overall productivity, i.e. of labour, capital-technological progress and raw materials, and/or by reducing local production costs or cooperating with foreign technologically advanced businesses. For as members of the Eurogroup they

[11] See *Eleftherotypia* newspaper, 7.12.07.

will not be able, alone, to exercise their own monetary and exchange rate policies, nor operate protective foreign trade policies.

Will the businesses of the countries of SE Europe, which for the most part are small or medium-sized, be able to differentiate their strategies in order to make themselves more competitive in the international and global arena? Will they be able to apply diversification strategies in which new products and innovations in processes are introduced and marketed, as well as other strategies to expand their markets and market shares, or attain –through cooperation with other businesses– more favorable conditions for the manufacture and marketing of their products?

In the context of the globalized market, if our region's countries are to achieve more rapid economic growth and thereby attain, **in real terms**, convergence with average European levels of development, then they must, as we have already said, above and beyond all the other prerequisites, attract direct (foreign) investment. But investors, especially foreign investors and especially the EU itself, demand the creation of new institutions and new conditions, namely –political and social stability, a reduction in red tape and corruption, a rigorous anti-inflation policy for money supply and interest rates, the slashing or complete elimination of state deficits and national debt, tax relief, easing of restrictions on exporting of profits, denationalization and stock market listing of all state-owned enterprises, limits on the scale of the welfare state, deregulation of all markets– capital, commodities and services, labour, and so on.

In other words, what is required is an open competitive environment, laying the emphasis on:

a) dismantling excessive horizontal and vertical dominance;
b) implementing clearly defined and widely publicized pro-competitive merger guidelines to prevent anti-competitive mergers;
c) establishing credible and sizable sanctions against collusion and price-fixing;
d) reducing significantly the structural, institutional and policy-induced impediments to new entry, and
e) bolstering rules-based competition policy agencies with effective enforcement authority, ample resources and a well-trained staff[12].

Setting all these conditions in place, for the countries of our region, cannot be expected to be easy; nor have we examined the question of whether it is entirely desirable. The degree of difficulty is greater in the new international and global environment, where the options of protectionism and demand-oriented economic policy are no longer available (Keynesianism no longer functions in a single country) and where rivals are bigger, better organized and stronger, especially in the case of the major multinational companies.

Obviously, our own countries must take advantage of whatever positive impact globalization may have. We have seen how the deregulation of markets and the dramatic spread of the internet have allowed less developed and low-labour-cost countries like China, India, Russia and Brazil, among many others, to attract

[12] The World Bank: Building Market Institutions in South Eastern Europe: Comparative Prospects for Investment and Private Sector Development, by: Harry G. Broadman, James Anderson, Constantijn A. Claessens, Randi Ryterman, Stefka Slavova, Maria Vagliasindi, and Gallina A. Vincelette, Washington D.C., 2004, p. 151.

investment from companies in more developed nations. These businesses take over or enter partnerships with local companies or off-shore subsidiary manufacturing units, or –through outsourcing– transfer entire divisions and functions of their business to low-cost countries with increased supplies of both skilled and unskilled labour which, in their turn, offer outsourcing services to countries where there is increased demand for related services.

We should point out that one positive consequence of this development has been the reducing of the brain drain, since a large number of specialized scientists and technicians no longer need to emigrate to the developed countries but can now find productive employment at home.

However, alongside the positive effects of globalization we must not ignore the huge inequalities in distribution of income and wealth, and the poverty and hunger of millions of people – not only in the poorer countries of the world, but in some of the richest too. Here are some characteristic figures from an article by Paul Krugman titled 'The rise and fall of the American dream" (*Oikonomikos Tachydromos*, 2 November 2002): "The average annual income in the States, expressed in dollars at 1998 values (and therefore adjusted for inflation) rose from $32,522 in 1970 to $35,864 in 1999. This means an increase of about 10% over 29 years – progress, admittedly, but hardly dramatic. Over the same period, however, according to Fortune magazine, the average annual remuneration of the 100 top managers rose from $1.3m (39 times the average pay of a worker in 1970) to $37.5m, or more than a thousand times more than the current income of an average worker". At another point in his article Krugman informs us that between 1979 and 1997 the incomes of the richest one per cent of US families rose by 157%, compared to a rise of just 10% for the average family! If these trends continue without some serious attempt at correction then explosions of social tension are to be feared.

As those of our countries already inside the EU work towards real social and economic convergence with European averages, and those which have yet to join work on meeting the requirements of the *acquis communautaire* in order to secure their membership (and here we see the positive role of the so-called **"EU Factor"** in the creation of new institutions and the adoption of policies to boost competition and economic growth), another issue requires their attention, namely whether greater economic and social progress can best be achieved by narrowing or expanding the welfare state.

It is my view that much breath might be spared and much argument eliminated among economists if analyses in this field could confine themselves to examining what actually works, and works well, and what less well or not at all. We see, for example, that the economies of the Scandinavian countries, despite their various differences, have all managed to combine a good welfare state with high levels of income, steady economic growth, macroeconomic stability and low levels of corruption, and, when compared with the more liberal economy of the US, perform better in real terms when measured by all economic and social indicators[13].

[13] See Jeffrey D. Sachs: Lessons from the North, Project Syndicate, April 2006.

We do, of course, need to examine exactly which of these admittedly peripheral Scandinavian experiences can be transferred (and how and to what extent) to other countries, many of them –like our own– less developed.

Looking at the key technical/technological sectors for research and development, e.g. information and communication technology, biotechnology, production technology, materials research, automation, microelectronics, nano-technology and energy/ environmental technology, our leaders might –and in fact should– be promoting cooperation and/or the creation of clusters in those of the above sectors where such ventures are feasible, and mainly with countries which have advanced research sectors. Thus one or another country of our region would acquire a competitive advantage and enjoy a boost to its rate of economic growth.

It is worth citing here the view of one of the most significant figures in capitalism, Bill Gates, who presented his view of "Creative Capitalism" to this year's WEF at Davos: "If we can spend the early decades of the 21st century finding approaches that meet the needs of the poor in ways that generate profits for business, we will have found a sustainable way to reduce poverty in the world". In other words, the solution to the massive problems of world poverty and disease will be provided by creative capitalism, which will transform the needs of the poor into lucrative business opportunities!

It has been observed that the countries of our region combine a relatively high rate of economic growth on the one hand, with high rates of unemployment and a low level of job creation on the other. This phenomenon is not seen only in the transition economies, where the competitive private sector co-exists with a substantial public sector, but is also observed in economies which have operated the free market system for some time.

The question arises, then, of the choice of development model most likely to absorb the relatively high rates of unemployment. A return to state interventionism does not seem possible or, in current international conditions, desirable. International agencies recommend full deregulation of all markets, but the social cost entailed by this prescription is high, and of uncertain duration. What is required, then, is a mix of economic policy, strengthening competition on the one hand to make the fullest and most effective use of resources, and on the other hand neutralizing or at least minimizing any negative socio-economic impact, mainly in the form of unemployment.

Studies conducted by the European Bank for Reconstruction and Development (EBRD)[14], the EBRD and World Bank jointly[15] and the World Bank separately[16], have claimed that competition between private businesses –not only in the secondary, but also in the primary and tertiary sectors –has led to the creation of dynamic new businesses, especially SMEs, and can thus in the medium term help to overcome the problem of unemployment.

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[14] Transition Report: 1997: Enterprise Performance and Growth; 2002: Agriculture and Rural Transition; 2003: Integration and Regional Cooperation, London.
[15] Business Environment and Enterprise Performance Survey (BEEPS 1→ 1999 and BEEPS 2→2002.
[16] Trade Policies and Institutions in the Countries of SSE in the EU Stabilization and Association Process, 2003.

This is why those countries in our region whose industrial sectors might be described as low or medium performers in technology and innovation need to develop 'new' forms of **networks** of productive cooperation[17], including:

- Joint ventures
- Joint R&D agreements
- Technology transfer pacts
- Direct investment with incentives to transfer technology
- Agreements on patent use
- Sub-contracting, co-production, agreements with suppliers
- Research associations
- Joint state-funded research programmes
- Databanks and technology transfer networks
- Networks of informal relations.

Since competitiveness is based on knowledge and is driven by 'ongoing' innovation and creativity, it follows logically that businesses must adjust to new circumstances, including the following:

- Constant scale economies, which are consistent with the marginal theory of productivity of agent reward, are giving way to increasing or dynamic scale economies, which are interpreted as technical progress and arise either from a) accumulation of physical capital, b) accumulation of human capital, or c) spending on research and development;
- "cognitive" division of labour progressively takes the place of "Taylorian" division;
- "change" is elevated to the position of dominant economic activity[18], and the "agents of change"[19], i.e. highly skilled workers, not involved directly in production but preparing the changes which allow a business to adjust to trends in the competitive environment, make up the largest proportion of employees of the business;
- strengthening of business skills;
- creation of innovative environments (*milieux innovateurs*);
- the fostering, through the education system and legislation, of a culture of competition.

## Regulation of globalization, and globalization of responsibility[20]

Ladies and gentlemen,
The process of (new-)liberal globalization entails more freedom and deregulation, as well as unfettered competition, but it also brings in its wake greater inequalities, and demands a capacity for constant change and rapid adjustment. Well educated

[17] See Komninos N., Τεχνοπόλεις και Στρατηγικές Ανάπτυξης στης Ευρώπης (Technopolises and Development Strategies in Europe), Gutenberg, Athens 1993.
[18] See Foray D., L' économie de la connaissance, La Decouverte, 2000.
[19] See Carter A.P. Change as economic activity, Working Paper n. 333, Brandeis University, Department of Economics, 1994.
[20] See Tsekouras Y., The Morality of the Capitalist Economic System, Proceedings of the 1st International Conference on "Recent Economic Developments and Problems in the Transitions Economies". University of Macedonia, May 24-27, 2000, Thessaloniki, Greece; Editor: Association of South Eastern Europe Economic Universities, 2001.

individuals able and willing to retrain continually are capable of meeting these new requirements, but the great mass of the population, especially in poorer countries, will not find it easy to keep up.

The question therefore arises, or should arise, of who will be called on to fulfill all these requirements of a globalized economy operating without rules. It is the human individual, first and foremost, as the only rational subject, used by the system as the most adaptable object, unconditionally and indefinitely flexible in nature. We see, then, various economic units and/or governments, even the EU, for the sake of acquiring and preserving competitive advantage, adopting and promoting policies in the labour market such as the replacement of the old concept of employment security with the idea of job security, i.e. that an individual should have some employment, but no longer a secure job (**deregulation of labour relations**), flexicurity and ongoing or lifelong education.

Such policies exceed the requirements of a **"rational adaptability"** of the labour market, allowing utilitarian principles to outweigh inter-human relations and reducing the individual to the role of a functioning tool. In no way do we wish to assert that an individual should not continue in education and training throughout his working lifetime, should not attempt to acquire the latest knowledge and most effective skills, should not change jobs or even professions. What we do wish to point out is that the working man, the employee or person seeking employment, the schoolchild or student or teacher, whose biological, psychological, mental or educational capacity is below even a relatively high average, cannot respond rapidly to the urgent and ever more intensive demands of our multi-tasking world, a world of competition without conditions or limits, manifested not only in business but in every facet of life, and with a system which fails to provide him with equal opportunities from the outset, condemning him to a life of stress, neurosis and fear, generated by his sense of insecurity and his feeling that his fellow men represent a threat, a life of depression without pleasures or joys.

According to the eminent neurologist Oliver Sacks[21], "…the human brain is not constructed to cope successfully with a range of different and demanding activities, and I do not believe there will ever in the future be a time when such a thing is feasible. In reality, multi-tasking is a dangerous illusion".

We must, therefore, ask ourselves a more general question. Can a society accept the self-seeking and egotistical conduct of *homo economicus*, who accepts any form of altruism, solidarity or social interest only insofar as it promotes or at least does not impede his own individual interests (Pareto optimum)? Or might it not be the case that the behavior of *homo economicus* is gradually causing the decline of *homo sapiens* into *homo demens*?

Bearing in mind the basic features of the capitalist system, namely:

a) the means of production are privately owned,
b) the objective is to maximize profit and utility,
c) the market and price mechanism functions as a means of coordinating economic activities,

[21] Oliver Sacks, Interview in *Eleftherotypia* newspaper, 1.3.2008.

and the fact that positivist economic theory holds that it can ignore or reject morality or the question of value (*Wertfrage*), while overlooking the fact that capitalism, which itself claims to be a society of free individuals, requires from each individual a moral stance and substantial moral effort, we have to ask ourselves what we mean by the "morality of an economic system". The importance of the question does not lie in whether or not an economic system (capitalism in this instance) is moral, but in the question whether capitalism, given human nature and the scarcity of resources, can provide a decent standard of living for all members of the community. Thus, the morality of the system can be justified by the operation of the economy and the opportunities for self-fulfillment it offers to all.

Given
a) that the new characteristic of the globalized capitalism does not appear to be greed so much as the moral neutralization of the profit motive as an acceptable human impulse and its recognition as the basic driving force of the economy.
b) the evolution of capitalism as a process by which economic activity acquires ever greater independence of social and cultural norms, developing more and more according to its own rules and laws, especially now with its increasing control of the media, the shapers of public opinion,
c) that this process of increasing autonomy is largely the expression of the evolution of the western European spirit towards individualism, subjectivity and rationalism, and that the individual subject is now the measure of all things, responsible for his or her own actions and social position,
given all this, the socio-philosophical question arises of how far we can justify the moral and social neutralization of personal property, the maximization of profit and the mechanism of prices when the actual reality is characterized by stark inequalities in the freedom of choice, favoring the wealthy, and by terrible damage to the environment.

Human priorities are not constant and unchanging, they are shaped through individual moral reactions and by social interaction. In the case of conflict between two competing objectives economics cannot help us decide which of the two objectives we should renounce; this is a question which must be resolved by our system of values. The question of what objectives people set themselves in a society is a moral question, and is a more important one than the issue of how these objectives can be met in economic terms. Boulding[22] has maintained that any movement of the individual on his 'indifference curve' taking him to a point on his 'contract curve' presupposes the existence of a certain goodwill, the absence of ill will and envy.

Thus, the Pareto optimum involves a moral minimum, a meta-economic content. Consequently such a moral minimum in the system of Pareto is not an optimum in the moral sense. And so the model of the market and the Pareto optimum acquire an ideological character, if they are to replace morality and constitute the last word in the theory of action or, more simply, in business.

This is even more the case when attempts are made –with the support of socio-biological categories– to elevate economics into a universal science and to identify

[22] See K.E. Boulding: "Oekonomie als eine Moralwissenschaft", in: W. Vogt (Hrsg): Seminar: Politische Oekonomie. Zur Kritik der herrschenden Nationaloekonomie, Frankfurt (Suhrkamp) 1977.

human nature solely with that of *homo economicus*, ignoring the objections of morality, of sociology and anthropology, objections based on the need for a cultural and institutional shaping of choices and options.

Capitalism presents a value problem because it is not centrally predetermined. The setting of individual objectives by individuals themselves, their freedom to do so, is a value in itself. This concept of (individual) freedom is an aspect of social Darwinism, and may to some extent find its justification in the fact that the strongest are also often the most capable – the law of the survival of the fittest is therefore protected. However, we cannot accept this law as the only value.

Capitalism, which leaves such enormous scope for freedom of thought and action, is in need of an economic morality. This morality cannot be left to the automatic operation of competition. We are all aware of the view that the market is entirely incompatible with non-economic, i.e. moral, rules of conduct. It is expressed by W. J. Baumol[23] when he asserts that moral activities (or actions) on the part of the businessman (e.g. special measures to protect the environment, training of the disabled, etc.) are –under competitive conditions– entirely undesirable, since the "moral businessman" will very soon find himself ousted from the market. This position demonstrates the mistaken conclusion (or result) of the mechanistic model, since in reality the choices of economically active individuals are more complex than would seem from the neoclassical model of minimum cost and maximum profit. Economically active persons are always acting within a social context, in which they will "necessarily" take account of the social and moral aspects of their economic activity. The latter transcend the model of *homo economicus*, while moral economic activity is often seen to have profitable "spillovers" (Baumol). Finally, the mechanistic model of the general equilibrium of the market does not obviate the need for morality as a meta-economic evaluation of choices and options. To reduce the cost of transactions moral rules need to become mandatory, or at least be completely integrated at both the macro- and microeconomic levels. The corporate social responsibility now espoused by various businesses is perhaps a first step in this direction.

It is evident from the above that capitalism –as long as it survives as a historical socio-economic system– is in need of a social and moral context. The necessity of such a context is seen in the particular dialectic of the three features of capitalism we have already mentioned. In all three cases we see a shift from quantity to quality, from form to content. Thus the unlimited accumulation of individual property leads to a problem of power. The unlimited display of profit or utility leads to insatiable greed and a diminution of the range of human objectives. Coordination of production and social status only through market success leads to an excessive subjectivism in the management of production and in the direction of life opportunities, and to an overlooking of many of the essential purposes of human life.

The form of coordination of the economy through property, maximization of profit and the market cannot represent the content of our society, nor of individual action. However, nor must we abandon this form without first ensuring a freedom which will

[23] See W. J. Baumol Business Responsibility and economic Behavior in: E.S. Phelps (ed.) Altruism, Morality and Economic Theory, New York (Sage Foundation) 1975.

guarantee the efficient working of the economy. The theory of capitalism requires a social philosophy, requires social and moral frameworks, requires regulatory rules.

Until such time, if ever, as the globalized market and society acquires its own 'global morality' to guide and regulate its conduct (**globalization of responsibility**), it will be essential in macro-social terms –not to ignore the question of the time required for awareness of the problem– to establish institutional and statutory regulation of globalized capitalism so that a) international/global cooperation can work for the benefit of more and more individuals, and b) a new Keynesian policy can be shaped, **on the global scale**, which will if not replace at least supplement the monetarist policy of supply-side economics of the last thirty years and more, which will seek a dynamic balance between productivity/competitiveness in the economic sector, social cohesion in the community and ecumenical/ecological democracy in the political arena. This statutory regulation of globalization, which will not invalidate its positive results, might involve[24]:

- Stability of exchange rates (€, $, ¥, Y, Rs, R)
- Interest rate policy oriented to stability and growth
- Harmonized tax policies
- A policy on state budgets which would favor the economic conjuncture and employment
- A common policy on production and use of technology
- A coordinated policy on confronting the problems of the developing countries
- A coordinated effort to protect the environment, and
- An international social charter.

Through this process of regulation, traditional economic conduct will need to be replaced by an **ecological rationalism**. By this we mean that the inhabitants of, first and foremost, the economically developed countries will make do with fewer but higher-quality goods. This may not entail any great sacrifices, but it will require a willingness to forego unnecessary luxuries (**austere abundance**[25], based on **the limits to growth**). Thus material needs will be met using the most modest possible quantity of goods, of high-value use and extended durability; this will obviously involve smaller levels of labour, capital and natural resources. Whereas the logic of economic growth, or rather the economic imperative of high return and performance, requires ever more goods-commodities-needs (**the revolution of expectations as an integral symptom of the consumer society,** entailing **growth to limits**) which are of short duration, difficult to repair and usually replaced rather than repaired, and therefore ever more agents of production and natural resources. This logic is obviously opposed to the ecological imperative of "conservation". Thus what from the ecological perspective is seen as waste and destruction, from the perspective of traditional economics is seen as a source of growth; what from the ecological perspective is seen as prudent husbanding of resources (e.g. more durable products, less consumption of energy and resources) is seen by the traditional economist as a source of loss (reduction in measurable wealth). The logic of traditional economics

[24] Oscar Lafontaine: "Globalisierung und Internationale Zusammenarbeit" in: Politik der Globalisierung, Ulrich Beck, Suhrkamp 1998.
[25] See Echange et projets, La Révolution du temps choisi, Albin Michael, Paris 1980.

must, sooner or later, yield to the logic of ecology, since what is ecologically absurd can no longer make economic sense[26].

Those businesses and economies which embark in good time on the process of ecological modernization will be laying the foundations for the conquest of the markets of tomorrow's world, and will be stealing a march on their less far-sighted rivals. The EU must, taking account of the revised Kyoto/Bali protocol, acting within the framework of the WTO or the OECD if possible, otherwise alone, have the courage to create a **"European eco-social territory"**, because only on such a broad scale will it be possible for competition and the logic of commerce to be subjected to acceptable (mainly in terms of the non-impeding of technical progress) constraints.

[26] See André Gorz: Καπιταλισμός, Σοσιαλισμός, Οικολογία (Capitalism, Socialism, Ecology) Enallaktikes Ekdoseis, Athens 1993.