

The Life and Death of Stalinism

A Resurrection of Marxist Theory

Walter Daum

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Foreword

"In view of the incredibly widespread nature of the distortions of Marxism, our first task is to *restore* the true doctrine of Marx."

Lenin, *The State and Revolution*

The eyes of the world are on the East. Millions watch with fascination and exhilaration as the "socialist bloc" crumbles. Country after country has been shaken by economic crises, mass struggles for democracy, collapsing governments and popular revolutions. Once-monolithic Communist Parties have discarded long-time leaders, fled the old party names and surrendered governmental positions. Mikhail Gorbachev and Deng Xiaoping, the East's most powerful leaders, are famed not for their triumphs but for their desperate attempts to overcome the failures of the bureaucratic system. "The Cold War is over and we have won," proclaim the rulers and theorists of capitalism.

For many, it is not only the Stalinist system but Marxism that has failed, both as an interpretation of modern society and as a guide for revolutionary action. The Marxist goal of communism is seen at best as the ideology of a few well-meaning dreamers and at worst as a euphemism for some of the most oppressive and suffocating societies on earth. Moreover, since the alternative offered by the Gorbachevs and Dengs is to import capitalistic methods that revolutionists once fought to overthrow, revolutionary Marxism seems to have lost all validity.

The answer presented in this book is that *only* Marxism can account for the remarkable turnabout in the Stalinist system. Only Marxism can probe to the roots of what makes these societies function as they do: the struggle between the exploited producing classes and the ruling class. Only Marxism could foresee Stalinism's inevitable decay. Only Marxism can explain why the reformist Stalinists' rescue plans will not suffice, why they cannot repair the contradictions at the heart of their system. And Marxism can show as well that the collapse of Stalinism presages a parallel crisis of world capitalism. If the West has won, its triumph will be brief.

This book uses the tools of Marxism to analyze the Stalinist system: the social and economic structure that arose out of the degeneration and defeat of the revolutionary Soviet workers' state. It demonstrates that Stalinist society is fundamentally capitalist, an integral but subordinate part of international imperialism.

Naturally the rulers of the pseudo-socialist states and their apologists reject any such analysis. But so do most "Marxist" critics of Stalinism. The Stalinist counterrevolution perverted not only the Soviet revolution but Marxism itself. The dialectical method - to study the change and development of society and uncover the essence beneath every surface appearance - has been abandoned. So has the analytic base of Marxism, the critique of political economy that exposes the internal contradictions and the impermanence of capitalism. Thus "Marxism" has been transformed into its opposite, a counterrevolutionary ideology.

To understand Stalinism it is necessary to understand capitalism. For this task it is necessary to resurrect Marxism in its authentic form as the revolutionary science of the working class, the only agency capable of overthrowing capitalism and thereby creating a world fit for human beings. This book is an important weapon in the effort to revivify the Marxism of Marx, of Lenin, of Luxemburg, of Trotsky, of the thousands of proletarians who have given their lives in the struggle for authentic communism.

The book destroys a whole series of myths that have encrusted Marxism. For example, it rips apart the now commonplace fallacy that the essence of capitalism is competition. As Marx explained, that was the theory of petty capitalists, not his. The book also systematically decimates the fashionable notion that Stalinism, despite its faults, maintained a centralized planned economy. Thus for us Gorbachevism is not an attempt to restore the "democracy" of the market but as a desperate bid to impose discipline and order on an anarchic economy — a bid doomed to failure.

For Marxists the test of theory is practice. The Marxist standpoint and method defended in this book already predicted, over a decade ago, the present devolution of Stalinism in the direction of more traditional capitalist forms. At the height of the Cold War we were able to predict that the dividing line for a future World War III would be drawn between Japan, Germany and the United States rather than between the U.S. and the USSR. When other "theories" treated the Soviet Union as a powerful system, as the wave of the future (for good or for evil), we saw it as weak and collapsing.

The importance of this book, however, does not lie in its predictiveness or in its reconstruction of the true meaning of Marxist categories alone. Its chief contribution is its demolition of so-called Marxists who have reduced Marxist conceptions (the commodity, exploitation, state property, the law of value, the falling rate of profit tendency, planning, accumulation, the productive forces, property relations, property forms, etc.) to technical categories. They have reified and objectified the class and human relationships which for Marx were embodied in these categories. They have turned Marx on his head and accepted bourgeois political economy in his name.

The triumph of pseudo-Marxism did not come through any conspiracy.

The victory of Stalinism in the USSR led to the corruption of Communist Parties throughout the world. Revolutionary working-class upheavals were chained to the preservation of capitalism under the leadership of class collaborationists. Nationalism replaced internationalism. The authentic Leninists led by Leon Trotsky were murdered or marginalized.

The victory of the Stalinist bureaucracy in the Soviet Union sent a message which jibed with the social attitude of large sections of the middle-class professionals and bureaucrats everywhere. Imperialism, as described by Lenin, had given rise to a labor aristocracy whose viewpoint reflected its material stake in capitalist society. As well, there arose an allied layer, the intelligentsia, which mushroomed especially during the prosperity boom following the Second World War. Dedicated to a radical reform of capitalism, many embraced the "Soviet experiment" when it was safely divorced from proletarian leadership.

The numerous defeats inflicted on the proletariat through the agency of Stalinism (China 1925-27, Germany 1933, Spain 1937, the USSR 1936-39 before the war; East Europe and elsewhere afterwards) deepened the cynicism of the intelligentsia toward the possibility of proletarian revolution — not only among pro-Stalinists but among their opponents on the left too. The "God that Failed" was not just the USSR but the working class as well. Workers were recognized not for their social power but for their numbers; like peasants, they could be manipulated "for their own good." Their salvation was the bright man's burden, the task of "servants of the people," of social engineers. Marxism as the science of human self-liberation was gutted.

This book convincingly shows that the present collapse of Stalinism is intricately linked to the underlying crisis now facing world capitalism as a whole. Not by accident, the numbers and strength of the middle strata are also eroding. At the same time, the working masses are rising across the "East" and the "South." Soon they will move in the North and West as well. As the revolution develops the workers will demonstrate not only their enormous social power but their growing revolutionary consciousness as well. They are in the process of re-creating their own class leadership - their own vanguard parties and International, the embodiment of their advanced consciousness. This book is one element in that process.

Once again the working class will pronounce its contempt for the "condescending saviors" who really work to save capitalism, knowingly or not. Once again the working class is coming to recognize itself as the inheritor of the entire history of humanity's struggle for a better world. Capitalism, through the bestial means natural to it, has created the social and technical basis for future abundance. Under the leadership and "progressive movement" of the

working class, humanity will be able to rid itself of problems now unnecessary and idiotic - starvation, war, exploitation, racism, sexism, chauvinism and human degradation in all its forms.

The Marxism of this book is the Marxism of those whom today's "Marxists" have dismissed as Utopian and naive. It embodies the belief that the workers will be motivated to produce abundance not by the whiplash of the market but by a common consciousness of their common ability to build a human, egalitarian world in which creativity and culture can flourish, in which "Humanity the Maker" can reach for the stars.

Can working people today achieve this destiny? Not as they are, but as they will be when in the course of making the socialist revolution they fit themselves for such deeds. This is a sophisticated book written to help destroy the sophisticated cynicism about human capacity that plagues our age. It is written in defense of the intellect and in class defiance of those who in their arrogance have misappropriated the liberating power of ideas.

Sy Landy
National Secretary, League for the
Revolutionary Party February 1990

Preface

This book's political standpoint is Trotskyism based on the views of the League for the Revolutionary Party (LRP) of the United States. Writing it would have been impossible without the stimulation and collaboration of comrades of the LRP and its fraternal organization, Workers' Revolution of Australia. In this sense the editorial "we" is entirely justified. Much of the material was worked out in articles published in *Proletarian Revolution* (formerly *Socialist Voice*), the LRP's magazine.

Some points of usage and terminology:

1. The reader may already be familiar with basic Marxist views. Nevertheless, since Marxism has been so badly distorted, we are careful to explain the fundamental categories and ideas. Marxist terms are printed in bold type when first introduced.
2. We frequently cite translated works. Where possible, citations are taken from standard English translations. Many citations are modernized for punctuation, paragraphing and American spelling and usage.
3. We categorize political writers as Marxist, Leninist or Trotskyist if they describe themselves as such. Rather than use mocking quotation marks every time, we let the context make clear what we think.
4. The word "Soviet" with a capital S signifies the people, society, government, etc. of the Soviet Union. With a small s, "soviet" refers to workers' councils like those created by the Russian workers in the revolutions of 1905 and 1917.
5. "Stalinism" means, first, the social system of state property and bureaucratic rule that originated with Stalin's counterrevolution and expanded after World War II to East Europe, China and elsewhere. It is not just the strong-man dictatorship that flourished during Stalin's lifetime. "Stalinism" also refers to political movements and ideologies that defend the Stalinist system.
6. We use "CP" to abbreviate Communist Party, even when the actual name of the party is different (e.g., the Polish United Workers Party).
7. For convenience we use "third world" to refer to the countries of Africa, Latin America and Asia (except Japan). For the most part, these are the former colonies of capitalist imperialism. The term is misleading since it suggests an unspecified fundamental difference between the "first" and "second" worlds; as well, it is often used to conceal the vast differ-

ences among, and class differentiations within, the third-world countries.

8. We use "West" and "East" to denote the blocs of (mainly) European and North American countries allied, respectively, to the United States and the Soviet Union after World War II. Among the geographical oddities that result is that Japan, Australia and New Zealand belong to the "West." As well, "American" will sometimes refer to the United States alone when this meaning is clear from the context.

9. "Proletariat" as used here is synonymous with working class; "bourgeoisie" means the capitalist class of the traditional capitalist societies. The "petty bourgeoisie" is the class of small capitalists, including peasants, who employ little or no non-family labor. Whereas the "middle class" means not the bourgeoisie, as it did in Marx's day, but the various layers of professionals, ideologists, bureaucrats, managers and supervisors described in later chapters.

February 1990

Introduction Theories of Stalinism

The Bolshevik revolution of 1917 that created the Soviet Union was the decisive event of our era. For the first time a modern proletariat won state power and raised the banner of socialist revolution for the exploited and oppressed of the world. The possibility of ending human degradation was proved once and for all. No socialist can escape the responsibility of coming to grips with the destruction of that monumental working-class achievement.

The "Russian question," the class character of the Soviet Union, has been hotly debated ever since 1917. We start from the understanding that the USSR after the revolution was a workers' state, a society transitional between capitalism and socialism and therefore necessarily burdened with many capitalist leftovers. The obstacles that any newborn workers' state would have faced were particularly onerous in backward Russia, isolated by the defeats of revolutions abroad.

In the aftermath of the revolution the Soviet workers' state degenerated rapidly: workers' gains were stripped away and the international revolution was dammed up and defeated. By the mid-1920's the USSR had become a bureaucratically degenerated workers' state, and the world revolutionary party — the Communist International — had become counterrevolutionary. Stalinism sabotaged the advance towards socialism at home and abroad, leaving the USSR open to capitalist restoration.

PSEUDO-SOCIALIST CAPITALISM

In the mid-1930's Leon Trotsky, who together with Vladimir Lenin had led the victorious revolution, advocated a "political revolution" to restore proletarian power and preserve the socialist gains. By the end of the decade he believed that counterrevolutionary Stalinism had taken the USSR to the verge of capitalist restoration. Still, as a workers' state however deformed, it merited the unconditional loyalty and defense of the working class against attack by the capitalist powers.

We agree with Trotsky's outlook up to 1939. But we hold that the counterrevolution culminated on the eve of World War II. It created a new ruling class by transforming the state apparatus and destroying the

Bolshevik party; contrary to Trotsky, the restoration of capitalism was completed. Accompanying the well-known centralized power of the Stalinist state were qualitative steps toward the effective decentralization of state property, forerunners of the "markets" and anarchy clearly visible today.

Since then the Stalinist societies have been capitalist in the most fundamental sense: they are based on the exploitation of wage-labor by ruling classes alien from the proletariat. In this epoch of decay, capitalism's internal and external operations are everywhere distorted from the traditional bourgeois norms. But nowhere are they as deformed as under Stalinism, where they are warped by the socialistic remnants of the workers' state that the counterrevolution usurped.

By the end of the war the Stalinist Soviet Union had become a world power dedicated to the survival of capitalism. It ensnared millions under its own domination. As well, in the interests of the dominant Western imperialists, it smashed workers' revolutions in Europe and betrayed liberation struggles in the colonies. Because of this worldwide defeat of the working class, we live today in a world of poverty enslaved to wealth and of famine amid plenty. Capitalist exploitation, which once stood on the brink of extinction, now seems an unchallengeable fact of life everywhere. The immense forces of production have great potential for human use, but under capitalist rule they continue to foreshadow immiseration, ecological doom and nuclear war.

For decades the USSR and its satellites were outcasts from the family of nations. However much they exploited their workers and helped stabilize imperialism, the world bourgeoisie refused to embrace them. Their claim to socialism, their nationalized property and the USSR's proletarian history all inspired bourgeois mistrust. Nevertheless, whenever there was a prospect of proletarian revolution in the Stalinist world, from the Polish workers' councils and the Hungarian revolution of 1956 to the present, Western authorities swallowed their hatred and called for reforms and stability, not the overthrow of the threatened Stalinist regimes. In the crunch, class tells.

Our analysis of Stalinism contrasts with all the would-be Marxist theories. These divide into four descriptive categories: that the Stalinist states are 1) socialist, 2) transitional between capitalism and socialism (workers' states), 3) state capitalist, and 4) a third system antagonistic to both capitalism and socialism. This classification is only a beginning, since there are disputes within each of the categories as important as those between them. Theorists within the same category often disagree, for example, on when the USSR turned into its present form and whether the same characterization applies to all the Soviet-type states.

More deeply, we will show that the seemingly wide-open debate over

the Russian question is in reality quite narrow. Despite their surface differences, the four theories share a common world outlook: they deny the proletarian class struggle at the center of Marxism. Therefore, although we hold Stalinism to be capitalist, we have no fundamental agreement with the standard state capitalist analyses. And, precisely because we are Trotskyist, we reject the "orthodox Trotskyist" position that Russia is still a degenerated workers' state.

We take up the four categories in turn. Our introductory survey asserts conclusions that are proved in depth later in the book.

SOCIALISM THEORIES

The idea that the Soviet-type states are socialist usually depends on the simple observation that their economies have been nationalized. Engels long ago countered the notion that socialism can be identified with state ownership:

"Recently, however, since Bismarck went in for state ownership of industrial establishments, a kind of spurious socialism has arisen - here and there even degenerating into a kind of flunkeyism - that quite straightforwardly declares *all* state ownership to be socialist."¹

The title "socialism" was awarded to the USSR by Stalin after the elimination of private entrepreneurs in the mid-1930's. It startlingly contradicted the early Bolshevik understanding that the Soviet revolution had achieved not socialism but rather a workers' state (or "dictatorship of the proletariat") governing a society transitional to socialism. Socialism itself, a specific stage in the development of classless society, was impossible even for isolated countries that were economically advanced — and therefore all the more so for the backward and internationally quarantined USSR.

Today the "socialist" thesis is upheld, of course, by the Soviet and allied Communist Parties. Their chief argument is that nationalized property creates a qualitatively different mode of production from capitalism. They regard their socialism as a society that, whatever its problems, is progressive in two senses: it defends the interests of the working people, and it develops the productive forces beyond the capacities of capitalism. In the Soviet-type societies human consciousness is said to dominate blind laws; social planning reigns over the law of value that governs capitalist economy. The evidence usually cited is that these countries have little or no unemployment, no mass misery comparable to capitalism's, no excessive differences of wealth and no wasteful duplication of labor through competition.

1. Engels, *Socialism: Utopian and Scientific*, Part III (1877).

In the 1930's one could point to Soviet industrial expansion (despite the contraction of Soviet workers' rights and living standards) and compare it favorably with depression-ridden capitalism. Not today. Poland's collapse in the early 1980's was the worst of any country since World War II; Yugoslavia leads all Europe in unemployment and inflation; Soviet leaders openly speak of the economic disasters they have to deal with. The Stalinist states' technological and financial subordination to Western capitalism renders absurd the claim that they represent a new stage in human progress.

In the 1960's some leftists applied the socialist thesis to China out of sympathy with the Chinese bureaucracy's efforts to align with revolutionary nationalist struggles. Calling China socialist, however, required a particularly voluntaristic and anti-materialistic approach, since revolutionary China was even more retarded by imperialism than early Soviet Russia. A leading theorist wrote that "What is taking place in China demonstrates, in effect, that the 'low level of development of the productive forces' is not an obstacle to the socialist transformation of social relations." The ruling party's "correct political line" is sufficient.² By this logic human misery could have been avoided from the start - if only Adam and Eve had found a Little Red Book instead of an apple.

A different sort of "socialist" thesis is that of academic Marxists who accept (or are unwilling to challenge) prevailing bourgeois conceptions. Such people write erudite articles on "Marxist economics" which speak of socialism's "systemic" crises - without the slightest qualm over what this says about their grasp of the Marxist theory of socialism.

Stalin first proclaimed "socialism" in the USSR in order to deny its proletarian character and decree it a "people's" state. The anti-working class meaning of the term extends to all current usages.

WORKERS' STATE THEORIES

After Trotsky's death the majority of Trotskyists formally maintained his appraisal of the USSR as a degenerated workers' state heading for either capitalist restoration or a new workers' revolution. But when the dust of World War II settled, Stalinism had proved itself capable of carrying out revolutions in Eastern Europe, China and elsewhere. To maintain Trotsky's term (but without its content), most of neo-Trotskyists added the qualification, implied if not stated, that Stalinism was not really counterrevolutionary. For many years the leading theorist of this position has been Ernest Mandel.

Similar positions are held by Eurocommunist figures like Santiago Car-

rillo and authors influenced by Maoism.³ They differ from the Trotskyists in that they do not call for revolution in the Stalinist states; as well, their main arguments are made in less sophisticated fashion.

Against the socialist thesis, the workers' statist argue that nationalization of the means of production does not in itself mean socialism. But they weaken their case by insisting that Stalinist nationalization is not only progressive in itself but also enough to make genuine socialization possible, without further transformation of the economic base. Such conclusions stand out as wildly optimistic today, in the light of the collapse of so many Stalinist regimes. Moreover, they were never drawn by Trotsky, who understood that the USSR's backwardness and isolation subjected it to the laws of capital operating internationally, and that value relations applied internally despite nationalized property. To achieve socialization the USSR would have to achieve qualitative economic progress over capitalism. The backwardness and crises now typical of the Stalinist countries vitiates the "workers' state" thesis just as much as "socialism."

In addition, these theories face an overwhelming contradiction. After World War II Stalinist rule spread across East Europe by military force (and in several countries, notably China, through armed revolution). These new states in time adopted the Soviet model, although in most cases they called themselves some form of "new" or "people's" democracy. That is, they claimed (at first) to be not proletarian but simply more democratic versions of capitalism, leaning towards socialism. Most of the workers' state theorists of the USSR chose to label the new states "deformed" or "bureaucratized" workers' states.⁴ But not only had these states been established without working-class revolutions; most were formed only after workers' attempts to control factories and set up governing councils had been smashed by the Stalinists. Styling such creations "proletarian" with whatever modification flies in the face of history.

The proletarian label for the Stalinist states amounts to a cynical rejection of the Marxist conclusion that a workers' state can be established only through the workers' own conscious activity: "the emancipation of the proletariat is the task of the proletariat itself." The neo-Trotskyist concep-

2. Charles Bettelheim, *Class Struggles in the USSR, 1st period* (1974), p. 42

3. Santiago Carrillo, *"Eurocommunism " and the State* (1977); Philip Corrigan, Harvie Ramsay and Derek Sayer, *Socialist Construction and Marxist Theory* (1978); Michael Goldfield and Melvin Rothenberg, *The Myth of Capitalism Reborn* (1980).

4. One exception is the French group Lutte Ouvriere, which holds that Russia remains a workers' state while the other Stalinist states are capitalist. This classification leaves unsolved the problem of why such similar societies have different dynamics. The Japanese Fourth International group also distinguishes between the USSR and the other Stalinist states, in a way not clear to us.

tion also calls into question Lenin's teaching that a workers' socialist revolution requires the guidance of a vanguard party. The Stalinist parties that seized power while denying that socialism was their intention could hardly be considered vanguards of proletarian consciousness.

Marx's principle of proletarian self-emancipation is no abstract dogma. It derives from his analysis of capitalism: the system organically creates a class whose inherent struggle forces it to try to overthrow it and establish communism. In granting another class this proletarian characteristic, the deformed workers' state theorists reject a Marxist understanding of capitalism as well as of Stalinism. In later chapters we will analyze the material roots and practical consequences of their misconception.

STATE CAPITALISM THEORIES

This broad category has several subdivisions. "Ultra-leftists" describe the USSR as capitalist because of its retention of capitalist forms like wage labor; they see Soviet capitalism originating with Lenin's New Economic Policy (NEP) of 1921, or even earlier. Along with the anarchists who reject Marx's theory of the state, they deny the need of a workers' state to retain capitalist hangovers for a time. Their best known theorist, Paul Mattick, denies that the law of value, the underlying law of motion of capitalist society, applies under Stalinism. Thus his is really a third-system theory.⁵

A second subdivision consists mainly of former Trotskyists who do not accept the degenerated workers' state category for any period of Soviet history. They typically date the restoration of state capitalism to the start of the first Five-Year Plan in 1928, which initiated Stalin's forced industrialization policy and the expropriation of the peasantry. Tony Cliff is the leading advocate of this view.⁶

Like Mattick, Cliff believes that value is not the motor of the Soviet economy's internal relations. Russia is tantamount to "one big factory" governed internally by the rulers' conscious will, not the anarchy of competitive capitalism. Capitalism's laws of motion are induced into the economy only through military competition with West, which drives the Stalinists to undertake massive capital accumulation. By introducing the law of value only from outside, this argument effectively denies that the system is capitalist in the Marxist sense, so Cliff's too is at bottom a third-system theory.

Another current within the ex-Trotskyist framework was the "Socialism

or Barbarism" tendency in France in the years after World War II. They adopted the name "bureaucratic capitalism" for the USSR and its satellites, even though they held that the law of value could not possibly apply in a country where planning had eliminated the unconscious functioning of the economy. This may be the most explicit formulation of non-capitalist "capitalism."⁷

A stronger attempt at a capitalist analysis was made by the Johnson-Forest tendency led by Raya Dunayevskaya and C.L.R. James in the U.S. in the 1940's.⁸ Johnson-Forest *did* regard the law of value in the USSR as generated by wage labor, a point fundamental for our own theory. But like Mattick and Cliff they rejected the idea that capitalist forms are inherent in a workers' state. Further, they saw state capitalism as the result of a "world tendency to centralization" applying to the U.S. and all capitalist countries. They thought that complete centralization of the U.S. economy was possible without a proletarian revolution, a position shared with several ultra-left tendencies (as well as with Karl Kautsky's "ultra-imperialism"). A central point of this book is to show that Stalinism's *inability* to centralize the economy and therefore to plan scientifically marks it as a form of capitalism.

A third subdivision of state capitalists is made up of Maoists who broke with the Soviet Union after Khrushchev's repudiation of Stalin's "proletarian line." Since for them the party's correct line is all that a country needs to overcome desperate economic circumstances and achieve socialism, it is equally logical that a change in that line could alter its class character again. Thus Maoists asserted that the class nature of "socialist" Russia switched back to capitalism after the death of Stalin - without the slightest change in class relations or economic conditions; some reasoned likewise about China after Mao died. The Maoists' idealist theory of Soviet capitalism in reality corresponded to an opportunist turn of *their* political line: toward accommodation with Western imperialism. That the USSR is capitalist and a "greater danger" than the West was key to this goal.

Some ex-Maoists have reconsidered, reacting against such sleight of hand and against China's collaboration with imperialism. They no longer swallow Mao Tsetung's dictum that the USSR became capitalist when Khrushchev denounced Stalin, but they hold the equally sterile conception that the USSR must again be considered socialist.⁹

5. Paul Mattick, *Marx and Keynes* (1969).

6. Tony Cliff, *Russia: A Marxist Analysis* (1955). A shortened version, *State Capitalism in Russia*, was reissued in 1988

7. See the reprints from *Socialisme ou Barbarie* in Cornelius Castoriadis, *Political and Social Writings* Vol. 1 (1988), especially pp. 9, 39, 138.

8. Raya Dunayevskaya, *Russia as State-Capitalist Society* (1973); C.L.R. James, *State Capitalism and World Revolution* (1950).

9. Jonathan Aurthur, *Socialism in the Soviet Union* (1977); Albert Szymanski, *Is he Red Flag Flying?* (1979); Jerry Tung, *The Socialist Road* (1981).

The Chinese Communist Party originated the idea that Khrushchev's change of line made Russia capitalist, leaving to others the tricky task of giving their anti-materialist position theoretical support. This was accomplished chiefly by pretending that decentralization of the Soviet economy and deproletarianization of the state had begun only after Stalin's death.¹⁰

Charles Bettelheim was the most sophisticated Maoist theorist and a writer with genuine insight into the operation of capitalism's laws in statified form. But his fundamental idealism overwhelmed his attempts to hold to any remnant of a Marxist analysis. At the start of his four-volume opus on the USSR, he implied that the "proletarian line" had been abandoned in the late 1920's when Stalin destroyed the worker-peasant alliance embodied in the NEP. By the end he chose to reject the revolution as well as the counterrevolution (offering pathetically little justification: a few paragraphs in a total of almost two thousand pages). He now claimed that the Bolshevik revolution brought to power a "radicalized fraction of the intelligentsia," so that it was "essentially a 'capitalist revolution' leading finally to the radical expropriation of the direct producers."¹¹ The Maoist method of determining material reality by asserting the correctness of the party line, previously used to reject Stalin's heirs and then Mao's, led him to the repudiation of Lenin as well.

Mattick, Cliff et al, in denying the central functioning of the law of value under state capitalism, in effect define a capitalism without a true proletariat, the class that produces value.¹² The idealist Maoist versions extend this denial even further: since the nature of the system depends on the will of the rulers, workers are left only as a moral category ("the deserving poor"), not a self-active class.

THIRD-SYSTEM THEORIES

The idea that the Soviet system is neither capitalist, socialist nor transitional between the two is an empirical, common-sense view held by theorists who agree only on what the Soviet Union is not. They observe that the USSR obviously lacks prominent features of both capitalism and socialism. As opposed to capitalism, it has no private ownership of the

10. Martin Nicolaus, *Restoration of Capitalism in the USSR* (1975); Revolutionary Communist Party, *How Capitalism Has Been Restored in the USSR* (1974); Progressive Labor Party, "Soviet Capitalism," *PL Magazine*, Spring 1981.
11. Bettelheim, *Les Luttres de Classes en URSS, 3eme periode*, tome 1 (1982), p. 13.
12. Cliff has been challenged on this by his co-thinker, Alex Callinicos. But Callinicos only amends Cliff's theory without objecting to its full implications. See Chapter 7

means of production and therefore supposedly no competition between different capitals. As opposed to socialism or a workers' state, it lacks mass political power and democracy.

Given their essentially negative analysis, "third-system" writers naturally differ over whether Soviet-type societies are progressive as compared to the capitalism they replace. "Progressive" versions are offered by Rudolf Bahro, Paul Sweezy and Umberto Melotti.¹³ An early theory of the nonprogressive kind was the "bureaucratic collectivism" of Bruno Rizzi and Max Shachtman.¹⁴ (Shachtman originally saw bureaucratic collectivism as progressive; a major article in his book was altered without notice to conceal this sin of the past.) Several "non-progressive" theories have been produced by writers from East Europe, starting with Milovan Djilas.¹⁵ There is also a strange variant describing the USSR as a society with no dynamic at all, characterized by the lack of any mode of production and the predominance of systemic waste.¹⁶

Leftist third-system theorists face the danger that, under the pressure of bourgeois opinion, they will find the "democratic" West to be progressive over the East. The classic example is Shachtman, who led a whole current from Trotskyism to Western imperialism on the grounds that the trade union rights forbidden under Stalinism are the decisive concern of the working class. Today the Shachtmanites guide several wings of the U.S. trade union bureaucracy as well as the AFL-CIO's international operations. In this capacity they sanctimoniously help suppress trade union struggles at home and abroad in order to prevent workers from undermining the profits that give the bureaucracy its material stake in capitalism.

Most third-system theories present no scientific analysis - laws of motion - that would justify the discovery of a new form of class society. Perhaps the only version that did propose laws of motion was that of the Polish Marxists Jacek Kuron and Karol Modzelewski. Their "Open Letter to the Party" in the 1960's won them jail terms for advocating the

13. Bahro, *The Alternative in Eastern Europe* (1977); Sweezy, "Post-Revolutionary Society," *Monthly Review*, November 1980, reprinted in *Post-Revolutionary Society* (1981); Melotti, *Marx and the Third World* (1977).
14. Rizzi, *The Bureaucratization of the World* (1938; English edition, 1985); Shachtman, *The Bureaucratic Revolution* (1962; written in the 1940's).
15. Djilas, *The New Class* (1957); Mark Rakovski, *Towards an Eastern European Marxism* (1978); George Konrad and Ivan Selenyi, *The Intellectuals on the Road to Class Power* (1979).
16. *Critique* magazine (Glasgow), notably the articles by editor Hillel Ticktin. See also Donald Filtzer, *Soviet Workers and Stalinist Industrialization* (1986). The theory of Frank Furedi (*The Soviet Union Demystified*, 1986) is similar; see *Proletarian Revolution* No. 29 (1987)

overthrow of the regime.¹⁷ To the extent that their analysis succeeds it amounts to an incomplete theory of stratified capitalism. Some insights from their work have been incorporated into our own theory, but it has serious problems as well (Chapter 5).

The theoretical carelessness of third-system conceptions is exemplified by two opposite variants. One sees Soviet bureaucratic collectivism starting to evolve peacefully into capitalism in 1965 through deep economic reforms.¹⁸ The other sees post-revolutionary but still capitalist Cuba transformed into bureaucratic collectivism under Castro's rule.¹⁹ To a Marxist, either transformation should signify that a society which can turn itself into or out of capitalism without a revolution must have been capitalist all along. The same, of course, applies to the actual transformations that the Stalinist societies underwent in late 1989.

A deep theoretical flaw of third-system theories is that they label the system non-capitalist while they call the main class of producers "workers." The proletariat, however, is a class only in relation to capital. As Marx put it, "Capital presupposes wage labor; wage labor presupposes capital. They reciprocally condition the existence of each other; they reciprocally bring forth each other."²⁰ Indeed, any relationship of exploitation requires two specific classes. A propertyless class that sells its labor power can only be exploited by a class that buys that labor power, a class of capitalists -those who embody capital.

Some third-systemizers have recognized the dilemma. Shachtman toyed with the idea that the Soviet workers were slaves or "a new kind of state-serf," not proletarians.²¹ But workers under Stalinism behaved like workers under capitalism. Indeed, in their uprising of June 1953, the East Berlin workers marched against the Stalinist regime chanting "We are workers, not slaves." Shachtman retreated to calling them what they are - thereby surrendering to the dilemma that destroys the basis of his or any other third-system theory. The Berlin workers had it exactly right: the essence of their exploitation is its wage-labor content, not its superficial form. They

17. Kuron and Modzelewski, *New Politics* (1965); reprinted as *A Revolutionary Socialist Manifesto* by International Socialism of Britain. An apparently more complete translation is in the Merit Publishers pamphlet, *Revolutionary Marxist Students in Poland Speak Out* (1968). Both authors were prominent in the Solidarity movement of 1980-81; by then they were no longer revolutionary.

18. Antonio Carlo, *Telos* (Fall 1974); the evolution was said to be completed in the case of Yugoslavia (*Telos*, Summer 1978).

19. Samuel Farber, *Revolution and Reaction in Cuba* (1976).

20. Marx, *Wage Labor and Capital*, Part III.

21. Shachtman, "The Program of Stalinist Imperialism," *New International* (1943); in *The Bureaucratic Revolution*, p. 120

proved that third-system theories remain caught at the level of appearance.

THE COMMON THEORY

With such a variety of theories for describing the Stalinist system, one might think that some of them would have anticipated the pivotal historical changes now taking place. After all, the proof of a theory is practice, and there has been a great deal of practical opportunity for Marxist thinkers to test their ideas. All the more remarkable, therefore, that none of the standard theories predicted, or could even explain, the current crisis of Stalinism and its devolution towards traditional forms of capitalism.

A few years ago a prominent theoretician raised a challenge. Concerning the "post-revolutionary societies," Sweezy wrote: "I don't know of anyone who claims to be able to analyze their development in terms of capitalism's 'laws of motion'." ²² We *do* so claim; moreover, we will show that our use of Marx's laws of capital predicted the present direction of Stalinism. But otherwise Sweezy is right: most Marxists ignore Marx's laws, and without laws of motion it is no wonder that their theories have no predictive capacity.

The omission of laws of motion is especially glaring on the part of those who believe the Soviet system is capitalist. As already noted, Mattick and Cliff do not recognize the law of value at the heart of the system, and therefore their state capitalist analyses are little more than third-system theories in a more Marxistical disguise.

The transitional-state theories also deny laws of motion. If these states really were workers' states, we would see conscious planning replacing, over time, the blind laws of capitalism. But the notion of "post-capitalism" held by Mandel and others asserts only that the Stalinist states are progressive with respect to capitalism — it is not claimed that they undergo qualitative progressive development. In Mandel's term, the transition to socialism in the bureaucratized workers' states is "frozen." It ought to follow that without an internal dynamic there is nothing transitional about them; they cannot be workers' states at all. Mandel is internally consistent only if we take his to be a theory of a third-system positioned between capitalism and socialism.

Thus the major theories of the Soviet system all reduce, in effect, to one category: a third system neither capitalist nor socialist. Moreover, they postulate a mode of production that does not generate capitalism's laws of motion or any other; it is governed by central decisions, not blind laws. Therefore there can be no *inherent* reason for its stagnation and break-

22. Sweezy, "Post-Revolutionary Society"

down, no fundamental class conflict. The system-wide crisis can only be caused by bad planning or oppression.

The conception of a static Stalinism has serious political consequences. A society whose internal motion does not compel fundamental change offers little hope for socialism. The masses may rebel against hardship and despotism, but they are not driven to develop revolutionary forms of self-organization and acquire socialist consciousness.

Contrast Marx's analysis of capitalism as a society whose development and change is powered by class struggle. This motion leads to crises and decay, on the one hand, and the strengthening of the proletariat's consciousness and organization, on the other. The laws of motion drive the proletariat both to resist exploitation and prepare itself to rule; the dual power councils (or Soviets) of every working-class revolt in this century confirm this urge. This is the reason for revolutionary Marxism's characteristic optimism.

The absence of revolutionary confidence in the proletariat is the key to the universal choice of a third-system analysis under so many pseudo-Marxist disguises. The program against Stalinism offered by third-systemists (and state capitalists and workers' statistes) - "revolutionary" democracy — is in reality non-revolutionary. It is a partial answer to oppression but none at all to exploitation. It contributes to the belief that the proletariat consists solely of heroic or manipulable victims who are capable of seeking justice - but not power. (We will see telling examples in Chapter 8.) Such an analysis goes hand in hand with an unmistakable cynicism that pertains not only to Stalinism but to ordinary capitalism as well.

MIDDLE-CLASS MARXISM

The defeatist attitude towards the revolutionary capacity of the working class is a disease symptomatic of the social outlook of "new middle-class" layers that have arisen within capitalism in the last century. This is not simply because most leftists today come from the middle class (although that is true). Rather the problem is that, middle-class or not, they hold a middle-class view of the world, primarily because of the defeats of the authentic proletarian communist tradition. Either, like the traditional petty-bourgeois shopkeeper, they regard the cutthroat struggle among capitalists as paramount. Or, like many layers of the intelligentsia, they see society dominated by the powerful forces of the proletariat and bourgeoisie and seek to control the state as their own center of power independently of the two major classes.

Middle-class Marxists believe that socialism requires a rejection of the base material considerations that corrupt capitalist society. What is needed is a "new socialist man" and woman who have overcome the greed and materialism of old. Clearly capitalists will not fill the bill; but proletarians too, also compelled under capitalism to compete among themselves to scrape out their existence, are largely ineligible. Socialism requires advanced, socially conscious people - planners, scientists, theorists, etc. - in a word, the economically disinterested middle class. Related to this outlook is the notion that Marxism has to be conveyed to workers by middle-class leftists, an idea supposedly derived from Lenin (but see Chapter 2). The middle-class Marxist version of socialism is a society ruled by the benevolent for the benighted.

Of course, people who regard themselves as Marxists are not conscious of the underlying class roots of such ideas. That they cast their programs as *proletarian* tasks shows that they have no desire for a mythological world dominated by small businesses. For most, their goal instead is some form of democracy where stability is achieved through the countervailing powers of mass institutions controlled by the workers or "the people." Despite their intentions, they fit the same mold as liberals who fight monopoly by trust-busting or decentralization. Both urge local control - or in its workerist form, shop-floor control - to counterpose democracy to the power of a leviathan state.

The superficiality of this view comes to a head in revolutionary periods, when middle-class leftists, confronted with the great power that the proletariat can wield, end up appealing to the authority of the old rulers. Thus the Mensheviks in 1917 stood by the bourgeois Provisional Government of Russia, the German Social Democrats in 1919 crushed the workers on behalf of capital, the French Communist Party in 1968 proved itself the last-ditch defender of DeGaulle - even the Spanish anarchist leaders in 1936 joined the bourgeois state apparatus. Claiming to oppose concentrated power, they end up in the arms of the anti-working class bourgeois state. As Trotsky once observed, that would-be Marxists ignore the dialectical development of capitalism does not mean that the dialectic ignores them.

In recent years a renewed crisis of capitalism has reconfirmed the urgency of authentic communism. The proletariat has powerfully made its presence felt throughout the world. In response, middle-class leftists have cheered the workers' rebelliousness — but worked overtime to detour attempts at class independence and tie them to their social-democratic or Stalinist misleaders. Examples: in Poland leftist advisers were central in

23. These notions are explicit in the "professional-managerial class" of John and Barbara Ehrenreich, which serves both as the home of the New Left and as the ruling class of the USSR. See Pat Walker, ed., *Between Labor and Capital* (1979)

making the 1980-81 revolution "self-limiting." In Britain, instead of exposing a Labour Party that helped bury the British miners' strike of 1984-85, the left dug itself ever more deeply into it. In the U.S., when Jesse Jackson astutely perceived mass discontent and demagogically worked to corral it within the capitalist Democratic Party, the left twice eagerly enlisted in the entrapment campaign.

The left's deadliest efforts were in the third world. In Chile it helped prevent the proletariat from breaking with the popular-front Allende regime that preserved the bourgeois military in full force. In Iran the left was instrumental in convincing the workers that Khomeini's Islamic Republic was a necessary step in the fight against imperialism - while in fact it led straight to a quasi-fascist defeat. In Nicaragua the leftist Sandinistas held back the workers' and peasants' anti-capitalist struggles in a futile and disastrous attempt to curry favor with U.S. imperialism.

For the reawakening of Marxism, the weary idea that communism is a Utopia, that the working class has proved its incapacity for revolution, must be put to rest. It is a cry for order by the frightened middle classes, cushioned temporarily by imperialism's postwar revival but now feeling the pressure of crises and class forces beyond their control.

THIS BOOK

Our analysis of Stalinism is based on previous Marxist work. As already indicated, any understanding has to start with Trotsky's analyses of the degeneration of the Soviet workers' state in the 1930's. Others (James/Dunayevskaya, Kuron/Modzelewski) took steps toward grasping the specific nature of capitalist property relations under Stalinism. The decisive impulse for us to rethink previous theories was the revival of working-class revolt in the 1960's: notably the great French general strike, continuing resistance of workers in the Stalinist countries (as in the Chinese cultural revolution), and the black ghetto uprisings in the United States. These events brought home the centrality of the proletariat in modern society and forced us to seek to reestablish its centrality in Marxism as well.

To prove our analysis of Stalinism as capitalism we have to elaborate three fundamental themes. These are: 1) that the possibility of statified capitalism flows from the Marxist theory of capitalism; 2) that a ruling class was formed out of the decay of the state and party bureaucracy in the Soviet workers' state of the 1920's and 1930's; and 3) that the post-World War II Stalinist states exhibit the laws of motion of capitalism in operation.

The book is organized historically but not always chronologically. It traces the development of Marxist theories of capitalism and Stalinism as these grew out of historical reality itself. Of course, for every question

taken up, we have also to contrast our analysis with the standard misinterpretations.

Chapter 1 presents Marx's labor theory of value as the underlying law of the system determining its surface appearances. We show that value is inherent in any system based on wage labor - in contrast to the common assumption that it is inapplicable to a monopolistic (and above all, a statified) economy. As well, in discussing capitalist crises we present a new interpretation of Marx's law of the falling tendency of the rate of profit which later is applied to the Stalinist economies.

Chapter 2 extends these laws to show how the contradictions of capitalism bring about its epoch of imperialism and decay. The new epoch produced two proletarian perspectives whose intertwined relationship is rarely understood: Lenin's theory of imperialism and Trotsky's theory of permanent revolution.

Chapter 3 presents the Marxist theory of the transition to socialism as well as the Bolsheviks' use of it as a guide for the Russian workers' revolution. We emphasize the unavoidability of bourgeois forms in the transitional workers' state, in contrast to prevailing notions that such a state is either "post-capitalist," on the one hand, or necessarily non-proletarian, on the other.

Chapter 4 analyzes the stages of the Stalinist counterrevolution, showing both its practical destruction of the workers' gains and its ideological corruption of Marxism. We disprove the notion that Stalin's breakneck industrialization policy of the early 1930's abolished the law of value. Instead, a the new capitalist bureaucracy was consolidated at the end of the decade. In this chapter we also consider in depth Trotsky's developing theory of Stalinism.

Chapter 5 is the pivotal chapter of the book, illustrating why the Stalinist bureaucracy is capitalist and how the laws of motion operate in statified capitalism. Stalinism's "violations" of value reflect those inherent in capitalism's epoch of decay; its distortions of normal capitalist methods are determined by the remnants of the workers' state it usurped.

Chapter 6 examines the impact of Stalinism on world politics. We extend the theory of permanent revolution to take into account the massive defeat suffered by the working classes during and after World War II. We reconsider the conception of the imperialist epoch and challenge "new epoch" theories developed under the influence of the postwar economic boom. Lastly we explain Soviet imperialism as a subordinate but essential component of world imperialism.

Chapter 7 looks at the degeneration of the Trotskyist movement, with special attention to the theories of postwar capitalism and Stalinism that developed within it.

Chapter 8 takes up the Soviet system today, spectacularly in decline.

We assess Gorbachev's reform campaign and other proposals from the bureaucracy, the reformist middle class, and workers' organizations. This leads to a final section on the revolutionary program for the Stalinist countries.

Throughout the book, of all the theorists we criticize, Ernest Mandel and Tony Cliff take first place. They are the most rounded: their positions on the Russian question are linked to analyses of capitalism as a whole. This is because they are leaders of international tendencies claiming the mantle of Trotskyism and trying to establish themselves as leaders of workers' struggles. Seeming to attack old-style reformism from the left, they have the potential to attract the best elements of our class.

It would be a disaster of world-historical proportions if the working class were once again blocked from reaching the Marxist consciousness it desperately needs. Preventing this means cleansing Marxism of its Stalinist, social-democratic and centrist corruptions. At the present stage of history, the Stalinist forces that kept world capitalism alive for half a century are in collapse. As the proletariat takes center stage again, the middle-class Marxists are the only force that can hope to take up where Stalinism left off. But the material base for their illusions is crumbling as well. This book is an effort to provide a theoretical, programmatic and therefore practical basis for guiding the movement of class struggle now beginning to rise.

Chapter 1

The Contradictions of Capitalism

1. VALUE AND WAGE LABOR

To understand any modern society it is essential to probe beneath its surface and illuminate its fundamental economic laws of motion, as Marx did for capitalism. Since the Soviet system originated through the degeneration of a society transitional from capitalism to socialism, the laws of capitalism are a necessary starting point, even if we did not consider that system today to be capitalist.

The interesting fact came to light when U.S. president George Bush visited Hungary in 1989 that Karl Marx University in Budapest no longer requires the study of Marx's major scientific work, *Capital*. More modern theories are needed, the public was told, and in any case the economic collapse of the Stalinist countries has discredited Marxism. The Hungarian authorities may indeed need capital rather than *Capital* to salvage their economy. But to understand why such things have come to pass there is no alternative but to consult Marx.

Marx gave *Capital* the subtitle, "A Critique of Political Economy." It is indeed a highly polemical work, directed against the vulgar economists and bourgeois apologists of his day. But not only them: it is also a critique of the petty-bourgeois populists and anarchists who found the source of capitalism's drives and crises in the sphere of distribution rather than production. It applies equally well to their modern counterparts, the middle-class Marxists who see the motive force of capitalism arising out of relations within the bourgeoisie.

In contrast, we stress the fundamental role of the struggle between classes *in production* - the conscious transformation of the material world - as the basis for the laws of motion of bourgeois society. At the core of Marx's method is the recognition that society, like matter, is always in a process of change. The laws of any society therefore also develop and change through its internal contradictions. This too contrasts with the static conceptions of middle-class Marxism.

MODES OF EXPLOITATION

Capital opens with this brief paragraph:

"The wealth of those societies in which the capitalist mode of production prevails presents itself as 'an immense collection of commodities,' its unit being the single commodity. Our investigation must therefore begin with the analysis of a commodity."¹

Marx begins his analysis with commodities, and for many Marxists that is where it ends. The clue to Marx's real meaning, however, is in the wording *presents itself* - or in an alternative English translation, *appears*. Marx used such terms deliberately, to distinguish between appearance and essence. His volumes of economic work are devoted to exploring the reality beneath the appearance. The determining factor of capitalism is not simply the existence of commodities but rather the commodification of labor. This defines the system's specific mode of exploitation, the way the ruling class appropriates the surplus product created by the producers.

To see that this was Marx's view, we first note that the key to any society lies in the struggle between its ruling and producing classes. Thus the *Communist Manifesto* begins:

"The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman - in a word, oppressor and oppressed - stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open, fight, a fight that each time ended either in a revolutionary reconstitution of society at large or in the common ruin of the contending classes."

The main battlefield of the class struggle is the surplus product. What distinguishes one form of society from another is the way in which the ruling class exploits the producing class; that is, the way the surplus product is appropriated:

"The essential difference between the various economic social formations, between for instance, a society based on slave labor and one based on wage labor, lies only in the mode in which this surplus labor is in each case extracted from the actual producer."²

Near the end of *Capital* Marx outlines the full significance of the difference between modes of exploitation:

"The specific economic form in which unpaid surplus labor is pumped out of the direct producers determines the relationship of rulers and ruled, as it grows directly out of production itself and in turn reacts

upon it as a determinant. But on it is based the entire formation of the economic community growing out of the productive relations themselves, and therewith its specific political form likewise.

"It is always the direct relationship of the owners of the conditions of production to the direct producers - a relationship whose actual form always naturally corresponds to a definite stage of development in the ways and means of labor and hence its social productive power - which reveals the innermost secret, the hidden foundation of the entire social structure and hence also of the political form of the sovereignty-dependency relationship - in short, of the specific form of the state in each case.

"This does not gainsay the fact that, due to innumerable different empirical circumstances (natural conditions, racial relations, outside historical influences, etc.), the same economic basis - the same in terms of the main conditions - can show infinite variations and gradations in the phenomenon, which can be grasped only by analyzing these empirically given circumstances."³

This masterful summation expresses the inescapable bond linking the form of exploitation, the social structure and the state. Applied to capitalism, it means that the wage-labor relation is the foundation of the bourgeois state. It notes further that this state and its accompanying social structure can take many different forms ("infinite variations and gradations in appearance"). Nevertheless, all will be capitalist ("the same economic base ... with regard to its principal conditions"), as long as the surplus labor is extracted through wage labor — which means that the surplus product takes the form of surplus value.

Well known though this passage is, it is all too often misrepresented. When Marx writes of the "specific economic form in which surplus labor is pumped out," Marxist experts do not see that he is referring to the method of exploitation. Ernest Mandel, for example, interprets the passage as a refutation of the claim (by Milovan Djilas) that the USSR is state capitalist, since capitalism and Stalinism appear to have different ways of extracting surplus product:

"For what is the *form of appropriation* specific to capitalism? Does this *form* still exist in the Soviet Union? Under capitalism, the surplus social product is appropriated by the owning class *in the form of money* following the sale of merchandise. In the USSR the surplus product is appropriated by the state *in the form of merchandise* through the realization of the plan; the *financial* bankruptcy of enterprises (which sometimes takes place in the USSR) has no effect either on this

1. *Capital*, Vol. I, Chapter 1 (p. 35 in the International Publishers edition, to which page references apply unless specified.)

2. *Capital*, Vol. I, Chapter 9, section 1 (p. 217)

3. *Capital*, Vol. III, Chapter 47, section 2 (p. 791)

appropriation, or on accumulation."⁴

Whereas for Marx the form of surplus extraction means the mode of exploitation - that is, the relation between the ruling and producing classes - for Mandel it means only the superficial form taken by the surplus once it has been extracted: whether it is money or not. Mandel says that the essence of capitalism is "generalized commodity production," which he recognizes only through the sale of merchandise for cash. But although capitalism is commodity production, the exchange of its products for money is only its appearance. Its essence is wage-labor exploitation.

Mandel has also been bewitched by a secondary (and temporary) phenomenon, the suppression of capitalist monetary forms in the USSR. But times change. The difference he perceived between East and West led Mandel to a conclusion now easily seen to be wrong. Since several "socialist" countries have reformed their economies to enlarge profit's economic role, going so far as to force unprofitable enterprises to shut down, it is clear that financial bankruptcy does disrupt appropriation and accumulation — and it has been a disruptive factor all along. The policy of preserving unprofitable firms only hides the system's inefficiency under the surface; if obsolescent firms stay in operation, their backwardness dampens accumulation. Bypassing monetary forms does not make the system non-capitalist; it only masks the operation of capitalism's laws, as we will see in Chapter 5.

Another example: Branko Horvat, a leading Yugoslav economist and planner, uses a similar misreading of Marx to justify his view that the Soviet system is not capitalist but a third system he calls "dtatism":

"The basic difference between a society based on capitalist wage labor and one based on Statist wage labor lies in the mode in which surplus labor is extracted: in the former case, private property, and in the latter, state property, determine this mode."⁵

Horvat admits that the two societies have wage labor in common but, like Mandel, insists that the "mode in which surplus labor is extracted" means the form in which the exploiters hold their property. He too has extracted a few words from Marx and left the content behind. One self-serving consequence of denying that wage labor characterizes a particular mode of exploitation is that Horvat can then conclude that the Yugoslav economy, although also based on wage labor, is neither capitalist nor Statist; it is characterized by "social property" and therefore avoids

4. Ernest Germain (Mandel), "The Theory of 'State Capitalism,'" *Fourth International* (1951).

5. Branko Horvat, *The Political Economy of Socialism* (1982), p. 48

exploitation completely.⁶

Like bourgeois theorists, Mandel and Horvat accept the idea of a world fundamentally divided between market and planned economies. That the two modern variants of capitalism differ in how the rulers allocate the surplus value among themselves is important but secondary. These differences are among the "infinite variations and gradations in appearance" - of the same mode of production, capitalism. As we will see, they result from the fact that capitalism's laws of motion are not static and of necessity give rise to different forms of distribution of surplus value at different historical stages of development.

Mandel and Horvat (and many others) reveal their misunderstanding of ordinary capitalism in distinguishing it from Stalinism. The mode of surplus extraction in capitalism for them is defined by relations among the capitalists, not the relation of class exploitation. What is missing is the proletarian root of Marxism, expressed at the very end of *Capital*, "In view of what has already been said, it is superfluous to demonstrate anew that the relation between capital and wage labor determines the entire character of the mode of production."⁷

Evidently it is not superfluous for today's Marxists.

THE LABOR THEORY OF VALUE

We now trace the line of reasoning through which Marx derived the fundamental importance of wage labor.

The study of commodities begins with their value. Commodities are goods made by private - that is, separate - producers in order to be exchanged for other goods. Exchanging goods, as opposed to producing them in common, brings the producers into social relation with one another. For exchange to happen each product must have a use **value**, a useful quality required by others or by society generally - although utility is not what determines how they exchange.

The prices at which commodities are bought and sold are perceived in bourgeois theory as their true values. For Marx, however, a commodity's price is only a semblance of its underlying **value**, the labor time required for its production. This value is first reflected in the form of money by the commodity's **exchange value**: this much labor time corresponds to that much money, leaving aside refinements to be discussed shortly. In turn, the ever-changing **price** of the commodity on the market fluctuates around exchange-value.⁸

6. Horvat, p. 236.

7. *Capital*, Vol. III, Chapter 51 (pp. 879-80).

8. When calculating in monetary terms, Marx often said "value" for short instead of exchange value, and we do the same

Marx is sometimes criticized for failing to prove the labor theory of value. In fact he made no attempt to provide a "proof from abstract first principles; the real test was practice. His justification for using the theory was based, first, on its correspondence with economic reality, as we will see in discussing wage labor; and, second, on the laws of capitalism's motion and development that he derived from the law of value. No other theory has been able to explain capitalism and, most important, its historical changes, with anything like the success of Marx's.

The theory that value is based on labor time was not invented by Marx; it was the common understanding of the classic bourgeois economists. It allows capitalist apologists to declare the system's basic principle to be equal exchange: that is, that commodities of equal value can be exchanged for one another. By this ideological self-justification capitalism presents itself as a society founded on equality - despite its great extremes of wealth and privilege,

Capitalism also claims to be the embodiment of economic freedom: owners of commodities are free in the sense that they have the right to find buyers of their choosing on the market in order to obtain the greatest possible value in exchange. It was no accident that "liberty" and "equality" were watchwords of the great French bourgeois revolution, or that the idea of democracy was entwined with the spread of capitalism.

Marx showed what was valid in these ideas: by overcoming feudal restrictions, capitalism set forces in motion that brought the masses onto the stage of history. It is the progressive function of capitalism to provide the material base for a society of genuine freedom in the future. However, a central purpose of Marx's analysis was to puncture the illusion that capitalism *itself* could liberate humanity.

Capitalism in fact is a society of monstrous inequality. As well, especially in the present epoch of imperialism, it is the enemy of liberty on a world scale. Behind this reversed reality stands the law of value. As Engels wrote, "The value form of products ... already contains in germ the whole capitalist form of production, the antagonism between capitalists and wage workers, the industrial reserve army, crises."⁹ We will sketch how Marx unraveled the implications which value contains "in germ."

First, labor embodied in different commodities must be comparable. So labor in every specific line of work, as well each different level of skill, is evaluated by reducing it to units of **simple** (unskilled) and **abstract** (as opposed to specific or **concrete**) labor. The value of a commodity is determined not by the production of that one item alone but rather as the

fraction of society's total simple, abstract labor devoted to it.

Second, the labor time determining the value of a commodity must be **socially necessary**: value is not determined individually. If, for example, a worker takes twice as long as the norm to produce a given commodity, the commodity's value is not doubled - on the contrary, half the worker's labor time has been wasted. Likewise, if capitalists in a given sphere of industry produce more of a commodity than can be sold, the totality of labor time embodied in those products cannot be realized as value. A portion of it has been wasted because it lacks social necessity, understanding that necessity in capitalist society has to be backed by money; it does not mean there are not people who lack such products and could use them.

On the other hand, if one capitalist finds a way of producing a commodity using less labor time than is normal, the value of that commodity need not immediately decrease. It remains the same until other producers are able, on the average, to reduce the necessary labor time. Indeed, much of the inspiration for innovation under capitalism derives from entrepreneurs' temporary opportunity to sell commodities at their (previously determined) exchange value, even though they may be able to produce them for less.

In brief, the value of a commodity is really measured by the labor required for its reproduction. So if production techniques improve during the useful life of a commodity, its value declines, since reproducing it requires less time than did producing it originally with less advanced methods. The value of a commodity is therefore not constant but is constantly changing (normally decreasing), according to the changing techniques of production and the availability of workers, machines and materials.

Further, for commodities to become exchangeable, there must exist a special commodity which represents their value directly as a universal equivalent. That is the function of money, which appears initially in the form of a tangible, value-emboding commodity like gold; it enables society to measure the various concrete forms of embodied labor as portions of the common abstract labor.

People are often surprised to learn that the values of commodities tend to decrease, because the prices of most things they buy are always rising. But that appearance is an illusion brought about by money; it is not a direct reflection of value. At times when currencies are stable, if labor values decline so do exchange values and prices on the whole. But nowadays the operation of capitalism determines that currencies are continually debased, so it takes more money to buy a given commodity than before, even a commodity whose value is falling. Only in special cases of rapidly reducing value, as with some electronic goods today, does the monetary price actually decline despite the general inflation of prices.

9. Engels, *Anti-Duhring*, Part 3, Chapter 4 (Moscow, 1934; p. 347)

This illustrates an essential aspect of *Marx's* theory of value. Exchange value (and therefore price as well) reflects a commodity's underlying value only imprecisely. Not only does the value of the money commodity change (as is true of every commodity); money has to be used not only as a simple value equivalent but also as a medium for rapid and convenient exchange over great distances, and for the storage of value over time. These functions necessitate that money is constantly created artificially through the credit system. As well, money has to be represented by paper and other symbolic tokens - which opens up relatively simple opportunities for misrepresentation of its value (both legal and illegal). Inherent in the nature of exchange value, therefore, is the possibility of fictitious value: forms of value not based on actual labor in production. The crude equivalence of exchange value to value worsens as capitalism decays in its epoch of imperialism, as we will see in the next chapter.

In contrast, in a pre-capitalist society of simple commodity production where craftspeople obtained tools and materials from familiar sources, values could be easily measured if not scientifically compared. But as capitalism extended commodity production, incorporated all other historical modes of labor into its realm and created a world economy, the complexities of value widened. The exchange of commodities cannot be fully regulated by labor time until labor power is treated as a commodity. As well, capital itself becomes a commodity, and this distorts the exchange value of all commodities in various ways, as we shall see. When we refer to the labor theory of value (or law of value), we mean the general point that the value of commodities is determined by their embodied labor time — without specifying distortions or complexities.

CONTRADICTIONS OF VALUE

It is unfortunately quite common for theorists to accept Marx's categories but fill them with an entirely different content. The main source of illusions about capitalism is the "common-sense" idea that value is determined by the market rather than by production. This fallacy is nurtured by the fact that commodities are defined as such by the act of exchange. Bourgeois theory holds that the market forces of supply and demand govern the price at which a commodity can be sold and are therefore the basis of its value. Marx noted in response that even when supply and demand are in equilibrium, the value of the commodity still remains to be determined, and this depends on the amount of abstract labor embodied in it; when not in balance, supply and demand affect the price only within limits set by the conditions of production.

The bourgeois view is echoed by middle-class Marxists. For example:

"An economy governed by the law of value is an economy in which production, and therefore investment, is guided by effective demand

What operates here primarily is not so much the difference in the intensity of different needs of different individuals; what is decisive is the difference in incomes. Thus production is directed toward satisfying the needs of the privileged layers first. Production of luxury items is stimulated before the elementary needs of the mass of the population are met."¹⁰

This is the essence of a petty-bourgeois muckraker's notion of capitalism, denouncing the system for the privileges it grants to "malefactors of great wealth." Aping academic sociologists, Mandel chooses income differentials as capitalism's motive force, not even the difference in class interests that a Marxist looks for. It is a standard myth of petty-bourgeois economics that capitalism is propelled by consumer sovereignty; Mandel only adds that the motivating desires are really those of the ruling capitalists. This argument can only mesh with a populist and not a working-class political challenge to capitalism.

Marx answered Mandel personally, a century ahead of time:

"It must never be forgotten that the production of this surplus value ... is the immediate purpose and compelling motive of capitalist production. It will never do, therefore, to represent capitalist production as something which it is not, namely as production whose immediate purpose is enjoyment of the manufacture of the means of enjoyment for the capitalist. This would be overlooking its specific character, which is revealed in all its inner essence."¹¹

What "must never be forgotten" has long been erased from the memories of the Marxist pretenders.

Another common confusion over the "law of value" is whether it is the basis of capitalism's laws of motion as they actually operate, or the guiding rule for a rational social system that capitalism can never attain. Taking the second point of view, the prominent left bourgeois economist Joan Robinson wrote:

"Marx believed that, under socialism, the labor theory of value would come into its own. 'Only when production will be under the conscious and prearranged control of society, will society establish a direct relation between the quantity of social labor-time employed in the production of definite articles and the quantity of the demand of society for them. ... The exchange, or sale, of commodities at their value is the rational way, the natural law of their equilibrium.'"¹²

10. Mandel, "Economics of the Transition Period," in *Fifty Years of World Revolution* (1968), pp. 281-2.

11. *Capital*, Vol. III, Chapter 15, Part I (pp. 243-4). For "surplus value," see below.

12. Robinson, *An Essay on Marxian Economics* (1942), p. 23. The passage from Marx is in *Capital*, Vol. III, Chapter 10 (pp. 187-8).

Robinson here distorts Marx in order to argue that, for him, the labor theory of value is the rational regulator of socialism. But that is in fact a total misunderstanding of Marx's intention.

The first sentence she quoted from Marx offers a glimpse of socialist society: conscious control of production establishing a scientific connection between the supply of goods and the demand for them. Even though Marx speaks of the quantity of social labor time, however, we can be sure he is not referring to value, because the law of value has nothing to do with the "conscious and prearranged control of society." It is a blind law operating behind the backs of individuals who cannot control it. (What does happen under socialism, as we will show in Chapter 3, is that the *form* of value - the transfer of equal quantities of labor time - is retained, while its *content* based on exploitation is abolished.)

This sentence about socialism is a parenthetical remark inserted into a discussion of capitalism in order to emphasize that under capitalism the amount of labor time embodied in a commodity need *not* correspond to the social demand. The second sentence quoted, torn out of its original context, is part of this discussion of value under capitalism; it simply asserts that the capitalist goal is to exchange according to (exchange) value. But the intervening part of Marx's argument (which Robinson chooses not to quote) shows that this goal, rational though it is, is only achieved accidentally under capitalism.¹³

That is because capitalism cannot regulate the supply of commodities in advance: supply and demand inevitably move in and out of their rational relation. The law of value as the system's "natural law of equilibrium" governs not the day-to-day relations among people but only the *average* behavior of prices, supply and demand. Price constantly fluctuates around value, which in turn always changes.

As Marx concluded the passage which Robinson cites: "It is this law that explains the deviations, and not vice versa, the deviations that explain the law." The law of value regulates a class-ridden, anarchic system by indicating the rational goals that individual exchangers under capitalism can only achieve temporarily, if at all, and by chance. It does not eliminate the system's anarchy but only accounts for it.

The fact that capitalist economy inevitably diverges from its rational pretenses reflects what Marx called the contradictions of the form of value. These are tensions between two inherent aspects of value - concrete and abstract labor, for example, or use value and exchange value - that propel

capitalism to change and develop. They also drive the system to the periodic crises as well as long-term decay which have shaped its turbulent history.

The primary contradiction of capitalist society is between social production and private appropriation. Given the universal interchange of commodities generated by production for value, economic relations become thoroughly socialized. No worker, no community, no country can possibly be self-sufficient. Every commodity contains embodied labor contributed to it, directly and indirectly, by workers throughout the globe. Yet even at the highest stages of socialization under capitalism, the organization of production and the appropriation of life's goods remain private, separated from social control.

Closely related is the contradiction between use value and exchange value. This exists because the value and use value of a commodity are ratified by "the market" only after the act of production, as we have already seen in part. Production is in the hands of separate capitals, but the goods produced are destined for social use: consumption or further stages of production by other agents. The individual capitalist's production of value and use value does not guarantee their acceptance by capital as a whole. A commodity may have been produced through the expenditure of labor (and therefore may seem to be a bearer of value), yet if it has no use, or has been produced in quantities beyond what can be used, its value is wasted and becomes null. Alternatively, a commodity may have use value, but if the value and therefore the profit it yields is insufficient, its production will cease.

These contradictions reflect the fact that the two fundamental classes of capitalist society are locked in a struggle over the allocation of value. On the one hand, the drive for value makes capitalist production social and compels the contending classes to become national and then international. On the other, capitalist relations not only separate society into rival classes; they also divide each class into individual, local and national competitors. That the working class's struggle against capital impels it toward unity indicates that the system's laws drive the proletariat to overcome capitalist relations.

WAGE LABOR

Marx introduced a useful distinction to analyze value more precisely. The labor time embodied in a commodity can be divided into two parts: the **living labor** expended by the workers who produce it directly, and the **dead labor** previously embodied in the means of production (materials, tools, factories, etc.), used by the immediate producers but produced in the past. The value contained in such means of production is transferred to

13. A distortion of Marx identical to Robinson's was committed by Joseph Seymour in the Spartacist League pamphlet *Why the USSR is Not Capitalist* (1977), p. 31

the commodities being produced without creating any additional value. New value can be created only as living labor brought into production by the proletariat.

To illustrate the distinction, making a productive improvement generally means introducing a technique that produces commodities at a faster rate, so that the living labor required for each commodity declines. If the value of the living labor saved is more than the additional dead labor that the new technique costs, then the overall value of the commodity has decreased.

One essential commodity under capitalism is not produced in the usual way. Since capitalism assigns an exchange value to every commodity, it does so with labor too. Labor - or more accurately **labor power**, the workers' capacity to labor - becomes a commodity owned by workers which they sell to capitalists in return for payment: their wage. Underlying the wage, which is precisely the exchange value of labor power, is the value of labor power. This is based on the value of the commodities (food, clothing, shelter, training, etc.) needed by the workers and their families to reproduce the working class. The fact that wages are normally paid per hour or day — that is, according to the duration of time worked -illustrates the reality of the labor theory of value: the value of commodities produced depends on the labor time they contain.

As with all commodities, the value of labor power is constantly changing. It decreases because of advances in the techniques of producing the workers' necessities. But it also tends to increase because it contains what Marx called a "historical and moral element," the degree of training, education and civilization that society requires of its workers. This element is largely determined through class struggle, even when improvements in the workers' conditions benefit the capitalists as well by making higher productivity possible.

The commodity labor power has a unique use value: it creates new value. Moreover, the value that the laborer creates must be greater than the value of his or her labor power. In the process of capitalist production, therefore, the value of the workers' living labor divides into two categories. One portion, **paid labor**, corresponds to the value of labor power and is taken by the workers in the form of wages. The remaining portion, **unpaid labor** or **surplus value**, goes to the capitalists; it is the source of their profit, interest and rent. The extraction of surplus value is the uniquely capitalist form of exploitation.

Unlike in pre-capitalist societies, capitalism's surplus is disguised by the equal exchange of value: labor power for wages. Exploitation of slaves by their masters was naked: what the slaves produced was owned by the master who chose what to give back, normally just enough for the slaves to subsist. Under feudalism, the serf had some rights against the lord, but

here too exploitative class relations were transparent. But under capitalism the relations between people are hidden beneath objects and forms and appear to be between things - commodities.

Marx wrote *Capital* to reveal the system's inner essence behind its outer trappings. The commodity is the necessary form of appearance of capitalist exploitation. Nevertheless, we have seen how middle-class Marxists believe that the commodity form rather than the class struggle is the key to the system (and therefore that Stalinist societies, where commodity markets are suppressed, cannot be capitalist). As Marx polemicized against their ancestors:

"It is a definite social relation between men that assumes in their eyes the fantastic form of a relations between things. In order, therefore, to find an analogy, we must have recourse to the mist-enveloped regions of the religious world. In that world the productions of the human brain appear as independent beings endowed with life, and entering into relation both with one another and the human race. So it is in the world of commodities with the products of men's hands. This I call the fetishism which attaches itself to the products of labor, as soon as they are produced as commodities, and which is therefore inseparable from the production of commodities."¹⁴

The commodity is not simply a thing exchanged between separate owners. It is the product of wage labor, the outcome of a particular form of exploitation. That is what defines the nature of capitalism.

THE LAW OF INEQUALITY

As capitalism developed out of feudal society, it forcibly separated the direct producers from their means of production. Eventually the buying and selling of labor power came to govern the labor of the majority of producers. Industrial capital depends on creating a class of proletarians who possess no means of production; the materials, machines and factories are owned by a separate class, the bourgeoisie.

Marx noted ironically that the bourgeois ideal of freedom applies to the proletarians as well. The workers are "free" in a dual sense. On the one side, they are no longer part of the means of production owned by their masters; the capitalists buy labor power, not labor. On the other side, they are dispossessed of any means of production and are therefore free to sell their labor power to whomever they like. Obviously they are obliged by the threat of starvation to sell themselves to *some* boss on the market. The petty-bourgeois dream of a capitalist society made up of equal, independent and self-sufficient property owners is a fantasy concealing the

14. *Capital*, Vol. I, Chapter 1, Section 4 (p. 72)

exploitation and frequent mass misery of the workers.

In addition to the class-based inequality inherent in capitalism, the system has developed other forms of oppression — based on sex, race, nationality, etc.; some of these it inherited from previous class societies and turned them to its own ends. They serve not only to preserve social structures useful to capitalism - for example, the nation and the family -but also to institutionalize divisions within the working class and thereby weaken its resistance to exploitation.

The "free" character of wage labor makes exploitation collective. No longer are the producers of society's surplus product tied to individual owners, as were slaves; nor to specific landed property, like serfs; nor to their own property and specialized trade, like the petty-bourgeoisie descended from guildsmen and artisans. The proletarians are exploited as a class, by the exploiters as a class. Despite the evident competition between capitals, the labor market creates social classes which represent *as a whole* the opposite sides of the exploitation relation.

With the creation of the modern proletariat by industrial capitalism, wage labor underwent a transformation. Individual craftsmen were replaced by laborers forced to sell themselves to the highest bidder in whatever trade. Workers' labor power became increasingly interchangeable and uniform. As well, technological advances robbed the workers of their traditional skills. These processes helped create the actual category of abstract labor.

Thus the law of value first came to genuine fruition under industrial capitalism; it could only be prefigured in a partial sense under earlier forms of commodity production. As Marx wrote:

"The secret of the expression of value, namely, that all kinds of labor are equal and equivalent, because and so far as they are human labor in general, cannot be deciphered until the notion of human equality has already acquired the fixity of a popular prejudice. This, however, is possible only in a society in which the great mass of the produce of labor takes the form of commodities, in which, consequently, the dominant relation between man and man is that of owners of commodities."¹⁵

Hence the fundamental link between wage labor and the law of value. On the one hand, capitalist production - the operation of the law of value - makes labor power a commodity; labor is necessarily wage labor. On the other hand, under pre-capitalist commodity production, exchange value existed but could only be based on concrete labor, not on a true underlying value. Only capitalist production, which employs labor measured

according to time, creates the genuine value category of embodied abstract labor. Thus the existence of a proletariat and the validity of the law of value are equivalent conditions. Marxists who deny that the law of value applies to Stalinism but nevertheless acknowledge the existence of a Soviet proletariat make a fundamental error. To deny one is to deny the other.

Marx transformed the labor theory of value in two ways: he distinguished labor from the commodity labor power; and he uncovered the extraction of surplus value through wage labor. His analysis revealed the class nature of the law. Since ownership of capital dominates the possession of mere labor power, dead labor dominates living. Capitalists assume the right to appropriate not only a value equivalent to the workers' wages (and to the dead labor they supply) but also the surplus value produced. Thus the laws of capital "become by their own inner and inexorable dialectic changed into their very opposite. The exchange of equivalents, the original operation with which we started, has now become turned around in such a way that there is only an apparent exchange."¹⁶ As the gulf between bourgeoisie and proletariat evolved and expanded, the law of value was transformed from a principle of equality to the embodiment of inequality. We will show in Chapter 4 that a similar process of intensification of inequality took place during the Stalinist counterrevolution in the USSR. Far from overcoming the law of value, Stalinism enforced it.

2. THE ACCUMULATION OF CAPITAL

Capital originated historically in pre-capitalist societies as money which merchants and bankers invested in trade or usury for profit. But just as the value of commodities did not fulfill its own laws until labor power became an available commodity, so too capital came into its own only as property in the means of production through which surplus value was extracted from wage laborers.

The wage relation allows for a far greater degree of exploitation than was ever possible in the past. Under previous modes of production, the surplus product appropriated by the exploiters was determined by custom as a more or less fixed amount in advance; the direct producers lived if they could on what remained. The extraction of surplus was limited by "the walls of the lord's stomach." The rulers would at times need to

15. *Capital*, Vol. I, Chapter 1, Section 3.A.3 (p. 60)

16. *Capital*, Vol. I, Chapter 24, Section 1 (p. 583)

squeeze out more, but they were restricted by the danger of starving the producers and thereby halting production.

Under wage labor, in contrast, the compensation of employed producers is essentially established in advance; the bosses take what remains. Liberated from restrictive traditions, the bourgeoisie has every incentive to expand this surplus. The producers, "free" of the means of production, are compelled to work under conditions chosen by the employers. As a result, wage workers produce an enormous surplus without being entitled to any of it.

The bosses' appropriation of surplus value makes possible the expansion of capital, and it is made necessary by the class struggle of the producers against their exploiters. For Marx:

"The directing motive, the end and aim of capitalist production, is to extract the greatest possible amount of surplus value and consequently to exploit labor power to the greatest possible extent. As the number of cooperating laborers increases, so too does their resistance to the domination of capital, and with it, the necessity for capital to overcome this resistance by counterpressure. The control exercised by the capitalist is not only a special function due to the nature of the social labor process and peculiar to that process, but it is at the same time a function of the exploitation of a social labor process, and is consequently rooted in the unavoidable antagonism between the exploiter and the living and laboring raw material he exploits."¹⁷

The amount of surplus value extracted is the main issue in the class struggle between capitalists and workers. Capitalism expands by reinvesting the surplus value it appropriates: this is the accumulation of capital.

RELATIVE SURPLUS VALUE

Capitalists have always attempted to squeeze more surplus value out of workers by increasing the duration and intensity of labor (Marx called this the increase of absolute surplus value). Such measures inevitably intensify workers' resistance. The bosses' alternative is to reduce the costs of production. In the case of materials and machines, they can try to buy these more cheaply (from other bosses under the same compulsion to lower prices). The commodity labor power, however, is "produced" by the working class; and as the proletariat becomes stronger and more organized, its monopoly of labor power drives wages up. So the bourgeoisie strives to weaken the proletariat by decreasing its role in production and enlarging the "reserve army" of the unemployed as a constant threat to replace employed workers.

"It would be possible," wrote Marx, "to write quite a history of the inventions made since 1830 for the sole purpose of supplying capital with weapons against the revolt of the working class."¹⁸ Marx's "general law of capitalist accumulation" was the expulsion of workers from the process of production.

The capitalists' best form of "counterpressure" is to replace workers in the production process by machinery, living labor by dead labor. This not only enables the individual capitalist to employ less labor; as well, since higher productivity lowers the value of commodities, for the bourgeoisie as a whole it cheapens the goods workers need and thereby lowers the cost of labor power. This method is therefore called increasing **relative** surplus value. It is the characteristic form of capital accumulation, an economic mode of disciplining the working class that distinguishes capitalism from other class societies. (Of course, like all ruling classes the bourgeoisie also uses violence to keep the workers in check.)

From the standpoint of capital, the counterposition between dead and living labor depends on how capital is invested. **Variable** capital pays for labor power, which creates new (surplus) value for the capitalist. **Constant** capital buys dead labor, which transfers value already embodied in it to the new products. Constant capital further divides between **circulating** constant capital like raw materials, whose value is transferred whole into the commodities immediately produced; and **fixed** capital like buildings and machinery, whose value is subdivided among the commodities that it helps produce throughout its useful life.

The value of every commodity, therefore, consists of three components: variable capital V, paid to the immediate producers; constant capital C, paid to the owners of the materials, supplies and other means of production used; and surplus value S, the unpaid portion of living labor appropriated by the capitalist. The total value of the commodity can be expressed as $C + V + S$. The extraction of relative surplus value implies not only the growth of C at a greater pace than V; it also means that fixed capital grows most rapidly.

There is a further distinction to be made. Marx divided production into two departments, Department 1 for producers' goods and Department 2 for consumers' goods. The output of Department 1 re-enters production as constant capital; the output of Department 2 becomes variable capital. So the advance of productivity, the expansion of constant capital ahead of variable capital, implies also that Department 1 expands more rapidly than Department 2.

The inherent drive for capital accumulation, taking the form of the

17. *Capital*, Vol. I, Chapter 13 (p. 331)

18. *Capital*, Vol. I, Chapter 15, section 5 (p. 436)

relative increase of surplus value, is the key to the immense expansion of capitalism. And once the accumulation of relative surplus value begins, its continuation is forced on the bourgeoisie by the internal pressure of competition. In 1847 Marx and Engels wrote in the *Communist Manifesto* that "the bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together."

The reverse side of this achievement is that labor is condemned to enslavement by capital. The "equal exchange" of labor power for wages allows the capitalists to appropriate surplus value without returning an equivalent. It results in vast inequalities between classes (and within them); capital accumulation only intensifies the disparity.

"Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, and moral degradation at the opposite pole, i.e., on the side of the class that produces its own product in the form of capital."¹⁹

CONCENTRATION AND CENTRALIZATION

It is often stated by Marxist as well as bourgeois theorists that the motivation driving the individual capitalist is to maximize his rate of profit. But this, like the goal of extracting the maximum of surplus value, is only a means to the real end. As Marx put it, the "aim [of the capitalist mode of production] is to preserve the value of the existing capital and promote its self-expansion to the highest limit (i.e., to promote an ever more rapid growth of this value)."²⁰ This aim, we shall see later, is counterposed to capitalism's "tendency towards absolute development of the productive forces, regardless of the value and surplus-value it contains ...". That is, capitalism strives to expand the value form even at the expense of developing use values. The conflict of these tendencies, the most visible expression of the contradictions of value, is the key to the analysis of capitalism's crises.

Accumulation occurs both through the of **concentration** of capital — the growth of individual capitals through reinvestment of their own surplus value - and through the **centralization** of capital in the hands of fewer and fewer capitalists who take over the property of others. The weaker capitalists who are unable to expand or modernize rapidly enough are driven out of business and expropriated by the stronger. (The two terms here are defined in Marx's sense, which is not identical with common usage today.)

19. *Capital*, Vol. I, Chapter 25 (p. 645).

20. *Capital*, Vol. III, Chapter 15, section 2 (p. 249)

Several dangers for the bourgeoisie are inherent in both aspects of accumulation, aside from the obvious destruction of capitalists. One is that accumulation is accompanied by periodic crises that weaken the masses' confidence in the rulers' ability to run society. Another is that expansion devalues capital and thereby counters the bourgeoisie's goal of expanding its capital. Linked to both of these is the increasing concentration and organization of the proletariat, unified and strengthened by capitalism's socialization of labor - a threat to the very existence of capitalism. Here is Marx's summary of the process, a concise dialectical masterpiece:

"As soon as this process of transformation has sufficiently decomposed the old society from top to bottom, as soon as the laborers are turned into proletarians, their means of labor into capital, as soon as the capitalist mode of production stands on its own feet, then the further socialization of labor and further transformation of the land and other means of production into socially exploited and therefore common means of production, as well as the further expropriation of private proprietors, takes a new form.

"That which is now to be expropriated is no longer the laborer working for himself, but the capitalist exploiting many laborers. The expropriation is accomplished by the immanent laws of capitalistic production itself, by the centralization of capital. One capitalist always kills many. Hand in hand with this centralization ... develop on an ever-extending scale the cooperative form of the labor process, the conscious technical application of science, the methodological cultivation of the soil, the transformation of the instruments of labor into instruments only usable in common, the economizing of all means of production by their use by combined, socialized labor, the entanglement of all peoples in the net of the world market, and with this the international character of the capitalist regime.

"Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with and under it. Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capi-

talist private property sounds. The expropriators are expropriated."²¹

In brief, the bourgeoisie's development of the productive forces sets in motion its own destruction. Marx's summary elegantly amplifies the contradiction between the social character and private relations of capitalism. It also brings out the centrality of the proletariat for socialism. Not only is the workers' struggle the driving force for capitalist development; not only is their exploitation the potential spark for revolution; but the proletariat's own development and struggle under capitalism organizes it and teaches it the essence of collective and even international production. Capitalism thereby creates the class that becomes the creator of the highest mode of production, communism.

"CAPITALIST COMMUNISM"

The accumulation process brings about an extension of the law of value whose absence is sometimes used to argue that Stalinist countries cannot be capitalist. It therefore warrants attention.

For a given capital, its rate of profit is the ratio of the surplus value extracted to the capital invested.²² This definition in value terms underlies but is not the same as the profit rate that capitalists actually receive in monetary terms. The rate of profit received is the basis of a capital's ability to accumulate and survive. In particular, a capitalist with a profit rate significantly below average in his sphere of industry would have difficulty obtaining investments and loans; if the situation persisted he would soon be out of business.

Between different spheres the situation is parallel. If one industry is highly profitable at the moment (because of enlarged demand or increased productivity due to new technology, for example), then it attracts investment and spawns new firms. As production in this industry increases, its market eventually becomes exhausted; then profits decline and investment begins to move elsewhere. Hence there is a tendency for rates of profit received to equalize at the average rate of profit. It depends on the fact that capitalists are interested in the expansion of their capital, not in the

21. *Capital*, Vol. I, Chapter 32 (p. 763).

22. This basic definition is often misunderstood. Mandel says that "The average rate of profit Marxist economic theory is concerned with is the rate of profit on the *flow* of current production ... the fraction of the total capital stock actually used up in annual output and not the rate of profit on the *stock* of capital invested." (*The Inconsistencies of State Capitalism*, International Marxist Group pamphlet, 1969.) Sweezy (*The Theory of Capitalist Development*, p. 67) says likewise. However, not only do capitalists calculate their profit rate on stocks, not flows, but Marx's own procedures show that he agrees with the capitalists. See his profit rate charts in *Capital*, Vol. III, Chapter 9 (pp. 156-7)

particular spheres in which they have momentarily invested.

This equalization tendency was used by Marx to explain an apparent problem in his theory of value. The replacement of living by dead labor in accumulation is an uneven process: some firms advance more rapidly than others. Within the *same* sphere of industry, productivity may vary among different capitals; the value of the commodity produced (its socially necessary labor time) is determined by the dominant level of productivity. But between *different* industries, different levels of productivity affect not the values of commodities but rather their prices.

Capitals in different industries (even if equally up-to-date) will normally differ in the proportion of machinery to labor employed. In value terms, Marx called the ratio of constant to variable capital the **organic composition** of capital. While the organic composition tends to vary between spheres, the **rate of exploitation** (or rate of surplus value), which measures surplus value against the variable capital that produces it, tends to be roughly equal.

Now comes the difficulty. Since only living labor produces surplus value, a capital with a high organic composition uses relatively little living labor and therefore produces a below-average amount of surplus value. Therefore its rate of profit (in Marx's sense) would also be below average. If the profit a capitalist received were the same as the profit he extracted, the most advanced firms would receive the lowest profit rates, and the system would be unstable.

The market for capital ensures that capitalists do not receive profit simply according to the surplus value produced by their own workers. On the contrary, the tendency for profit rates to equalize makes the bourgeoisie as a whole - in effect, as a single total capital - share the total surplus value in proportion to the value of each individual's invested capital, variable and constant together. Marx ironically labelled this tendency "capitalist communism"²³. It is a further illustration that the bosses as a whole exploit the workers as a whole, not just their own employees.

The result of the equalization of profit rates is that capitals with high organic compositions (and therefore low rates of profit in terms of value produced) appropriate more surplus value than their workers create, in order to obtain ("realize") the average rate of profit. Reciprocally, other capitals with lower organic compositions receive less surplus value than their workers produce, but they still obtain an average rate of profit. Marx called the resulting revised exchange value of each commodity its **price of production**; it is calculated as the cost of production (the paid portion of

23. For example, *Marx-Engels Correspondence*, April 30, 1868; *Theories of Surplus Value*, Vol. III, p. 83

variable capital plus the constant capital it embodies) plus a proportionate share of surplus value. A commodity produced with a higher than average organic composition of capital has a price of production higher than its actual exchange value.

The dividing and sharing of surplus value take place through the constant daily haggling over markets, prices and credit. It is clearly a long-term process: capitalists cannot shift their investments immediately. Those who try to move their capital face serious obstacles: capital is tied up in buildings, materials and instruments, etc. And as the relative size of fixed capital tends to increase, the process of equalization becomes even slower. Marx comments, "Under capitalist production, the general law acts as the prevailing tendency only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations."²⁴

One consequence of this "equality" among capitalists is unequal exchange between industries and even countries. In trade at prices of production between an advanced producer (with a high organic composition) and a more backward one, there is a transfer of value from the backward to the advanced - since the advanced producer's commodity sells at a price above its value and the backward producer's commodity sells for lower. This is a "lawful" way for economically advanced countries to benefit disproportionately from trade with their colonies and dependencies.

The equalization tendency of individual profit rates based on the market for capital illustrates capitalism's unique combination of rationality and irrationality. On the one hand, it allows the system to expand, since without it a capitalist who tried to advance technologically would only receive the low proportion of surplus value directly produced. On the other hand, it makes exchange value diverge more and more from the value underlying it, so that bourgeois society is less and less able to quantify scientifically its own inner workings. This is one reason why value can only be measured indirectly through the unstable money commodity and cannot be calculated directly in terms of labor time. It also shows more deeply why private (in the sense of separate) ownership stands in contradiction to social production: privately owned capitals require (and, in tendency, obtain) their "fair share" of the social surplus value, whether or not such a distribution corresponds to the interest of society - even bourgeois society - as a whole.

Some theorists criticize Marx for giving an erroneous solution to the so-called "transformation problem." They hold that Marx's replacement of exchange values by prices of production is based on the assumption that each round of production begins with pure exchange values; therefore he

is wrong not to notice that production costs, as much as output, have to be measured according to prices of production. But Marx was perfectly aware of this; he warned of "the possibility of an error if the cost-price of a commodity ... is identified with the value of the means of production consumed by it."²⁶

The confusion is partly due to Marx's use of the term "value" to mean exchange value. Exchange value is already an expression of value in monetary form; the price of production is only a modification of exchange value after profit rates have been equalized. The "transformation of values into prices of production" is not a change between categories (value to price) but an adjustment within one category - exchange value. The error Marx cited is avoided if the initial cost-prices ("values") of commodities are understood to be the production prices (modified exchange values) as they stand at the start of the production period. (The same holds for the organic composition of capital.)

The real problem is that Marx's critics interpret him as trying to devise a formula for a rational price system. But as we have seen, the purpose of his elaboration of the law of value was to discover capitalism's long-term laws of motion and demonstrate its impermanence.

Another confusion is that the equalization of profit rates results from a constant "migration" of capital away from spheres of industry with high organic composition of capital to low organic composition spheres. As we will see in Chapter 5, this convinces some that capitalism does not exist in the Eastern bloc. But it is just an extension of the notion that Marx failed to solve the transformation problem.

First of all, the history of capitalist development shows the opposite: capital does move between spheres, but it tends to go to the more advanced — otherwise there would be no technological progress. (The movement of capital between countries in search of higher profits does not contradict this argument. When capital moves to an economically backward country having a high rate of profit because of low wages, this amounts to taking advantage of a higher rate of exploitation - whereas Marx assumed that in a given society the rate of exploitation was uniform. It therefore has the effect of raising the overall rate of profit; it is a separate process from the balancing of the rate of profit between firms.²⁷

Secondly, the migration notion assumes that capitalists first appropriate

24. *Capital*, Vol. III, Chapter 9 (p. 161)

25. Sweezy, *The Theory of Capitalist Development* (1942), p. 115, was one of the first of many to make this argument.

26. *Capital*, Vol. III, Chapter 9 (p. 165). A similar argument is on p. 160.

27. Marx's view that foreign trade is a counteracting tendency to the falling rate of profit (*Capital*, Vol. III, Chapter 14, Part 5) confirms this argument

"their own" surplus value based on a pure value calculation, and only later discover through competition that their share is disproportionate. But modern capitalists have never appropriated profits according to pure value. (Conceivably pre-capitalist commodity producers could be said to exchange according to values - but before labor power was a commodity, abstract labor and therefore value could not be measured.) Once capitalist production has been established, there is no reason for the most profitable firms in any cycle of investment to be those with low organic compositions. Momentary profitability can be due to many factors, even accidental ones.

The migration theory mixes up different levels of analysis. Calculation in terms of values was Marx's first approximation to reality, with capital treated as a unified whole. The second approximation, capitalist communism, shows how profit rates equate at the level of competing capitals. It is the extension of the law of value from commodities to capital: the capitalists get equal returns on their outlay - not of their own labor but of their capital. The price of production of a commodity, the modified reflection of its value, depends not simply on the characteristics of its production in isolation but rather on its production as a product of a certain sphere of capital in relation to every other sphere.

Although capitalist communism seems to deny the law of value for commodities, it is a further "violation" of the law of value on the basis of that law itself. As Marx noted, "how little the determination of value 'directly' counts for in bourgeois society" - its effects are indirect and unconscious.²⁸

The rate of profit produces an illusion: the productive capacity of living labor appears instead to be the productive capacity of capital; surplus value created in production appears instead to be profit generated on the market. Bourgeois and middle-class theorists do not invent their illusions out of nowhere; they merely invert form and content, presenting as the product of science what appears on the surface of capitalist relations and in the consciousness of the capitalists.

Marx criticized capitalists as well as the "bourgeois theorists, the political economists," for allowing the formation of the general rate of profit to obscure the origin of surplus value in the exploitation of labor. "This confusion of the theorists best illustrates the utter incapacity of the practical capitalist, blinded by competition as he is, and incapable of penetrating its phenomena, to recognize the inner essence and inner structure of this process behind its outer appearance."²⁹ Little needs to be added today except that the "political economists" now call themselves Marxists.

28. *Marx-Engels Correspondence*, January 8, 1868.

29. *Capital*, Vol. III, Chapter 9 (p. 168)

THE QUESTION OF COMPETITION

The most common misrepresentation of the law of value concerns the drive behind capitalist accumulation. Middle-class theorists stress the desires of individual capitalists and their competition in the market, rather than the interest of the bourgeoisie as a whole to resist the class struggle of the workers. The position is most convenient for those who deny the existence of capitalism in the USSR, where market competition between enterprises is limited.

For example, Mandel writes: "It is competition that determines the whole dynamic, all the laws of development, of capitalism."³⁰ More explicitly:

"What causes capitalist society to move? *Competition*. Without competition there is no capitalist society. A society where competition is radically or completely eliminated would no longer be capitalist to the extent that there would no longer be a major economic motive for accumulating capital and consequently for carrying out nine-tenths of the economic operations which capitalists execute."³¹

The notion is so pervasive that Tony Cliff, who calls the Stalinist system capitalist, argues similarly:

"While in the traditionally capitalist countries competition between different factory owners causes them to accumulate and increase the organic composition of capital, in Russia this factor does not exist at all as the factories are owned by one authority."³²

Likewise, Baran and Sweezy, who hold that Marx's attitude toward competition is out of date, use the standard assumption about competition to discredit the relevance of Marx's whole analysis of capitalism:

"The stagnation of Marxian social science, its lagging vitality and fruitfulness, cannot be explained by any simple hypothesis. ... But there is one important factor ... the Marxian analysis of capitalism still rests in the final analysis on the assumption of a competitive economy."³³

Some even think that competition produces the law of value itself: "This competition between individual capitals generates the law of labor value and constitutes the driving force for the historic process of capital accumulation."³⁴

30. Mandel, *Marxist Economic Theory* (1962), Vol.1, Chapter 11, p. 363.

31. Mandel, *An Introduction to Marxist Economic Theory* (1967), p. 38.

32. Cliff, *Russia: A Marxist Analysis*, p. 156; *State Capitalism in Russia*, p. 216.

33. Paul Baran and Paul Sweezy, *Monopoly Capital* (1966), pp.3-4.

34. Joseph Seymour, *Why the USSR Is Not Capitalist*, p. 71. A similar view is given by Cliff's associate Chris Harman: "What makes man-produced objects - and above all labor power - into a commodity is precisely competition between producing units ..." (*International Socialism* No. 41, 1969-70)

Thus the dominant opinion among a wide variety of Marxists is that competition is the starting point for the analysis of capitalism. Such theorists often turn for textual support to Marx's *Grundrisse*, an important work containing his private notes written in preparation for *Capital*. Several of its formulations are mistakenly seized upon as authorization for the line that competition is fundamental. Here is a common citation:

"In competition this inner tendency of capital [the drive to expand beyond all bounds] appears as a compulsion exercised over it by alien capital, which drives it forward beyond the correct proportion with a constant March, March! ... Conceptually, competition is nothing other than the inner nature of capital, its essential character, appearing in and realized as the reciprocal interaction of many capitals with one another, the inner tendency as external necessity. Capital exists and can only exist as many capitals, and its self-determination therefore appears as their reciprocal interaction with one another."³⁵

It is easy to read "competition is nothing other than the inner nature of capital" as an assertion by Marx himself that competition is the essence of capitalism. But the passage doesn't say that; it says that competition is the *appearance* of the inner nature of capital. What this inner nature is we have already seen: the drive to accumulate, the struggle between capital and labor, at bottom the exploitation of proletarians through the wage system. The passage illustrates again the distinction between appearance and essence. In everyday language the term is easy to overlook, but when Marx wrote "appear" three times in a few lines he meant it. Reading the passage over as a picture of the surface appearance of capitalism reveals clearly what he had in mind, if we understand that for Marx "appearance" is not a mirage but a subordinate aspect of reality.

As for the "capital exists and can only exist as many capitals," Marx meant that capital is based on value, which presupposes commodities produced for exchange. Hence one capital can exist only in relation to others. Leftists typically read this as meaning that state capitalism is theoretically impossible. For example:

"Capital is a concept whose development and functioning are governed by certain laws, i.e., it has a logic. We will argue, along with Marx, that 'state capitalism' ... is incompatible with Marx's analysis of capitalism. The pivotal point ... is comprehending why 1) Capital can only exist as many capitals, and, 2) Competition is the 'inner nature of capital.' These two closely related characteristics obviously exclude the

possibility of one state-capital."³⁶

But Marx never argued that state capitalism is impossible (we will see in the next chapter that he and Engels believed quite the opposite) - only that separate state-owned capitals must produce for, exchange with and confront one another. Indeed, in its ordinary activity capital needs to take the form of "many capitals," with competition between them, precisely in order to get rid of its inefficient sectors in times of crisis. Monopoly and statified capitals face the same need, but since they interfere with the "automatic" operation of capitalism's laws they have a harder time disposing of backward sectors. The current efforts to "reform" Stalinist economies by giving competition freer rein show once again that competition is a necessary but subordinate category.

A second passage in the *Grundrisse* is even sharper:

"Competition executes the inner laws of capital; makes them into compulsory laws toward the individual capital, but it does not invent them. It realizes them. To try to explain them simply as results of competition therefore means to concede that one does not understand them."³⁷

Marx differentiated between the drive to accumulate, which he termed an "immanent law of capitalist production" or the "inner nature of capital" - and its surface manifestation in the form of competition between capitals. The manifestation is perfectly real: individual capitalists, especially smaller ones, feel the pressure to modernize and accumulate coming from competition, for their rivals are constantly threatening to undercut them by producing cheaper commodities. Capitalist A does not say to himself, "Now that I know how the system works, I will invest in new technology to accumulate capital and deepen the exploitation of the working class so that capitalism can survive." No, he thinks instead, "Capitalist B is getting new machines to drive me out of business, so I too had better lower my labor costs in the same way."

Competition is precisely the operation of surface pressure to enforce the inner laws on the capitalists: it is capitalism's value-policing agent. But it is not the fundamental drive for accumulation. If it were, it would not

35. Marx, *Grundrisse* (1973), pp. 414-15

36. Goldfield and Rothenberg, *The Myth of Capitalism Reborn*, p. 95.

37. *Grundrisse*, p. 752. Marx leads up to this passage with: "A[dam] Smith explained the fall of the rate of profit, as capital grows, by the competition among capitals. ... A. Smith's phrase is correct to the extent that only in competition - the action of capital upon capital - are the inherent laws of capital, its tendencies, [first] realized. But it is false in the sense in which he understands it, as if competition imposed laws on capital from the outside, laws not its own." (pp. 751-2.) The word "first" here is omitted from the published English translation

tend to heat up during the phase of the business cycle when the pace of accumulation declines and recede when accumulation accelerates (see the section on crises below). As Marx noted:

"It is easy to develop the introduction of machinery out of competition and out of the law of the reduction of production costs which is triggered by competition. We are concerned here with developing it out of the relation of capital to living labor, without reference to other capitals."³⁸

Yet another passage from the *Grundrisse* has been cited to argue that the USSR cannot be capitalist without competition: "production founded on capital ... posits itself in the forms adequate to it only insofar as and to the extent that free competition develops."³⁹ This "quotation" deceptively omits the crucial words "for the first time" in the middle of the phrase, a clue to the fact that for Marx "free competition" is just one stage in the history of capitalism, an idea to be developed fully in the next chapter.

COMPETITION AND VALUE

Let us look at the standard error on competition from a different perspective. The underlying laws of capital (value, accumulation) operate at the most abstract level of "capital in general," where the struggle between capital and labor is considered in abstraction from conflicts within the bourgeoisie. On the other hand, the effects of competition operate at the level of "many capitals," where fundamental laws are imposed upon the representatives of capital.⁴⁰ Marx used the method of successive approximation to social reality in order to strip away the different layers of appearance and thereby lay bare the inner relations of the system. The misrepresentation of competition amounts to mixing up these two levels, in effect omitting capital in general in favor of the relations between individual capitals. This can be seen in a particularly bald formulation by a co-thinker of Tony Cliffs:

"Marx distinguishes between 'capital in general' and 'many capitals.' The former is the exploitative relation between labor and capital, the latter the competitive interaction of individual capitals. The theory of value is especially concerned with relations between 'many capitals,' since it is competition which compels firms to sell commodities at the

38. *Grundrisse*, pp. 776-7.

39. *Grundrisse*, p. 650, cited in the incomplete form presented by both the anti-Stalinist Ticktin (*Critique* No. 16, p. 27) and the Maoists Corrigan, Ramsay and Sayer (p. 151).

40. See Roman Rosdolsky, *The Making of Marx's "Capital"*, pp. 41-53

socially necessary labor time required to produce them." ⁴¹

If this were true it would be hard to see how Marx was able to analyze value so thoroughly in Volume 1 of *Capital*, which stays at the level of capital in general and barely mentions competition. Indeed, answered the Cliffites in advance:

"Competition merely *expresses* as real, posits as an external necessity, that which lies within the nature of capital; competition is nothing more than the way in which the many capitals force the inherent determinants of capital upon one another and upon themselves. Hence not a single category of the bourgeois economy, not even the most basic, e.g., the determination of value, becomes real through free competition alone ..."⁴²

Cliffs' conception of competition as the essence of capitalism is fundamentally the same as that of the non-capitalism theorists of the USSR (Mandel, Sweezy, Shachtman, et al). As we noted in the introduction, he holds that since wage labor in the USSR is not a commodity, the capitalist laws of motion operate only because they are imposed from outside by military competition. But he goes further: in Soviet society, he claims, the accumulation of *value* is not the goal of production; on the contrary, "Russia's competition with the rest of the world is expressed by the elevation of use values into an end..."⁴³

Of course, each capitalist firm and state requires specific use values, but Cliffs' reasoning elevates this elementary fact into a principle that effectively throws out the Marxist analysis of capitalism. Moreover, he applies this logic not just to the USSR but to capitalism in general: "Competition between the capitalist powers has reached the stage where the international division of labor is disrupted and competition through buying and selling is replaced by direct military competition. Use values have become the aim of capitalist production." It would seem that for Cliffs competition is so powerful that it has altered the drive to expand value as the motive force of capitalist production. Not only is Cliffs' USSR really a third social system, different in essence from capitalism; he also says in effect that modern capitalism as a whole is also not really capitalist. This goes to show that theorists who deny that Stalinist society is capitalist have no monopoly on turning Marx inside out and removing the capital/labor relation from its central position. State capitalists do it too, under the common assumption of middle-class Marxism that the law of value derives from exchange, not production.

41. Alex Callinicos, *Socialist Worker Review*, July/August 1985.

42. *Grundrisse*, p. 651.

43. Cliffs, *Russia, A Marxist Analysis*, p. 161; *State Capitalism in Russia*, pp. 223-

3. CAPITALISM'S CRISES

Marx was one of the first to observe that the tendency toward cyclical crises was an inherent, lawful characteristic of capitalism. But his theory of crises has long been one of the most disputed aspects of his work. One reason is that it has direct political implications: each explanation for crises implies a solution for avoiding them, and the political programs of the various Marxist tendencies inevitably color their theoretical analyses. Reformist and revolutionary interpreters of Marxism have made crisis theory into a major battlefield.

Another reason for controversy is that Marx never got to treat the subject with the detail and coherence he planned. Comments are scattered about his writings and mixed in with other topics, and short-term crises and long-term effects are not always distinguished. We begin with the short-term crises; our interpretation is designed to clarify their role in carrying out Marx's long-term periodization of capitalist development - the subject of the next chapter.

THE CRISIS CYCLE

Marx linked crises to the life cycle of fixed capital:

"As the magnitude of the value and the durability of the applied fixed capital develop with the development of the capitalist mode of production, the lifetime of industry and of industrial capital lengthens in each particular field of investment to a period of many years, say of ten years on the average. Whereas the development of fixed capital extends the length of this life on the one hand, it is shortened on the other by the continuous revolution in the means of production, which likewise incessantly gains momentum with the development of the capitalist mode of production. This involves a change in the means of production and the necessity of their constant replacement, on account of moral depreciation, long before they expire physically. ...

"The cycle of interconnected turnovers embracing a number of years in which capital is held fast by its fixed constituent part, furnishes *a material basis for the periodic crises*. During this cycle business undergoes successive periods of depression, medium activity, precipitancy, crisis. True, periods in which capital is invested differ greatly and far from coincide in time. But a crisis always forms the starting point of large new investments — therefore, from the point of view of society as a whole, more or less, a new material basis for the next turnover cycle."⁴⁴

44. *Capital*, Vol. II, Chapter 9 (pp. 185-6), emphasis added

Let us take a closer look at the different phases of the industrial cycle cited by Marx.

In the recovery (or "medium activity") phase after a crisis, labor is widely available and relatively cheap; most spheres of production expand, hiring more workers. Accumulation takes place in several ways: the concentration of capital in existing capitals, the formation of new capitals and the subdivision of old capitals to take advantage of profitable conditions. In particular, capitalists invest in the production of new fixed capital, which not only takes time to be produced but also has the property that its full value is transferred to other commodities only over the period of its working life and therefore is not immediately realized on the market. The recovery phase is a period of increasing production by an increasing number of independent units and of relatively low competition for markets, because demand by workers and capitalists initially runs ahead of production.

Since fixed capital eventually enters into production and the availability of workers is limited, expansion reaches a point where labor begins to run short. This is the expansion or **boom** (Marx's "precipitancy") phase, in which conditions are most favorable to the workers; they are able to increase wages by taking advantage of the competition among capitalists for labor. This creates a short-term reduction in the surplus value extracted per worker, hence a fall in the rate of profit.

The unplanned nature of production, combined with the capitalist drive to accumulate, means that supply soon outpaces demand. As the boom nears its peak, the products of the new fixed capital reach the market. Because of the multiplicity of producers in every sphere, capitalists are compelled to compete for buyers as well as for workers. These conditions bring about overproduction, in producers' goods especially. The crisis is triggered when a sizeable portion of the value produced cannot be realized, that is, sold to buyers needing the given use values and able to pay the exchange value of the commodities.

In the crisis phase, increasingly many capitals are forced to cut production and even to halt it entirely. Production drops as the rate of profit heads downward. Overproduction in consumption goods can turn into shortage as industries manufacturing supplies shut down. The army of unemployed workers grows, and this relieves the pressure for high wages. Even costs of capital goods go down.

When the rate of profit sinks below average, the cycle moves into its **slump** phase; unemployment is rampant and many capitals are wiped out. But then the depressed conditions begin to reverse the situation. The rate

of profit of surviving capitalists turns up, since both labor and production goods have become cheaper. This is the phase where the centralization of capital flourishes, for the surviving capitalists can buy out bankrupt firms at prices below their usual value. And so, with labor weakened and capital further centralized, the cycle begins anew.

These systemic crises provide a catharsis for the capitalist economy, enabling the system to purge itself of obstructions like backward enterprises and powerful sectors of the work force. The purge comes at the cost of social instability, and this is why capitalism developed techniques for dampening crises. These techniques, however, also weaken the system in that obstructions now are not so easily removed. We will see the results in our discussions of the post-World War II world in later chapters.

The theory outlined here is an overproduction theory of crises (as opposed to underconsumptionism described below). Crises result from the fact that each branch, and indeed each separate capital, must expand independently, whatever the needs or purchasing power of society as a whole.

The description just given of the crisis cycle is only a general outline of the forces that come into play. No actual crisis follows the model exactly. In fact, the immediate causes that precipitate particular crises are usually obstructions and imbalances in the monetary system. It was capitalism's money and credit system that displaced direct barter as the major mode of exchange and created the possibility of selling commodities without buying others (or vice versa); that is how goods can be produced that don't find a market. The vagaries of money make each crisis appear different and disguise the underlying patterns. Moreover, as statification and monopoly play increasingly powerful roles, the cycles became increasingly warped. The extreme distortion, as we will show in a later chapter, occurs in the Stalinist system.

Although overproduction under capitalism is the source of crises, a rationally based socialist society would need a different "overproduction" — of use values, not value — for its own purposes. Since the amount of the various kinds of fixed equipment that have to be replaced in any given year cannot be perfectly predicted and will vary, an oversupply has to be prepared for insurance. As Marx put it, the problem "can be remedied only by a continuous relative overproduction. ... This sort of overproduction is tantamount to control by society over the material means of its own reproduction. But within capitalist society it is an element of anarchy."⁴⁵ We will see in Chapter 5 that Stalinist overproduction is a form of capitalist anarchy rather than a reflection of social control over economic forces.

45. *Capital*, Vol. II, Chapter 20, Part 11 (p. 469)

UNDERCONSUMPTIONISM

A popular "Marxist" theory of crises is underconsumptionism: the idea that capitalism tends to produce insufficient demand for consumption goods in particular. Its basic version argues that crises occur because of the excessive exploitation of the workers. Since workers are paid for only part of the value they produce, they cannot possibly buy back the whole product of their labor. Moreover, the capitalists who appropriate the "excess" surplus value are too few to consume the remainder. Hence many commodities cannot find buyers, and crisis ensues.

Underconsumptionism in this form is a traditional theory of reformist social democrats and labor leaders; they deduce that paying workers higher wages is the way to prevent crises. However, the fact that crises break out at the point in the cycle when the workers have their highest wages, as Marx noted, makes the argument for higher wages to avoid crises unconvincing — along with the theory of underconsumption as an explanation.⁴⁶

Marx also responded that the masses' underconsumption — the fact that they cannot afford the full range of commodities needed for a comfortable living standard — is a constant of life under capitalism, through both boom and bust. (Indeed, it was constant under all previous class societies as well.) If underconsumption were the source of crises they would be permanent, not cyclical.

Certain passages in Marx's work are often taken to justify the claim that he was an underconsumptionist. For example:

"The conditions of direct exploitation and those of the realization of surplus value are not identical. They diverge not only in place and time but also logically. The first are limited only by the productive power of society, the latter by the proportional relations of the various branches of production and the consumer power of society. But this last-named is not determined either by the absolute productive power, or by the absolute consumer power, but by the consumer power based on antagonistic conditions of distribution, which reduce the consumption of the bulk of society to a minimum varying within more or less narrow limits. It is furthermore restricted by the tendency to accumulate, the drive to expand capital and produce surplus value on an extended scale."⁴⁷

There is no hint here that capitalism could avoid crises by increasing the consumption of the mass of population. Of course, restricted consumer power is an essential basis of crises: they occur because the mass of wealth is in the hands of capitalists, who can restrict its use when profits are low. Since capitalist production is driven to increase absolutely, which means

46. *Capital*, Vol. II, Chapter 20, Part 4 (pp. 410-11).

47. *Capital*, Vol. III, Chapter 15, Part 1 (p. 244)

that resources are constantly drawn away from consumption and toward accumulation, the consumption of society is *necessarily* limited. This would be true even if consumption were much greater than in Marx's time, as it is in the leading capitalist powers today. So even this allegedly underconsumptionist passage is better interpreted in the light of the overproduction theory we outlined: production tends to increase in unplanned fashion and thereby beyond the social demand, no matter how great.

The main point overlooked by the underconsumptionists is that even if capitalists made no profit at all, workers would not buy back the entire product. A portion of the value produced comes from constant capital; and that portion, along with much of the surplus, is repurchased by other capitalists for use in the next round of production. Moreover, it is not even true that all value *eventually* ends up embodied in consumption goods meant for purchase by the working class; a major element of constant capital always is reproduced as constant capital. The error here is that all production is "meant" for eventual consumption. It implicitly accepts the idea that the aim of capitalist production is use values rather than value, and therefore that the proletariat is a deprived consuming class whose goals are achievable within the system.

The implication of underconsumptionism, plainly apparent when expressed by reformists, is the idea that capitalism can be made rational

— that is, it can save itself from deadly crises by learning to produce for human needs rather than for profit. This view has nothing in common with Marx, who held that production for value was the essence of the system

— in contradiction to satisfying the use value needs of the masses.

We will see in later chapters that one or another version of underconsumptionism lies just beneath the surface of most Marxist theories of modern capitalism. An influential view is that of Baran and Sweezy, whose ideas swayed the American New Left of the 1960's. They hold that capitalism's problem in modern times is an excess of "surplus" which, unlike Marx's surplus value, has no direct connection to the exploitation of the proletariat. The system cannot absorb the surplus without resort to arms spending and other artificial devices. Moreover, it suffers from a "tendency of surplus to rise." Economic crises are obsolete; instead we face long-term stagnation and social crises ("disorientation, apathy, and often despair").⁴⁸ Sweezy's criticism of state capitalist theorists who don't base their analyses of the Soviet Union on capitalism's laws of motion (see the Introduction) comes with ill grace from one whose analysis of *capitalism* isn't based on capitalism's laws of motion.

Baran and Sweezy's theory of a crisis-free capitalism, like their rejection

of surplus value, was a convenient rationalization for political views that reject the proletariat in favor of third-world nationalism. It was also the product of the growing middle class's illusions in endless prosperity that gave rise to theories of a bought-off and bourgeoisified working class. Written in 1966, the book's thesis was decisively answered in practice by the French working class uprising of 1968. It is also refuted by the prolonged decline in living standards that has characterized Western capitalism since the late 1960's (see Chapter 6).

The logic of underconsumption theories is very close to Keynesianism, a major force in bourgeois economics during the past half century. It holds that state intervention into the economy can forestall the outbreak of crises by regulating consumer demand, in part by doling out some sops to the working class. This idea conceals the fact that workers' gains are always achieved through militancy against capital, as in the United States during the 1930's. Keynesianism is a theoretical cover that claims credit for what the masses won for themselves. It also justifies the class-collaborationist programs of social democrats (and many academic Marxists) who argue that their "anti-monopoly" policies are in the interest of all society, not just the workers. Once in office, however, when there is less fat on the economy to offer for sops, social democrats find that "the general interest" requires austerity for the workers so that profits (the real goal of the system and its keepers) can recover.

DISPROPORTIONALITY

In contrast to underconsumptionism, disproportionality is the theory that capitalist anarchy leads to the overproduction of some commodities and the underproduction of others, in essentially random fashion. This too is based on correct observations that reflect the atomized character of capitalist ownership. But like underconsumptionism, disproportionality is a *constant* fact of capitalist life that cannot account for *periodic* crises. Marx's analysis shows that capitalism's drive to accumulate creates cyclical overproduction in all areas, even assuming disproportions between spheres. In his words:

"If it is said that there is no general overproduction but simply a disproportion between the various branches of production, this again means nothing more than that, within capitalist production, the proportionality of the particular branches of production presents itself as a process of passing constantly out of and into disproportionality — since the interconnection of production as a whole here forces itself on the agents of production as a blind law, and not as a law which, being grasped and therefore mastered by their combined reason, brings the

48. Baran and Sweezy, *Monopoly Capital*, pp. 8-10, 281

productive process under their common control.⁴⁹

Before World War I, disproportionality was the chief alternative to underconsumptionism. It was held by theorists who hoped that the development of capitalism would moderate tendencies toward crises. Lenin held an anti-reformist version of the theory, as we will see in the next chapter. Today its implications are clearer: it is favored by Stalinists and social democrats who see the solution to capitalism's crises as state economic intervention, which can supposedly overcome the anarchic disproportions arising from an unplanned market.

A leading classical disproportionalist was the Bolshevik Nikolai Bukharin, who argued that a crisis-free capitalism was possible. "Let us imagine," he wrote, "the *collective-capitalist social order* (state capitalism) in which the capitalist class is united in a unified trust and we are dealing with an organized, though at the same time, from the standpoint of the classes, antagonistic economy." He went on:

"Is accumulation possible here? Of course. The constant capital grows, because the capitalists' consumption grows. New branches of production, corresponding to new needs, are continually arising. Even though there are certain limits to it, the workers' consumption increases. Notwithstanding this 'underconsumption' of the masses, no crisis can arise since mutual demand of all branches of production, and likewise consumer demand, that of the capitalists as well as of the workers, are given from the start. Instead of an 'anarchy of production' - a plan that is rational from the standpoint of capital."⁵⁰

Bukharin assumed that a "planned" capitalist economy in which relations between classes are hostile can introduce harmonious relations within the ruling class. This is false from a theoretical standpoint: Lenin's analysis of imperialism (Chapter 2) showed that statification and monopoly do not eliminate competition between capitals but ultimately heighten it. It has also been falsified in practice: Stalin's Russia in the 1930's showed that intensified exploitation of the working class could not take place without rivalry and competition within the bureaucracy (Chapter 4). Once again we are dealing with the anti-Marxist idea that capitalism can be made rational. Bukharin concluded his analysis of state capitalism by claiming that while that system would be free of ordinary crises, it would still decay into

49. *Capital*, Vol. III, Chapter 15, Part 3 (p. 365 in the Vintage/Penguin edition).

50. Bukharin, *Imperialism and the Accumulation of Capital*, Chapter 3, (1972 edition, p. 226). In this translation the last word, "capital," is italicized and capitalized as if it refers to Marx's book - "rational from the standpoint of *Capital*" - but this seems wrong in the context. Our interpretation agrees with the translation of the passage in Cliff, *Russia: a Marxist Analysis*, p. 169.

stagnation. Looking at the Soviet-type economies today, Bukharin's insight may seem remarkable. But we will show in Chapter 5 that the apparent absence of recurring crises under Stalinism is deceptive, and that there is a far better explanation of its stagnation.

THE FALLING RATE OF PROFIT

Marx's "law of the tendency of the rate of profit to decline" is another reason often given as the basis for capitalism's periodic crises. We will use the abbreviation "FRP" to refer to Marx's falling rate of profit law, both for simplicity and to distinguish it from other factors which cause the rate of profit to decline.

The rate of profit does of course decline cyclically on the verge of each crisis, as outlined above, because of intensified accumulation and higher wages. Theories that point to such a "profit squeeze" can easily be accommodated within bourgeois ideology, since in effect they condemn the greedy working class as the cause of crises. When raised by leftists, theories of this genre usually imply a "solution" through state planning to compel investment even where less than fully profitable. Such panaceas cannot last long unless the bourgeois state itself is overthrown.

The falling rate of profit law is one of the most controversial subjects in Marxist literature. Marx himself gave it the highest standing:

"This is in every respect the most important law of political economy, and the most essential for understanding the most difficult relations. It is the most important law from the historical standpoint. It is a law which, despite its simplicity, has never before been grasped and even less, consciously articulated."⁵¹

On the other hand, leading Marxists like Bukharin and Trotsky seem never to have mentioned the FRP, while Luxemburg referred to it mockingly and Lenin only in passing. We will show that the falling rate of profit tendency has an intimate relation with the crisis cycle - but is not the cause. Its importance is its link to capitalism's epoch of decay.

According to Marx, the FRP derives directly from the growing domination of dead labor (capital) over living — the rising organic composition of capital. The basic argument is simple. On the one hand, only living labor produces surplus value, and the amount of surplus value that can be produced by one worker in a working day is limited by the number of hours in the day. On the other, the value of the means of production that the worker employs can increase without limit. It follows that the surplus value produced decreases as a proportion of the total capital (constant plus variable). That is, the ratio of surplus value (from which profits are

51. *Grundrisse*, p. 748

derived) to invested capital - the rate of profit - falls. As an algebraic formula, the rate of profit is expressed as

$$\frac{S}{C + V}$$

where S stands for surplus value, C for constant capital and V for variable capital. The theory is that over time C increases faster than S with respect to V. Therefore the overall ratio decreases.

Before Marx, bourgeois economists had already observed the falling tendency of the rate of profit - it aroused their concern over the future health of capitalism - but they could not explain it. Today almost all economists as well as many professed Marxists dispute the law, arguing that there is neither any justification for it in theory nor, whatever the conditions in the 19th century, any sign of a general decline in capitalist profit rates. To provide a historical demonstration of the FRP would take us too far afield.⁵² Here our task is to show how the law works in theory. First, we note that Marx foresaw some of the problems:

"If we consider the enormous development of the productive forces of social labor in the last 30 years alone as compared with all preceding periods ... in particular the enormous mass of fixed capital, aside from the actual machinery, which goes into the process of social production as a whole, then the difficulty which has hitherto troubled the economist, namely to explain the falling rate of profit, gives place to its opposite, namely to explain why this fall is not greater and more rapid."⁵³

There are countertendencies to the FRP, Marx noted, which tend to raise profits. They "cross and annul the effect of the general law, and give it merely the characteristic of a tendency." These include 1) the increasing intensity of exploitation, which increases surplus value; 2) the cheapening of units of constant, and especially of fixed, capital - which lowers the value of invested capital and therefore raises the profit rate as a percentage of it; and 3) foreign trade, which enables capitalists to invest where profits are high because of low-paid workers.

Marx believed that the FRP would normally dominate the counteracting tendencies, because of both empirical evidence and his overall understanding of the impermanence of capitalism. Although he tried to work out a convincing demonstration by means of the laws of motion of the system, the argument as he left it was incomplete. The door remained open for Marxist claims that the FRP is false, as well as for interpretations that

make the FRP purely a cyclical phenomenon in which the countertendencies periodically catch up with the main tendency and restore the system's health and profitability (see below). Thus the crises cycles could be eliminated through directive state planning of not only production but long-term investment policy - another reformist myth under capitalism. One elementary argument against the FRP is that no capitalist would ever invest in new equipment if he expected that doing so would lead to a lower rate of profit. Marx replied that the initial investor in a new machine usually reaps a windfall profit by producing commodities below their average value (and below their operative selling price); only when the new technique is standardized does the higher organic composition bring down the average profit rate. Opponents retort that such reasoning may have worked at one time, but now that capitalists have centuries of experience they could see ahead that new technology leads to lower profit rates; if Marx were right, therefore, no new investment would occur. A Marxist reply at this level requires a concrete analysis.

We begin to fill in the gap in Marx's argument by considering the rate of profit as it varies between capitals and over the crisis cycle.

The fall in the overall profit rate due to the rising organic composition of capital works out differently for different firms. A company using new techniques of production can charge lower prices for its goods and thereby undercut obsolescent rivals. *Its* rate of profit does not fall, but rises - despite its own higher organic composition, since it has engineered a temporary divergence between value and price. As for the rivals, in theory their old fixed capital has been devalued (since the reproduction of their use value now requires fewer hours of labor because more modern methods exist); but they are still compelled to calculate their profit rates on what they originally paid for their equipment. Thus the out-of-date capitals have to sell at less than what they anticipated at the time of investment; so they suffer a loss in expected income and therefore profits. *Their* rate of profit falls; the value/price divergence works against them.

The point that the FRP affects different capitals differently is missed, for example, in a British reformist's argument against the revolutionary implications of the FRP:

"Marx's theory does not apply to the situation in Britain in recent years. Britain today is not the country where the productive forces under capitalism have been pushed to their most advanced limit. ... It is clear, from a casual examination of the statistics, that the 'social productivity of labor' in Britain is much lower than in France, West Germany or the United States. Furthermore, the amount of machinery per worker, measured in either value or volume terms, is much lower in Britain than in its more advanced capitalist competitors. The scenario

52. For evidence see "The Tendency of the Rate of Profit to Fall in the United States," by Dumenil, Glick and Rangel, *Contemporary Marxism* No. 9 (1984); and our "Karl Marx and the World Crisis," *Socialist Voice* No. 19 (1983).

53. *Capital*, Vol. III, Chapter 14 (p. 232)

in *Capital* of a fall in the rate of profit coming about at the most advanced stage of capitalist development would apply more to the United States and to continental Western Europe than to Britain; if it applied at all."⁵⁴

That is, the FRP implies that since Britain has a lower organic composition than its rivals, it ought to have a higher rate of profit. Since Britain is obviously not doing well, it follows that the FRP is fallacious. Our answer is that Britain's is not an isolated economy, and precisely the more advanced productive methods used elsewhere drive down the rate of profit of uncompetitive British firms. Contrary to its author's intention, his example in fact provides an illustration of the FRP in operation.

The FRP works out differentially not only between firms (and countries) but also over time. As noted earlier, the rising organic composition tendency is carried out in the boom phase of the business cycle, whereas the main countertendency to the FRP — the cheapening of elements of constant capital — occurs mainly in the depression phase. Ideally the two conflicting tendencies would balance each other. When capitals are wiped out and the surviving capitalists pick up the pieces at bargain rates, this (approximately) re-establishes the real value of the old capital at a reduced level, taking its obsolescence into account; accordingly, the rate of profit that the new owners make on old capital would be back to normal. At the same time, weak capitals whose profit rates had been lowest would no longer be in business; their profit rates would not enter into the average to bring it down. Hence the average rate of profit would come back up. But all that the restoration of profit rates means is that the rate of profit of the *surviving* capitals is more or less back to where it was. If we were to consider the capital invested at the start of a given cycle, by the end of the cycle some of it would have been destroyed. The rate of profit it receives would be zero; if averaged into the total, this would bring the average down considerably. Hence the FRP is counteracted only by the destruction of a fraction of capital (and of capitalists). Capitalism, even when progressive, maintains its stability — its efficiency as measured by the average rate of profit — only through a process of fratricide.

Moreover, there are always obstacles to this fratricidal mode of operation, which intervene especially as capital becomes monopolized and statified. At this stage it is harder to wipe out the inefficient firms. When the capitals due for destruction are very large, resolving crises at their expense will hurt the system as a whole, not just the working class and the ousted capitalists. So crises are *not* ideally resolved, and as a consequence,

54. Geoff Hodgson, "On the Political Economy of the Socialist Transformation," *New Left Review*, 1982

the countertendencies to the FRP (which flourish in the depression phase) are not fully exerted.

Consequently, in the course of a given cycle the FRP will tend to overcome the countertendencies. With the rate of profit tending to fall from cycle to cycle rather than simply within each cycle, the successive crises get worse and worse. This process reaches its apex in the epoch of capitalist decay, as we will see in the next chapter.

Our reasoning shows that the FRP is not a short-term process, despite the fact that the profit-rate fluctuations it causes are carried out by the crisis cycle and run parallel to the fluctuations induced by the labor market. As our citations prove, Marx too regarded it as a long-run, historical phenomenon. Some theorists hold otherwise, but then they cannot explain why there should be an intensification of crises as the system ages.⁵⁵ The full interpretation of the FRP depends on an understanding of capitalist decay, and any attempt to restrict this tendency to its role in cyclical crises amounts to rejecting the system's epochal transformation.

THE VALUE DILEMMA

The falling rate of profit tendency is not a technical phenomenon depending solely on the extent of mechanization of the economy. It expresses the contradictory nature of value and of production for value; it is the practical demonstration of capitalism's dilemma of accumulating new capital and devaluing the old. We are now in position to understand an immensely rich passage from Marx:

"The crises are always but momentary and forcible solutions of the existing contradictions. They are violent eruptions which for a time restore the disturbed equilibrium.

"The contradiction, to put it in a very general way, consists in that the capitalist mode of production involves a tendency toward absolute development of the productive forces, regardless of the value and surplus value it contains, and regardless of the social conditions under which capitalist production takes place; while, on the other hand, its aim is to preserve the value of the existing capital and promote its self-

55. John Weeks, *Capitalism and Exploitation* (1981), p. 201, and Ben Fine, *Theories of the Capitalist Economy* (1982), p. 118. Their view is related to their idea that the FRP itself (unlike the main counteracting tendencies) "arises in production and can be developed for capital as a whole" (Weeks), i.e., without introducing interaction among different capitals. This is valid for the rising organic composition tendency, but (as our presentation shows) both the FRP and its counter-tendencies are expressed through the cycles and competitive relations at the "many capitals" level of analysis. Marx's judgment in postponing discussion of the FRP to Volume III of *Capital* was correct

expansion to the highest limit (i.e., to promote an ever more rapid growth of this value). ... The methods by which it accomplishes this include the fall of the rate of profit, depreciation of existing capital, and development of the productive forces of labor at the expense of already created productive forces. ...

"The *real barrier* of capitalist production is *capital itself*. It is that capital and its self-expansion appear as the starting and closing point, the motive and the purpose of production; that production is only production for *capital* and not vice versa, the means of production are not mere means for a constant expansion of the living process of the *society* of producers."⁵⁶

Let us illustrate Marx's analysis by means of an imaginary construction. If there were such a thing as a universal capitalist ruling body determining the interests of the system as a whole, it would be torn between the horns of the dilemma implied by Marx. To accumulate intensively by revolutionizing production through new forms of capital means devaluing the old existing capital; but to hold back accumulation means retreating in the battle for power against the working class.

Of course, there can be no universal capitalist authority, so in reality the dilemma is faced only by capitalists controlling narrow sectors of capital. The owner of an individual factory must modernize as rapidly as he can afford, lest his capital be devalued. Monopoly owners may hesitate to modernize too rapidly, lest other sections of their capital be prematurely devalued. As we will see in Chapter 5, the rulers of the Stalinist state have adopted yet another alternative, an extension of the monopoly strategy, which also fails to rescue them from the inherent contradiction. The law of value expresses the essence of the capitalist dilemma. Value permits a smooth crisis-free economy only under the conjuncture of two conditions: unfettered competition to guarantee that the most efficient production methods triumph, and conscious planning to avoid overproduction by independent producers. Each of these conditions is impossible, and the two cannot hold even approximately at the same stage of history. The "invisible hand" of Adam Smith operates only when the system is in its infancy and no firm is big enough to dominate the market. Whereas social planning is conceivable only in an advanced stage, when monopoly and the state dominate. The contradictory logic of capital accumulation shows that the law of value is the embodiment of the system's internal contradictions.

In Marx's description (quoted above) of the ultimate contradiction of capital, it is not the increase of *use values* that is contradictory but the

unbounded increase of *value*, which necessarily accompanies the growth of use values under capitalism. Existing values cannot be preserved if new values are produced that render them obsolete. Accumulation of value is therefore counterposed to production of use values essential for the proletariat and future society. Capitalism's increasing consciousness of this contradiction, and the measures it took on the basis of its own laws to forestall the revolutionary maturation of the proletariat, brought an end to its epoch of progressive development.

The fact that the crises and decay of capitalism are inherent in the nature of value refutes all attempts to treat value calculation as an expression of rationality. The anti-Marxist theories remain popular as expressions of middle-class aspirations to find (or engineer) stability in a system whose fundamental basis is class conflict.

56. *Capital*, Vol. III, Chapter 15, Part 2 (pp. 249-50)

Chapter 2

The Revolutionary Epoch

1. THE EPOCH OF CAPITALIST DECAY

When capitalist production first arose, its internal contradictions drove the system forward and to replace previous modes of production. As it aged, its contradictions grew less tractable and produced the convulsions and decay that plague the modern world. These fundamental changes have come to threaten the very existence of capitalism: they engender its epoch of decay.¹ In this epoch the proletariat emerges as a real alternative to capital as the harbinger and agent of socialist revolution.

For some left theorists, the new epoch signifies that classical Marxism is obsolete: the laws Marx described no longer apply, and therefore new laws and relations have to be put in their place. Inevitably this means that the proletariat is shunted aside as the revolutionary agent, to be replaced by third-world nationalists or middle-class elements. Others ignore the altered operation of the laws of capital in this epoch in order to make the reformist case that capitalism is not doomed to decay but can continue to expand the productive forces, as it did in its progressive epoch. They too reject the proletariat as the revolutionary agent of socialism.

In this chapter we consider first the theoretical foundations of the epoch of capitalist decay, and then Marxist theories and practice as the new epoch took shape around the turn of the century. This analysis is crucial for understanding Stalinism, a particular form of the capitalism of this epoch.

THE THEORY OF DECAY

In 1859 Marx began the Preface to his *Critique of Political Economy* with a brief intellectual autobiography. It concluded with the passage he called "the guiding thread of my studies." The first and best-known part

1. Instead of "decay," words like "breakdown" and "collapse" have been used for the long-term crisis. But since these can imply that the system can end without a proletarian revolution, we use "decay."

of this passage summarizes the principles of historical materialism; the second part introduces the concept of a society's epoch of decay.

"In the social production of their life, men enter into definite relations that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material and productive forces. The sum total of these relations of production constitutes the economic structure of society, the real foundation on which rises a legal and political superstructure, and to which correspond definite forms of social consciousness. The mode of production of material life conditions the social, political and intellectual life process in general. It is not the consciousness of men that determines their being but, on the contrary, their social being that determines their consciousness.

"At a certain stage of their development, the material productive forces of society come into conflict with the existing relations of production, or - what is but a legal expression of the same thing -with the property relations within which they have been at work hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins an epoch of social revolution."

Marx's discussion here is a general one, applicable to many forms of class society and their modes of production. It states that any such society that is progressive (capable of "development of [the] material and productive forces") is bound to develop to a point where its own relations of production inherently hamper and retard the productive forces. At that point the social relations become reactionary, and an "epoch of social revolution" occurs: people strive to adopt new social relations compatible with the level of productive forces.

The case of capitalism, however, is different from that of previous class societies. First, Marx could look back on the decay of past societies historically, whereas the decay of capitalism had to be foreseen. His understanding of capitalist decay was based on his analysis of its recurring economic crises. As we saw in Chapter 1, in these crises a major part of capitalist production comes to a halt: the productive forces are held back. Thus the crises prefigure the epochal crisis of the system as a whole:

"These contradictions ... lead to explosions, crises in which momentary suspension of all labor and annihilation of a great part of the capital violently lead it back to the point where it is enabled to go on fully employing its productive powers without committing suicide. Yet these regularly recurring catastrophes lead to their repetition on a

higher scale, and finally to its violent overthrow."²

Short-term crises and epochal decay are intimately intertwined, but it is necessary to distinguish them clearly for the purpose of analysis. From time to time Marx predicted that the epoch of decay had actually arrived, that the productive forces of capitalism had been permanently fettered in the course of one of the system's periodic crises - only to find his expectation falsified by a new burst of productive activity. Marx had in effect already explained these misjudgments:

"No social order ever disappears before all the productive forces for which there is room in it have been developed; and new higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society."³

Capitalism's recurrent resurgences after its crises, the fact that it was not crippled by the bonds that regularly held back the productive forces, proved that this old social order was not yet used up: economic crises are not the same as the epoch of social revolution. Marx did not live to see the fulfillment of the revolutionary epoch he predicted.

Now to the second distinctive aspect of capitalism. Class society exists because of the prevalence of economic scarcity; that is its historical justification. Capitalism's productive drive has the potential to do away with this justification: it points to the realm of abundance, the abolition of scarcity. When economic expansion reaches the point where there is no longer any need for class divisions, where expansion can continue without exploitation by a ruling class, then class society (and of course capitalism in particular) becomes superfluous - and reactionary. Capitalism is therefore the *last* class society necessary in human history.

In addition to the well-known passage where Marx outlines his view of the different epochs of social systems in general, elsewhere he describes the turning points of capitalism in particular. He brings out the epoch of decay through a historical development of capitalism in three stages:

"As long as capital is weak, it still itself relies on the crutches of past modes of production, or of those which will pass with its rise. As soon as it feels strong, it throws away the crutches, and moves in accordance with its own laws. As soon as it begins to sense itself and become conscious of itself as a barrier to development, it seeks refuge in forms which, by restricting free competition, seem to make the rule of capital more perfect, but are at the same time the heralds of its dissolution and of the dissolution of the mode of production resting on it."⁴

That is, when capitalist production first arose within feudalism, it was hampered by barriers like the guild system, but it also depended on these structures to get itself off the ground. When capitalism reached its adult stage and came to dominate production, competition flourished and executed the inner laws of capital more fully. Finally, in its epoch of decay, capitalism has to rely on forms other than free competition — chiefly monopoly and the state — which seem to strengthen it. But these also distort its laws and erect barriers to the expansion of the productive forces.

Many Marxists take the mature progressive epoch of capitalism (the second of the three stages Marx described) as its normal, permanent condition, whereas Marx knew that the classical features of free competition and free markets were not permanent. As we will show, Stalinist society is an extreme case of the restriction of competition and other laws making capital a barrier to its own development. Marx obviously could not foresee the unique history of revolution and counterrevolution that created present-day statified capitalism, just as he could not predict the precise outlines of the imperialist epoch that became clear to Lenin and others after the turn of the century. But what he could see testifies to the clarity of his theory, in sharp contrast to the rationalizations that pass for Marxism today. We now take a closer look at these "heralds" of capital's dissolution.

THE SOCIALIZATION OF CAPITAL

In the 1870's Marx and Engels added a further element to their analysis of capitalism. They observed that the tendency for capital to centralize, present throughout the history of capitalism, was bringing about a qualitative change with the development of joint stock companies and the increasing role of the bourgeois state. In the 1890's Engels added the element of trustification and monopolization. Here he sums up the matter in detail:

"On the one hand, therefore, the capitalistic mode of production stands convicted of its own incapacity to further direct these productive forces. On the other, these productive forces themselves with increasing energy press forward to the removal of the existing contradiction, to the abolition of their quality as capital, to the *practical recognition of their character as social productive forces*.

"This rebellion of the productive forces, as they grow more and more powerful, against their quality as capital, this stronger and stronger command that their social character shall be recognized, forces the capitalist class itself to treat them more and more as social productive forces, so far as this is possible under capitalist conditions. The period of industrial high pressure, with its unbounded inflation of credit, not

2. *Grundrisse*, p. 750.

3. Preface to the *Critique of Political Economy*.

4. *Grundrisse*, p. 65.

less than the crash itself, by the collapse of great capitalist establishments, tends to bring about that form of the socialization of great masses of means of production which we meet with in the different kinds of joint-stock companies. ... At a further stage of evolution this form also becomes insufficient. The producers on a large scale in a particular branch of industry in a particular country unite in a trust, a union for the purpose of regulating production. ...

"In the trusts, freedom of competition changes into its very opposite - into monopoly; and the production without any definite plan of capitalistic society capitulates to the production upon a definite plan of the invading socialistic society. Certainly this is so far still to the benefit of the capitalists. But in this case the exploitation is so palpable that it must break down. No nation will put up with production conducted by trusts with so barefaced an exploitation of the community by a small band of dividend-mongers.

"In any case, with trusts or without, the official representative of capitalist society - the state - will ultimately have to undertake the direction of production."⁵

We note only a few of the wealth of ideas here: the socialization of the productive forces, the organization and planning of production and the growing role of the state - all pointing to the danger to the continued existence of capitalism, as class rule becomes increasingly naked. Moreover, the passage is an exquisite portrayal of the contradictory connection that is possible between form and content. The invading socialist forms pose a lethal threat to capitalism, but are nevertheless initially used by capitalism to preserve itself.

The entire analysis is a frontal challenge to the notions that capitalism can exist only as a regime of free competition and that state planning is a defining characteristic of some new non-capitalist society. Life would be a lot simpler if today's Marxists understood as much about their own epoch as did Marx and Engels before it arrived.

Because it has become common on the left since the time of Stalin to counterpose economic planning and the laws of capitalism as if they were incompatible, it is worth noting that Engels, in his *Critique of the Erfurt Program* of German social democracy (1891) specified that "When we pass from joint-stock companies to trusts which control and monopolize whole branches of industry, it is not only private production that ceases, but also planlessness."⁶ In place of "trusts" today we would say multinational

5. Engels, *Socialism: Utopian and Scientific*, Chapter 3.

6. Engels, "Zur Kritik des sozialdemokratischen Programmentwurfs 1891", in Marx and Engels, *Gesammelte Werke*, Vol. 22, Berlin 1963, p. 232.

corporations - or, for that matter, the imperialist state.

Lenin's commentary on the same point is also relevant to present-day discussions of the "Russian question":

"The trusts, of course, have not created, do not create now, and cannot create full and complete planning. But to whatever extent they do plan, to whatever extent the capitalist magnates calculate in advance the volume of production on a national and even on an international scale, and to whatever extent they systematically regulate it, we still remain *under capitalism* - capitalism in its new stage, it is true, but still undoubtedly capitalism. The 'proximity' of *such* capitalism to socialism should serve the genuine representatives of the proletariat as proof of the proximity, ease, feasibility and urgency of the socialist revolution, and not as an argument in favor of tolerating the repudiation of such a revolution or in favor of making capitalism look more attractive, an occupation in which all the reformists are engaged."⁷

Although capitalism exists under conditions of "creeping socialism," the circumstances of the new epoch make it a reactionary social system. The central factor that brings the change in epochs about is the growth and development of the proletariat. The new epoch can be said to be inaugurated when the industrial working class approaches its maximum strength in society, when it becomes organized and disciplined both through its enforced role in industry and through its own parties and trade unions - when, in short, it becomes a threat to the property of the bourgeoisie. The proletariat's development is the major factor that drives capitalism to become a barrier to its own productive forces - but it also makes possible a qualitative advance beyond capitalism.

Once the developed proletariat appears on the scene as a potential alternative, the bourgeoisie turns to centralization in the political sphere as well as the economic. Surplus value has to be turned away from productive accumulation and expended increasingly on means of repression. Measures have to be taken to forestall new crises, lest turbulence and additional misery drive the masses to revolution; these measures inevitably weaken the system's growth. The state apparatus expands to control and (in part) buy off the masses; militarization and nationalism are stepped up to divert the class struggle; ideologies like racism and the sanctity of the family are broadcast to keep the proletariat divided; ultimately the bourgeoisie turns to world war and fascism. All this is not a bourgeois plot, although capitalists do conspire. It derives from capital's laws of motion. The deepening role of the state in the epoch of capitalist decay is not just a consequence of the system's economic laws: it also effects the

7. Lenin, *The State and Revolution*, Part IV.3.

operation of these laws. For example, the state intervenes into the economy in order to ensure the production of specific use values for its own purposes, above all the weapons of repression and conquest. This does not mean, as Cliff says, that use values have replaced value in general as the aim of capitalist production. On the contrary, the state makes use of a variety of economic levers (contracts, taxes, etc.) to motivate the capitalists to produce what it needs. Production for value is by no means abolished, even though whole sectors now produce for the state.

Moreover, whatever the use-value motivations of social engineers, value inevitably operates behind their backs and frustrates their intentions. The United States, for example, would love to be the only Western power producing arms — it would make fortunes selling them and would not have to fear military threats from its present allies - but four post-World War II decades of unrivaled arms production have undermined its economic strength in comparison to Japan and West Germany. (We will say more on this in Chapter 6.) As Engels and Lenin observed, the bourgeoisie can plan, but its planning is still subject to the uncontrollable laws of value.

Another significant effect of the trustification and statification of capital is the growth of the industrial and state bureaucracy. This layer of society is part of the expanding "middle class" of salaried employees standing between proletariat and bourgeoisie. As the centralization of capital gradually reduces the proportionate weight of the traditional petty-bourgeoisie, the capitalists increasingly have to rely on hired subordinates to manage businesses and discipline workers. The same happens as the state expands its economic powers and develops a vast apparatus of functionaries. These bureaucracies are structured as rigid hierarchies in order to maintain their subordination to higher authority. It is not the advance of technology that makes them indispensable but the class struggle: the need to maintain exploitation as the ruling class itself diminishes. The state and industrial bureaucracies are matched by a developing labor bureaucracy, of which we will see more later.

The rise of bureaucracy is not the trans-historical phenomenon perceived by bourgeois sociologists, occurring now under capitalism just as it did under the Roman and Chinese emperors. Capitalist bureaucracy represents the bourgeoisie's attempt to organize society and production in a planned way; it is a historically specific relationship within late modern capitalism, flourishing just when the system turns from its entrepreneurial heyday to its socializing but anti-socialist epoch of decay. It substitutes organizational hierarchy and ruling-class discipline for the voluntary human consciousness that will be the central determinant of planning under socialism. (The Stalinist *nomenklatura* is the extreme example of such bureaucratic hierarchy.) But bureaucracy cannot help reflect capitalism's underlying social anarchy. It is an object of hatred and ridicule because,

despite its rigid structure and regimen, it is inevitably wasteful, inefficient and parasitical on productive labor.

DECAY AND THE LAWS OF CAPITAL

In a passage that further illustrates capitalism's cyclical crises prefiguring its epochal decay, Engels wrote:

"Their political and intellectual bankruptcy is scarcely any longer a secret to the bourgeoisie themselves. Their economic bankruptcy recurs regularly every ten years. In every crisis, society is suffocated beneath the weight of its own productive forces and products, which it cannot use, and stands helpless, face to face with the absurd contradiction that the producers have nothing to consume because consumers are wanting. The expansive force of the means of production bursts the bonds that the capitalist mode of production had imposed upon them.

"... The socialist appropriation of the means of production does away, not only with the present artificial restrictions upon production, but also with the positive waste and devastation of the productive forces and products that are at the present time the inevitable concomitants of production, and that reach their height in the crises."⁸

The fact that socialization of the means of production is the method for doing away with periodic crises of overproduction confirms that for the founders of Marxism the cause of such crises is the independence of capitals, the uncoordinated nature of production - that is, the "anarchy" of capitalism, its private and parochial nature.

Marx linked the epochal change directly with the falling rate of profit tendency. After presenting the FRP as "the most important law from the historical standpoint" (Chapter 1), he elaborated:

"The development of the productive forces brought about by the historical development of capital itself, when it reaches a certain point, suspends the self-realization of capital instead of positing it. Beyond a certain point the development of the powers of production become a barrier for capital; hence the capital relation a barrier for the development of the productive powers of labor. When it has reached this point, capital, i.e. wage labor, enters into the same relation towards the development of social wealth and of the forces of production as the guild system, serfdom [and] slavery, and is necessarily stripped off as a fetter. The last form of servitude assumed by human activity, that of wage labor on one side, capital on the other, is thereby cast off like a skin

"The growing incompatibility between the productive development of

8. Engels, *Socialism: Utopian and Scientific*, Chapter 3.

society and its hitherto existing relations of production expresses itself in bitter contradictions, crises, spasms. The violent destruction of capital not by relations external to it, but rather as a condition of its self-preservation, is the most striking form in which advice is given it to be gone and to give room to a higher state of social production."⁹

Marx did not spell out the connection between the falling rate of profit and the epoch of decay, except to observe that declining capitalist profits led understandably to violent crises. Our interpretation of the FRP provides a theoretical link.

We saw that the FRP dominates its countertendencies during the expansion periods of the business cycle, whereas during crises the chief countertendency (the cheapening of constant capital) takes over, and the rate of profit's fall is offset. To recapitulate: firms calculate the value of their capital according to what they originally paid for it, minus depreciation due to its physical wear and tear. But there is also the "moral" element of depreciation - capital has been devalued because rival capital serving the same use has since been produced with less labor, and therefore the reproduction of the same capital requires less. As a result, the old capital is overvalued.

So the value of older, obsolete capital has a **fictitious** component: its value is not based solely on labor time socially necessary for reproduction. The capitalists involved, however, bought their capital at its old, higher, value and have to suffer the consequences, a lower rate of profit. Marx studied the phenomenon of fictitious capital in Volume 3 of *Capital* in connection with the growth of credit, but he did not connect it to the falling rate of profit. For Marx, the FRP tendency depended only on the actual, material value of capital and did not require taking fictitious valuation into account.

Under classical competitive capitalism, a firm whose capital had a large fictitious component would have a low profit rate and would lose the competitive struggle to survive. But in the new epoch it is the big monopolies that create fictitious capital, and they are not so easily disposed of. For one thing, they can use their size, cartel arrangements and governmental influence to maintain their market position even at the cost of holding back technical progress in some sectors. Their incentive to do so is the fear of self-competition: if they were to allot new investments to a sphere of industry where they are already active, that could mean competing with

their own units. Of course, competitive pressures among monopoly firms compel modernization. But their power over the market prolongs the life of equipment that would otherwise be destroyed as obsolete.

In the extreme, if a monopoly firm as a whole faced collapse, it would threaten to bring others down too, even efficient ones - since such a firm employs thousands of workers and is financially and commercially tied to every major sector of the capitalist class. Allowing it to go under would add greatly to social instability and threaten the national economy. Hence the state often has to revive large firms in danger of collapse; "survival of the economically fittest" is replaced by survival of the politically strongest. The monopoly epoch destroys capitalism's last self-justification: that despite its rampant inequities it is the only way to produce goods efficiently. Thus the epoch is indeed one of decay. As Marx noted:

"... as soon as formation of capital were to fall into the hands of a few established big capitals, for which the mass of profit compensates for the falling rate of profit, the vital flame of production would be altogether extinguished."¹⁰

Analogously, under Stalinism unprofitable enterprises are allowed to remain in operation. Here too the fratricidal drives of capital conflict with the system's desperate need for stability in the face of an organized and combative proletariat. That is why Stalinism, now forced to bankrupt firms that have long been unprofitable, faces a real peril.

In the modern epoch of capitalism, therefore, the system's traditional crises cannot so easily be used to restructure capital and counter the falling rate of profit tendency. But crises whose resolution is suppressed on the national level or postponed by state action reappear in more frightening form internationally. The result is that the 20th century has witnessed a new form of crisis cycle: the buildup of contradictions that expresses itself in the explosion of world wars and great depressions.

The laws of capital in the monopoly epoch interfere in particular with the tendency for profit rates to equalize. Surplus value is no longer shared in proportion to the value of each capital's investment; monopolies get a disproportionate share, whatever their relative organic composition. (Monopolization in the modern era is common in the most capital-intensive industries, where the sheer cost of fixed capital is a powerful barrier to the entry of competitors.) Monopolies that do not keep up with technical progress are nevertheless able to claim a share of total surplus value reflecting the price they originally paid for their capital - not just a price proportional to its present value, its cost of reproduction.

This does not mean, however, that the monopolies' rate of profit will

9. Marx, *Grundrisse*, pp. 749-750. Note the casual assumption in this passage that capital and wage labor are one and the same relation. Marx's explicit statements on this have already been cited in Chapter 1, but the point has been so obscured that it deserves repeating.

10. *Capital*, Volume III, Chapter 15, Part 3 (p. 259).

necessarily appear on the books as higher than average. Some Marxists have challenged the idea of "monopoly profits" by citing statistics showing that monopoly firms' profits are no higher than others'.¹¹ Their figures may be accurate, but they are irrelevant. Capital markets evaluate a given capital chiefly according to its expected return. So when a monopoly appropriates a disproportionate share of surplus value, the price of its stock goes up, out of proportion to the capital's material value. Thus its rate of profit *appears* to be no higher than average, because higher surplus value is balanced by a higher capitalization (the fictitious value given the capital in the market). As a consequence the overall rate of profit leans toward an apparent average, not the genuine average that characterizes the epoch of "capitalist communism." Of course, the chief owners of such monopoly firms did not pay inflated prices for their shares, and *their* rate of profit, accordingly, is much higher.

Another argument against the inequality of profit rates is the following: true, monopolies obtain a monopoly profit rate higher than average and consequently force down the profit rate of non-monopoly capitals below average. But with the further development of capitalism, the degree of monopoly control of the market increases; as the monopoly sector grows and approaches 100 percent of production, *its* average rate of profit dominates the overall average profit rate and eventually the two rates coincide - bringing the monopoly profit rate back down to the average.¹² This argument presupposes a tendency for the size and strength of capitalist firms to equalize, a virtual impossibility in the epoch of decay. While monopolization does affect more and more spheres of capital, the strongest firms continue to expand, branching from one sector and from one country to another. At the same time, small capitals continue to come into existence, while some monopolies and cartels break down under the pressure of competition that is never totally eliminated. The tendency toward growing inequality of power (and of profit rates) is by no means over.

In sum, in the modern epoch the FRP tendency is not regularly balanced by the cheapening of constant capital; rather this countertendency conflicts with another, the fictitious valuation of fixed capital. Hence the FRP wins out over its major countertendency. One important result is that the rate of economic growth (accumulation) declines: in the non-monopoly sectors because they have less surplus value to invest, and in the monopoly sectors because further investment contains the threat of self-

competition mentioned above.

The falling rate of profit law reflects the contradictions between use and value, as well as between the expansion and the preservation of value. It is not the cause of the epoch of decay; rather, in this epoch capitalism's own resistance to the contradictions of capital brings the FRP tendency to full flower. The FRP therefore symbolizes the barrier to the expansion of the productive forces that capitalism has erected in this epoch. The violent consequences that Marx foresaw (and reality confirms) rest on a solid theoretical foundation.

STATE CAPITALISM

The analysis of centralization and the state leads to the phenomenon of state capitalism. We show here that state capitalism is inherent in the system's epoch of decay and has an ample heritage in Marxist theory. First an observation by Marx:

"In any given branch of industry, centralization would reach its extreme limit if all the individual capitals invested in it were fused into a single capital. In a given society the limit would be reached only when the entire social capital was united in the hands of a single capitalist or a single capitalist company."¹³

Elsewhere Marx characterized joint-stock companies as "the abolition of the capitalist mode of production within the capitalist mode of production itself," or "private production without the control of private property."¹⁴ Marx's paradoxical language made clear that he did not regard such socialization of ownership as the abolition of capitalism. It is only the capitalist mode in the narrowest sense that is transcended, the age when the individual owner was boss. The paradox was the contradictory and unstable relationship maturing within capitalism itself.

Marx also observed that the combined capitalist function of ownership and management had broken down into separate tasks for different individuals, and that profit became "mere compensation for owning capital that now is entirely divorced from its function in the actual process of reproduction, just as this function in the person of the manager is divorced from ownership of capital."¹⁵ The divided role of the capitalist arises again when we study the economy of the modern USSR.

Engels took the analysis further by bringing in the state:

"The transformation either into joint-stock companies and trusts or

11. For example, Steve Zeluck, "On the Theory of the Monopoly Stage of Capitalism," *Against the Current*, Fall 1980.

12. Alejandro Dabat, "La nivelacion de la tasa de ganancia en el capitalismo contemporaneo," *Debate*, May-June 1979

13. *Capital*, Vol. I, Chapter 25 (p. 627).

14. *Capital*, Vol. III, Chapter 27 (pp. 436, 438).

15. *Capital*, Vol. III, Chapter 27 (pp. 436-7). Likewise: "the capitalist exists in a dual form - juridically and economically," *Theories of Surplus Value*, Vol. III, p. 458.

into state ownership does not do away with the capitalist nature of the productive forces. In the joint-stock companies and trusts this is obvious. And the modern state, again, is only the organization that bourgeois society takes on in order to support the external conditions of the capitalist mode of production against the encroachments of individual capitalists as well of the workers.

"The modern state, no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital. The more it proceeds to the taking over of productive forces, the more does it actually become the national capitalist, the more citizens does it exploit. The workers remain wage-workers — proletarians. The capitalist relation is not done away with; it is rather brought to a head. But brought to a head it topples over. State ownership of the productive forces is not the solution of the conflict, but concealed within it are the technical conditions that form the elements of that solution."¹⁶

Engels' explanation for the growth of "the modern state" omits one cause. Not only is a powerful state needed to wage the class struggle against the workers and discipline individual members of the bourgeoisie; it is also needed to protect the capitalists at home from those abroad. Of course, the state today commands even greater power than in the late 19th century when Engels wrote. That is both a result of the epoch of decay and a determinant of certain of its characteristics.

Capitalism's tendency towards centralization and therefore statification brings out the social character of modern production - but in bourgeois form, because the means of production remain in private hands, those of the ruling bourgeoisie or its state. The "solution" of the conflict that Engels refers to is the socialist revolution that places industry, already largely socialized, into the hands of the workers' state.

Engels' remark that capitalism when "brought to a head" through statification "topples over" (or in another English translation, "turns into its opposite") has been interpreted to mean that full statification automatically means the end of capitalism and therefore the existence of a workers' state - even where the workers had little directly to do with the transformation (as in East Europe after World War II). Engels effectively denies this meaning in the next sentence, but what then does he mean by the cryptic phrase "topples over"? To decide, we first note that the bringing to a head has never actually occurred: no bourgeoisie has gone so far as to abolish

private property by completely entrusting its ownership function to the state. Trotsky explained why:

"Theoretically, to be sure, it is possible to conceive a situation in which the bourgeoisie as a whole constitutes itself a stock company which, by means of its state, administers the whole national economy. The economic laws of such a regime would present no mysteries. ... Such a regime never existed, however, and, because of profound contradictions among the proprietors themselves, never will exist - the more so since in its quality of universal repository of capitalist property, the state would be too tempting an object for social revolution."¹⁸

That is, taking capitalism's centralization and statification tendency to its limit would be conceivable theoretically but not practically — not because of any structural barrier inherent in the organization of capital, but because of the opposing classes' antagonistic relations and the fratricidal nature of the bourgeoisie. Engels' remark undoubtedly meant the same thing: if the capitalist class were to take the road of complete statification, that would quickly lead to the proletarian "solution" of abolishing, not extending, capitalist power. He said as much in the discussion of trusts already quoted: "the exploitation is so palpable that it must break down. No nation will put up with ... so barefaced an exploitation of the community by a small band of dividend-mongers."

The expropriation of the capitalist expropriators is both an objectively demanded consequence of historical development and a proletarian task requiring subjective revolutionary consciousness. Without the latter, the objective tendency would inevitably be blunted and humanity would fall into barbarism.

We have seen that Marx considered a multiplicity of capitals to be a necessity; as he said, "a universal capital, one without alien capitals confronting it, with which it exchanges ... is therefore a non-thing."¹⁹ The possibility of a lasting "single capital" exists only under a workers' state in the course of its transition to socialism - that is, on the road to finally abolishing capital in the course of abolishing itself (see Chapter 3). Only in this sense would a society of one capital mean the end of capitalism. Of course, capitalist states have been able to move far down the road to state capitalism when they needed to, especially in wartime. Even that bastion of private property, the United States, imposed national planning during World War II: firms were told what and how much to produce, some were forced out of business and supplies were regulated centrally. When the war emergency was over the planning powers of the state

16. Engels, *Socialism: Utopian and Scientific*, Chapter 3.

17. For example, Ted Grant (the leader of the British *Militant* tendency), *The Marxist Theory of the State - A Reply to Tony Cliff* (1973)

18. Trotsky, *The Revolution Betrayed*, Chapter 9, pp. 245-6.

19. Marx, *Grundrisse*, p. 21.

declined, although of course the state retained a major economic role.

Despite the clear anticipation of state capitalism by Marx and Engels, many Marxists have argued that such a system is impossible - not just as an analysis of the Soviet economy but in theory as well. They overlook that the laws of capital, even under state capitalism, are perfectly compatible with state ownership of enterprises. They only require a measure of practical independence, as we will see in Chapter 5.

A basis for the "impossibility" reasoning was provided by the Bolshevik economist Evgeny Preobrazhensky in the 1920's, in a discussion of German state monopoly capitalism in World War I:

"The regulation of the whole of capitalist production by the bourgeois state reached a degree unprecedented in the history of capitalism. Production which formally remained commodity production was transformed *de facto* into planned production in the most important branches. Free competition was abolished, and the working of the law of value in many respects was almost completely replaced by the planning principle of state capitalism."²¹

Preobrazhensky drew back from concluding that the near-replacement of the law of value in Germany had abolished capitalism, or even nearly so. But his claim that state capitalist planning cancels the law of value relies on the misconception we encountered earlier: that the law of value is defined by competition rather than simply being carried out through it. Preobrazhensky's misunderstanding of value in relation to state capitalism set the tone for others. A co-thinker of Mandel writes that "When this competition [between private capitals] slackens as a result of concentration of capital or state protection, the law of value loses some of its strength."²² And Cliff says that "Monopoly capitalism means a partial negation of the Marxian law of value but on the basis of the law of value itself. ... The *partial* negation of the law of value *borders* on its total negation."²³ Cliff's theory of use values as the aim of capitalist production (Chapter 1) shows that he means the total negation of the law of value. But the law of value is not negated in the epoch of decay, not even partially - not, that is, in the sense of Preobrazhensky and Cliff of being

almost completely erased or replaced. Just as under capitalist communism (a phenomenon that predates this epoch), it is *apparently* violated, but that is a different matter. As Cliff recognizes, the change in the appearance of the law occurs on the basis of the law itself - which ought to mean (but does not for Cliff) that value is still the dominant principle of capitalist production. Commodity production is still decisive, and the value of a commodity is still determined by the socially necessary labor time it embodies, despite the growing variety of distorting factors.

In fact, if we understand the law of value to be the basis of capitalism's inequality, violent contradictions and crises - and that in this epoch the capitalist system of exploitation extends itself across the globe through the destruction of competing modes of production — then it is clear that the law of value still operates, and if anything more intensively. The abolition of the law of value or even its weakening would amount to a tremendous victory for the oppressed and exploited of the world. But that it not what happened in the Kaiser's wartime Germany or Stalin's Russia.

In sum, the possibility of state capitalism flows from the operation of capitalism in its epoch of decay. Although none of the great Marxists could possibly foresee the specific combination of revolution and counterrevolution that led to Stalinist capitalism, their theoretical analysis of the nature of capitalism allows us to see it for what it is. Trotsky, in his discussion of state capitalism, discounted the likelihood of the bourgeoisie nationalizing the entirety of capitalist property itself. But the modern USSR arose through a different historical process. The incredible paradox is that only the victorious proletariat could take the centralizing drive of capital to its unified conclusion. Through the Stalinist counterrevolution that victory was turned into a statified capitalism that no bourgeoisie could ever have achieved on its own.

2. IMPERIALISM

After Engels' death in the 1890's, socialists continued to analyze the new stage of capitalism and in particular to take account of its growing international dimension. The theory reached its peak in Lenin's work under the impact of the First World War, when the epoch of capitalist decay was finally understood as the epoch of imperialism. The revolutionary events of the period also compelled Marxists to elaborate new strategies: Lenin's efforts to build a revolutionary vanguard party and international, and Trotsky's theory of permanent revolution.

20. A textual analysis of Marx making clear that this was his view can be found in Paresh Chattopadhyay, "On the Marxian Category of 'Competition of Capitals' and its Relevance for the 'Postrevolutionary' Economy, *Research in Political Economy*, Vol. 10 (1987).

21. Preobrazhensky, *The New Economics*, p. 153.

22. Catherine Samary, "Plan, Market and Democracy; The experience of the so-called socialist countries", *Notebooks for Study and Research* No. 7/8 (1988), p. 47.

23. Cliff, *Russia, A Marxist Analysis*, p. 153; *State Capitalism in Russia*, p. 212

REVISIONISM

At the turn of the 20th century, socialists noted with interest the rise of international cartels that controlled production across national boundaries - supplementing the joint stock companies, trusts and statification that Marx and Engels had already observed. As well, from the late 1870's on, the European powers completed the colonization of Asia and Africa; the capitalist market now embraced the world. At first sight all this could be regarded as simply the extension across national borders of the laws of capital accumulation and centralization - but now quantitative development had resulted in the qualitative changes that Marx and Engels had foreseen. This had to be incorporated into the theory, and a debate ensued whose issues are still controversial.

The first to take up the new situation was the "revisionist" current of open reformists within the German Social Democratic Party (the SPD); they argued that the development of capitalism itself would become socialism if pushed by the workers' movement. The SPD was decisively influenced by the trade union bureaucracy, grown powerful through the rapid industrialization that had made Germany a world power. A period of prosperity starting around the turn of the century and a limited acceptance of the socialist opposition by the bourgeois state had created illusions in capitalist stability and social peace. The reformists hoped that the bourgeoisie, which had once tried to exclude the unions and socialist politicians from the democratic framework, would now welcome them.

"Democracy" was the price the European bourgeoisie had had to pay for the support of laborers and artisans in the bourgeois revolution against feudalism. But its original promise of rule by the masses had been transformed. Under capitalism it meant instead the mutual accommodation and rivalry of various spheres of capital, a working arrangement that maintained the system without constant internal warfare. It also allowed the incorporation of the masses' demands in order to prevent further revolutions. In the German working class, the demand for democratic rights accelerated at the very time when their apparent opposite, bureaucracy, was growing inside the unions and the party. Indeed, the call for a purely democratic program came precisely from the bureaucrats; it was their counterweight to the Marxist tradition of revolution. It meant not mass control of the state or even of the workers' organizations, but rather the latter's "institutionalization" (participation) within the capitalist state apparatus.

Revisionism's leading intellectual spokesman, Eduard Bernstein, gave this program a theoretical cover. He argued that the concentration and centralization of capital had enabled capitalism to overcome its tendency toward crises. Socialism could now be achieved progressively, not by revolution but through workers' pressure for reforms and the formation of "cooperative associations," which would "transform the state in the direction of democracy." This was not only possible but also necessary, since capitalist centralization would lead to

authoritarian power unless the workers' movement added the democratic element. Bernstein said:

"It is my firm conviction that the present generation will see the realization of a great deal of socialism, if not in the patented form then at least in substance. The steady enlargement of the circle of social duties and of the corresponding rights of the individual to society and *vice versa*; the extension of the right of supervision over the economy exercised by society organized either as nation or state, the development of democratic self-government in community, county and province; and the enlargement of the tasks of these bodies - all these signify for me growth into socialism, or, if you wish, piecemeal realization of socialism. The transfer of economic enterprises from private to public management will, of course, accompany this development, but it will proceed only gradually."²⁴

Bernstein challenged the SPD, the strongest section of the Socialist International, to "appear as what it in fact now is, a democratic socialist party of reform." This appraisal was correct in the sense that reformism was the dominant trend in German social democracy, despite the presence of a revolutionary left wing and the continued adoption of revolutionary platforms by the party as a whole. In Marxist terms, the SPD was **centrist**: its reformist practice belied its revolutionary proclamations. Socialism for the party had already become a goal for the future or merely a moral ideal. This ambivalence in its centrism came to an end and reformism proved to be dominant when the party fell in behind the German bourgeoisie in support of the war effort in 1914.

THEORIES OF IMPERIALISM

Rosa Luxemburg, a leading figure in the German and Polish parties, was the main left opponent of the German revisionist trend. She not only believed that the new stage of capitalism had placed socialism on the political agenda, but also insisted in response to Bernstein that the tendencies toward crisis and collapse were even more powerful than in capitalism's previous epoch. She pointed out that democratic rights could easily be reversed once the class struggle heated up, that the reforms allowed by capital are only those compatible with the production of profits, and that one genuine trend (which Bernstein did not stress) was the rapid

24. Bernstein, *On the History and Theory of Socialism* (1898), cited in Peter Gay, *The Dilemma of Democratic Socialism* (1962), p. 221. Other quotations from Bernstein here are from *Evolutionary Socialism* (originally *The Presuppositions of Socialism and the Tasks of Social Democracy*, 1899).

growth of militarism and repressive organs of the bourgeois states.²⁵

In developing this argument Luxemburg produced a unique theory of imperialism. She held that capitalism could exist only within a non-capitalist environment (both non-capitalist countries and pre-capitalist production within capitalist countries); capitalism, however, was already swallowing up these elements through its own expansion. Her theory was based on an underconsumptionist analysis of capitalist accumulation: neither capitalists nor workers could consume the full surplus product arising from production, so buyers had to be found outside the system. Hence the capitalist powers had to seize colonies, and once the colonial markets had all been conquered, the same pressures would compel the powers to confront each other to extend their holdings; imperialist war for the redivision of colonies was inevitable.²⁶

Luxemburg's aim was to counter the social-democratic complacency that saw capitalism expanding without contradictions. Her theory linked the new stage of capitalism with foreign domination and colonialism; it thereby foreshadowed Lenin's identification of imperialism with the new epoch of decay. But she erroneously identified the central contradiction as external to the system rather than within it. Her theory also led her to discount the possibility of genuine nationalist struggles against imperialist oppression in this epoch, on the grounds that any nationalist war would become subordinated to one or another of the great imperial powers.²⁷ While this was true of many of the conflicts embraced in World War I (when she wrote on the question), she overgeneralized it to the epoch as a whole.

Another step was made by the Austrian socialist economist Rudolf Hilferding, who introduced the concept of "finance capital" as the fusion of banking and industrial capital. With the suppression of competition, the finance capitalists came to dominate the state as well as the monopolies; they used it to set up protectionist barriers against foreign goods and to carve out ever wider economic territory. This encouraged international investment - the "export of capital" - for the purpose of expanding production and bringing more surplus-value under monopoly control. Hilferding cited Marx's falling rate of profit as the force compelling the capitalists to invest in economically backward countries, where profits were higher due to low wages and material costs.²⁸

Hilferding did not draw sufficiently sharp conclusions from his theory,

25. Luxemburg, *Reform or Revolution* (1898-99).

26. Luxemburg, *The Accumulation of Capital* (1913).

27. Luxemburg, *The Crisis in German Social Democracy*, known as the "Junius Pamphlet," (1916-17).

28. Hilferding, *Finance Capital* (1910)

wavering between reform and revolution. He saw the weak countries becoming battlefields for the great powers, but he also thought that inter-imperialist war could be deterred by the international interests of capital and the bourgeoisie's fear of socialism. As well, he welcomed the growing socialization carried out by finance capital which "facilitates enormously the task of overcoming capitalism." His disproportionality theory of crises allowed him to assert that monopolized capital would moderate the danger of crises. He implied that the working-class movement might not have to smash the bourgeois state but need only take it over and widen its role in organizing the economy.

The first Bolshevik work on imperialism was written by Bukharin during the world war, making use of much of Hilferding's analysis. Bukharin stressed the growth of national capitalist blocs and of international rivalry between them; the increased power of the state reduced competition within a country but increased it internationally. He thus overcame Hilferding's ambiguity over the prospect of imperialist war. But he exaggerated this tendency and came close to denying the possibility of capitalist competition and crises within a national economy:

"When competition has finally reached its highest stage, when it has become competition between state capitalist trusts, then the use of state power, and the possibilities connected with it, begin to play a very large part. ... With the formation of state capitalist trusts, competition is being almost entirely shifted to foreign countries."²⁹

Influenced by the German war economy, Bukharin thought that monopoly and statification - inevitable results of the centralization and concentration tendencies - would lead directly to state capitalism: a "rational" and planned capitalist economy that could do away with not only internal competition but also crises. Indeed, the growth of state intervention has increased markedly in the imperialist epoch. However, in the traditional imperialist countries, only in wartime and under fascism has state control of the economy reached the peaks which Bukharin saw as the norm. The monolithic state capital Bukharin imagined has never existed and could not survive for long if it ever came into being.

In contrast to Bukharin, Karl Kautsky, the so-called "pope" of orthodox Marxism, seized the other horn of Hilferding's dilemma and pointed it in a revisionist direction. He claimed that capitalism could reach a new stage of international unification, "ultraimperialism," signifying the end of harmful competition and war. (Amazingly, he reached this conclusion during the First World War, when the rival powers were tearing each other apart.) Kautsky regarded imperialism as a mere policy of the various

29. Bukharin, *Imperialism and World Economy* (1915), pp. 123-4.

capitalists generated by the industrialists' desire for control over agrarian colonies, not as an innate drive of capitalism. Hence it could be transcended and pacified without socialist revolution.

LENIN'S "IMPERIALISM"

The best known Marxist work on imperialism is Lenin's pamphlet, *Imperialism, the Highest Stage of Capitalism*. It was written in 1916 as a "popular outline" and drew far-reaching political conclusions, but Czarist censorship prevented Lenin from making his revolutionary program explicit. Later the deification of Lenin by the Comintern turned his writings into sacred texts: observations whose context Lenin had carefully limited have been echoed unthinkingly for decades, while his real contributions are most often overlooked.

Lenin described five basic features of the new stage: monopoly, finance capital, the export of capital, international cartels and the territorial division of the world among the great powers. He also followed Hilferding in characterizing imperialism as a new reactionary epoch of capitalism in which the bourgeoisie aimed at world domination, not its early goal of freedom from feudal restraint. But he treated this insight dialectically: the transformation to the new epoch also reflected progressive changes. For Lenin, as for Engels, the monopolist and statist tendencies imminent in decaying capitalism are not class-neutral forms, adaptable equally well to bourgeoisie and proletariat. They are anti-capitalist even under bourgeois rule in that they reflect the future proletarian society; they thereby pose a threat to the bourgeoisie:

"Competition becomes transformed into monopoly. The result is immense progress in the socialization of production. In particular, the process of technical invention and improvement becomes socialized. ... Capitalism in its imperialist stage leads right up to the most comprehensive socialization of production; it, so to speak, drags the capitalists, against their will and consciousness, into some sort of a new social order, a transitional one from complete free competition to complete socialization."³⁰

Lenin too used "socialization" in the capitalist context to indicate that production becomes social while appropriation remains private. But the means of production are now ready for the proletariat to take over and harness, thereby freeing the productive forces from the restraints of bourgeois relations.

"Capitalism only became capitalist imperialism at a definite and very high stage of its development, when certain of its fundamental charac-

teristics began to change into their opposites, when the features of the epoch of transition from capitalism to a higher social and economic system had taken shape and revealed themselves in all spheres."³¹

The arrival of the epoch of monopoly and imperialism meant that socialization was on the agenda, and not only in the limited sense possible under capitalism. Capital was internationalizing the division of labor and centralizing economic life; as Marx and Engels had foreseen, the productive forces had now developed to the point where scarcity could be abolished and therefore a classless society was achievable. But this required an internationally centralized economy. For Lenin, imperialism was "the highest stage of capitalism" not just because it was the most recent but because it stood at the doorstep of socialism.

We note, by the way, that Lenin used "imperialism" not in the word's everyday meaning of domination of weak countries by the strong. The common usage is absolutely true but is not the whole picture; even before the imperialist epoch there had been capitalist imperialism in the everyday sense. It first took place through outright plunder, then through trade relations that devastated the pre-capitalist artisans and workshops of the colonial countries. In contrast, the new epoch saw the all-out export of capitalist relations of production and the conquering of the whole world for the production of surplus value.

Against Kautsky, Lenin argued that the giant blocks of capital created in the new epoch would inevitably battle each other rather than merge; monopoly did not negate competition. Intensified competition for the redivision of the world, not international unification, defined the monopoly epoch. Therefore socialism was not only possible but also necessary. There was no other way out of capitalism's crises and misery, because the new epoch of war and decay threatened to hurl humanity back to barbarism. Lenin's view sharply contrasted with reformism's portrait of capitalist socialization as inherently progressive.

Just as the imperialist epoch produced not a unitary capital but competition between massive rivals, so on the world scale it produced not simply the internationalization of capitalism but the expansion of the hegemonic powers *at the expense of others*. With the export of capital, capitalist investment now dominated economics and politics everywhere; the surplus value of the entire world was siphoned into the imperial treasuries. Some of the imperial surplus was plowed back for the capitalist development of the colonies; more of it underwrote the financial and service economies of the imperialist powers. Imperialism meant not just super-exploiting labor, although that created misery enough, but also

30. Lenin, *Imperialism, the Highest State of Capitalism*, Chapter 1

31. *Imperialism ...*, Chapter 7

depriving the colonies and semi-colonies of their resources.

In the imperialist epoch, therefore, the countries of the world were divided into two categories: imperialists and their victims. Capitalist oppression of the proletariat and peasantry was now intensified by the super-oppression of the working people of the "imperialized" countries, with the assistance of their own rulers.

While disagreeing with Luxemburg's theoretical explanation, Lenin shared her view that the new epoch made inevitable imperialist wars to redivide and subjugate the world, and that such wars could in no way be progressive. But in contrast to Luxemburg he believed that national oppression would stimulate progressive liberation movements; moreover, the workers' defense of the right to national self-determination would help win the oppressed masses to the side of the European proletariat in the fight against capitalism. This two-sided struggle by the working class characterized Lenin's revolutionary program.

Despite the disputes between Lenin and Luxemburg over how to fight national oppression, neither thought to abandon internationalism and embrace nationalist ideology as such - or to defend imperialism's conquests as somehow beneficial. But many a social democrat held both views, including the anti-authoritarian "democrat" Bernstein.³²

IMPERIALISM AND THE LAWS OF CAPITAL

Lenin never fully elaborated connection between the laws of capitalist development and capitalism's transformation into a decadent imperialist system. Hence the theoretical basis of his analysis of imperialism has been controversial. He did, however, give a brief explanation for the export of capital. This has come to be seen as the prime characteristic of his theory of imperialism (in particular, by theorists who deny that the Soviet Union of today is imperialist), so it merits investigation.

"On the threshold of the twentieth century we see the formation of a new type of monopoly: first, monopolist capital combines in all capitalistically developed countries; secondly, the monopolist position of a few very rich countries, in which the accumulation of capital has reached gigantic proportions. An enormous 'superabundance of capital' has arisen in the advanced countries.

"It goes without saying that if capitalism could develop agriculture, which today frightfully lags behind industry everywhere, if it could raise the standard of living of the masses, who are everywhere still half-starved and poverty-stricken, in spite of the amazing technical progress, there could be no talk of a superabundance of capital. This 'argument'

is very often advanced by petty-bourgeois critics of capitalism. But if capitalism did these things it would not be capitalism; for both uneven development and a semi-starvation level of existence of the masses are fundamental and inevitable conditions and premises of this mode of production. As long as capitalism remains what it is, surplus capital will be utilized not for the purpose of raising the standard of living of the masses in a given country, but for the purpose of increasing profits by exporting capital abroad to the backward countries.

"In these backward countries, profits are usually high, for capital is scarce, the price of land is relatively low, wages are low, raw materials are cheap. ... The necessity for exporting capital arises from the fact that in a few countries capitalism has become 'overripe' and (owing to the backward stage of agriculture and the impoverished state of the masses) capital cannot find a field for 'profitable' investment."³³

Lenin did not spell out what he meant by the superabundance of capital or the overripeness of capitalism, and this has left his theoretical views open to wide interpretation. To some critics the above passage shows him to be an underconsumptionist because of his stress on the poverty of the masses.³⁴ But this is doubtful: despite his erroneous insistence on capitalism's inability to develop agriculture profitably, Lenin had long been an opponent of underconsumptionism. Early in his political life he defended a disproportionality theory against it,³⁵ and at another point in *Imperialism* itself, he argued against Kautsky and Hilferding, among others:

"The statement that cartels can abolish crises is a fable spread by bourgeois economists who at all costs desire to place capitalism in a favorable light. On the contrary, monopoly which is created in *certain* branches of industry increases and intensifies the anarchy inherent in capitalist production *as a whole*. ... The privileged position of the most highly cartelized, so-called *heavy* industry, especially coal and iron, causes 'a still greater lack of coordination' in other branches of industry ... At the same time the extremely rapid rate of technical progress gives rise to increasing elements of disparity between the various spheres of

33. *Imperialism ...*, Chapter 4.

34. For example, Alexander Erlich in *Politics and Society*, Fall 1973.

35. "The various branches of industry, which serve as 'markets' for one another, do not develop evenly, but outstrip one another, and the more developed industry seeks a foreign market. This does not mean at all 'the impossibility of the capitalist nation realizing surplus-value'... It merely indicates the lack of proportion in the development of the different industries." (Lenin, *The Development of Capitalism in Russia*, Collected Works, Vol. 3, p. 66.)

32. Bernstein, *Evolutionary Socialism*, p. 173

national economy, to anarchy and crises."³⁶

This surely reflects a theory of disproportionality, not underconsumptionism - but one very different from Hilferding's reformist version.

The previous passage on the export of capital, carefully read, also leads to non-underconsumptionist conclusions. First, backward agriculture and mass poverty are given as factors additional or subordinate to "overripe-ness" that produce the pressure to export capital - not its causes. Second, if impoverishment keeps the masses at home from buying back the full product of their labor, the masses are even more impoverished in the backward countries. As well, Lenin notes that the capitalists are "increasing profits by exporting capital abroad to the backward countries." If excessive profits with few outlets for investment were the problem, as underconsumptionism implies, why would capitalists search for ways to create more?

Moreover, Lenin was arguing against John Hobson, the non-Marxist underconsumptionist economist who had written a major work on imperialism (he is one of the "petty-bourgeois critics of capitalism"). Lenin places "superabundance of capital" in quotation marks not only to express the irony that what is abundant for capital is miserably deficient for the masses, but also to show that capital is excessive for the capitalists only in a specific sense. As Marx noted, capital is sent abroad "not ... because it absolutely could not be applied at home, but because it can be employed at a higher rate of profit in a foreign country."³⁷

This passage from Marx was cited by Bukharin in a work preceding Lenin's *Imperialism* which uses similar terminology:

"The export of capital from a country presupposes an overproduction of capital in that country, an overaccumulation of capital. ... It is only in the last decades that capital export has acquired an extraordinary significance, the like of which it never had before."³⁸

Bukharin went on to give two major reasons for capital export: 1) the blocking of investment by cartels and trusts in the sectors they control, together with the lower profit rate discouraging investment in the sectors they don't control; 2) the need to overcome tariff barriers to goods entering foreign countries.

It has also been suggested that Lenin's analysis of imperialism was based on Marx's falling rate of profit theory.³⁹ But this is questionable, since Lenin never used the FRP in his writings on capitalist economy. And

when Bukharin linked "overproduction" of capital to a high organic composition of capital, he was referring to the differences between organic compositions that lead to profit equalization, not to the FRP.⁴⁰ Nevertheless, the FRP and imperialism theories are consistent with one another: the forces that bring about the FRP account for the drive to export capital as well, and both reach fulfillment in capitalism's epoch of decay.

First, as already mentioned, higher profits can often be made in backward economies where production costs, notably wages, are lower. The opportunity to take advantage of these lower costs by force (and keep them lower) increases under imperialism, which widens the military gap between advanced and backward countries.

Second, because of the FRP and the growing size of capital investments, the value available to a given firm for investment is often less than the amount required to invest at the frontier of new technology, especially during cyclical downturns. ("A drop in the rate of profit is attended by a rise in the minimum capital required by an individual capitalist for the productive employment of labor."⁴¹) Hence surplus value searches for more backward sectors in the undeveloped countries with lower organic compositions of capital and therefore lower capital requirements.

Then there are the reasons given by Bukharin. Although traditional capitalist firms are driven to invest in new production whenever they can afford to, monopolies that dominate an industry in their home country are protected from competitive pressures to reinvest profits at home, and will avoid such investment whenever this means undercutting their own existing production. As well, in order to sell in countries which have erected high protectionist walls (including tariffs), production within those countries is necessary. At present, for example, Japanese companies are building plants in the U.S. in order to bypass American protectionism.

In sum, through the export of capital, the dominant imperialist countries extract more surplus value. Domestic monopoly and foreign imperialism are parallel methods of super-exploitation in which one sector of capital feeds on another. In both, the dominant capitals appropriate surplus value disproportionately. As a result the weaker capitalists whose "fair share" of surplus value is expropriated are held back; their growth is stifled by the cannibalism of the strong.

Imperialism is the last stage of capitalism, and both monopoly and capital export reflect it: no further all-sided advance of the productive forces is possible. Expansion of the productive forces in one country or

36. *Imperialism* ..., Chapter 1.

37. Marx, *Capital*, Vol. III, Chapter 15, part 3 (p. 256).

38. Bukharin. *Imperialism and World Economy*, p. 96.

39. For example, by Neil Harding, *Lenin's Political Thought*, Vol. 2, pp. 63-64

40. Bukharin, *Imperialism and World Economy*, pp. 45-6. In the passage above, "overproduction of capital" is not used in Marx's cyclical sense.

41. Marx, *Capital*, Vol. III (p. 250).

sector of capital is possible only at the expense of other sectors. This is not simply a geographical point, although the division of the world into a dominant North and a dependent South is its most striking illustration. Value relations have become the fetter on the development of the productive forces that Marx foresaw. As always, capitalism is driven to develop the processes of socialization of capital, in this case internationalization of the economy, and use them against the proletariat. It is the lawful operation of capitalism's laws in the epoch of decay.

THE LIMITS OF NATIONALISM

The perception of a qualitative change in capital export reflects the epoch of decay from another angle: the productive forces had reached the limit of expansion possible within the boundaries of single states. Hence empires and supranational capitals became necessary. This resulted not only in colonial super-exploitation but also in the extension of economic relations among the imperialist powers. But while capital can cross national boundaries, it cannot transcend nationalism. Whenever supranational unification occurs, it breaks down: Britain during the 19th century, Germany during the two world wars and the United States after World War II reached levels of domination they could not maintain. As Trotsky summed up the First World War:

"Why did the war occur? Because the productive forces found themselves too constricted within the frameworks of the most powerful capitalist states. The inner urge of imperialist capitalism was to eradicate the state boundaries and to seize the entire terrestrial globe, abolishing tariffs and other barriers which restrict the development of the productive forces. Herein are the economic foundations of imperialism and the root causes of the war. What were the results? Europe is now richer in boundaries and tariff walls than ever before."

Capitalism is still rooted in the nation, once a progressive institution enabling the bourgeoisie to overcome feudal barriers to production. The nation-state was also critical for preserving the home market for indigenous capitalists against competitors; without it capitalist development in the progressive epoch would have been limited to a handful of countries. But now that capitalist economy has been internationalized, the nation-state is fundamentally reactionary. Rather than advancing production, it retards it; rather than promoting cultural and economic intercourse, it promotes war. The only solution is internationalism, and the only social force whose

42. Trotsky, "Report on the World Economic Crisis and the New Tasks of the Communist International" (1921), *The First Five Years of the Communist International*, Vol. 1, p. 215

basic interest is not tied to the nation-state is the proletariat. Hence proletarian internationalism was the practical policy of the Bolshevik revolution in order to break out of imperialist confines.

As we know, imperialism stands for an inequality even more brutal than that of early capitalism. Although military conquest, fictitious capital, monopolies and unequal exchange existed throughout the history of capitalism, in this epoch they are the system's normal mode of operation. The weaker countries are deprived of much of their surplus value and hence have no hope of reaching the economic level of the imperial powers.

Thus no capitalist country has been able to reach advanced rank under its own power since Japan made it in the last decade before imperialism was consolidated. None of the formerly backward countries, not even those that prospered during the post-World War II boom or through their monopoly of oil production, have risen to the rank of imperialist powers. The old powers have established some junior partners to help in the exploitation of parts of the world, but not even these are independent centers of capital accumulation.⁴³ This is the final proof that our epoch remains that of imperialist decay. The inequality between nations has been set once and for all, so long as capitalist rule survives.

One country, however, did climb out of backwardness to become a superpower: Soviet Russia. The key to its transformation is that this took place when the USSR was a workers' state, a product of the socialist revolution itself produced by the contradictions of imperialism.

3. PERMANENT REVOLUTION

Lenin worked out his theory of imperialism under the impact of the First World War, an unprecedented holocaust that shattered dreams of continuing capitalist progress. Even bourgeois historians regard the war as the great divide of modern history; it led straight to the horrors and tragedies of the twentieth century. The immediate impetus for Lenin's work was the treachery of European social democracy, whose national parties led the workers into the trap of following "their" bourgeoisies into the imperialist war. The result was working-class fratricide.

THE SPLIT IN SOCIALISM

The social democrats' behavior was no accident. Not that the reformists wanted war: their goal was peaceful competition, or "democracy." But

43. Israel, the apparent exception to these statements, prospered because it was subsidized by Western imperialism.

they became national chauvinists because their material stake in capitalism was nationalist (and trade unionist, as Luxemburg observed); their real loyalties were to their "own" sectors of capital. One result of imperialist expansion was the bourgeoisie's increased ability to grant sops and reforms to workers - mainly to a narrow but socially decisive layer - as a deformed result of the class struggle.

That is, imperialism super-exploited the peoples of the undeveloped regions and used part of the profits to bribe a section of the working class, the "labor aristocracy." Bought off by a share of surplus value and thereby separated from the mass of workers, the aristocrats, although themselves exploited by capital, became a political agency of the bourgeoisie within the working class. They formed the social base of the union and party bureaucracies.

During the war, Lenin and the Bolsheviks, in contrast to the treacherous social democrats, raised the slogan, "Turn the imperialist war into a civil war." The specific meaning and applications of this slogan varied during the war years, but at all times it meant that the workers must not hesitate to press forward the class struggle out of fear that strikes or other actions would endanger the war effort of their own bourgeoisie. A comparable slogan among left-wing German social democrats was Karl Lieb-knecht's "The main enemy is at home."

In both Russia and Germany the revolutionaries' efforts paid off when workers rose up against the bourgeois regimes - in both cases, ironically enough, regimes led by social democrats. The essential reason for the disparate results of these civil wars - the Russian workers' victory in 1917 and the Germans' defeat in 1919 - was that the Russian revolution had been preceded by the formation of a revolutionary party with years of experience independent of and fighting with the right-wing social democrats.

The war brought about the actual split of the socialist movement into two contending parties already created by the conditions described above. After the reformists stopped killing each other, they recognized their common antagonism to the Bolshevik revolution and the rising revolutionary tide. At the war's end they reconstituted their discredited Second International in which each party adhered to its own national program and all found agreement in defense of capitalism and against the Russian revolution.

The Russian revolution had been created by the war. Czarist Russia embodied all the contradictions of the epoch. It was a bastion of reaction not only for the peoples within its borders; every conservative force in Europe had leaned on it during the revolutionary struggles of the 19th century. But at the same time it was forced to modernize to survive in a revolutionizing world. It allowed Western imperialists to invest heavily in modern industry so that it could fortify itself militarily against the stirrings

of modernism and revolution at home and the danger of invasion from abroad. Gaping contradictions abounded: the Rothschilds financed a regime that whipped up pogroms against Jews, and a modern working class arose alongside a peasantry that kissed the bones of saints. Backward Russia acquired a proletariat that became the most politically advanced in Europe and the least burdened by an entrenched labor aristocracy.

A long-simmering dispute within the Russian socialist movement had already resulted in a split between Bolsheviks and Mensheviks. The division was not formally between reform and revolution as in the rest of Europe, since both sides stood for the overthrow of the autocracy (even reformists could hardly advocate the democratic reform of Czarism). But otherwise the Mensheviks differed little from their social-democratic allies abroad: they held that a bourgeois-democratic revolution was necessary in Russia to allow a period of capitalist development. That is, their revolutionary goal was not workers' power but rather the same "democratic" capitalism as in the West. Their apparent centrism simply reflected the inconsistency between their reformist ideals and the inescapable need for a revolution in Russia.

The Bolsheviks also believed that the immediate tasks of the revolution were bourgeois-democratic: division of the land among the peasantry, universal suffrage, freedom of workers to organize, national rights for the subjected peoples, and the stripping away of all the pre-capitalist barriers to industrial expansion. But the two parties differed over the role of the proletariat. The "orthodox" Mensheviks assumed that the working class would support the bourgeoisie's coming to power and thereby reap the benefits of capitalist industrialization and democracy; then it would develop sufficiently to make the socialist revolution when the time became ripe. Whereas the Bolsheviks argued that the working class would have to seize the reins of power from the reactionary and pro-imperialist bourgeoisie and develop capitalism itself - through its own government in alliance with the peasantry. Lenin's slogan, the "revolutionary democratic dictatorship of the proletariat and peasantry," summarized the Bolshevik program in the fifteen years leading up to 1917.

The "democratic dictatorship" would have been, in Lenin's words, "bourgeois in its economic and social essence" although politically dominated by the proletariat. ("Democratic" in this context meant bourgeois-democratic.) The revolution could not possibly be socialist because it could not have undertaken the expropriation of the big bourgeoisie except "at best" for the "radical redistribution of landed property in favor of the peasantry"⁴⁴ - a step which would still leave property in the hands of the

44. Quotations are from Lenin's *Two Tactics of Social Democracy in the Democratic Revolution* (1905)

petty-bourgeois peasants, the vast majority of the Russian population.

TROTSKY'S THEORY

The Bolshevik formula embodied a deep contradiction: the class struggle between bourgeoisie and proletariat would inevitably intensify if the bourgeoisie held the economic reins and the proletariat controlled the state. Trotsky had already pointed out, in the aftermath of the 1905 revolution, that if a revolution were successful the contradiction would have to be resolved quickly: either the workers would discipline and ultimately expropriate the bourgeoisie, or the workers' and peasants' government would have to concede to the capitalists and abandon its defense of the masses.

Along with the Bolsheviks and against the Mensheviks, Trotsky recognized that the bourgeoisie was incapable of leading a revolution against Czarism. Its families and property were far too interpenetrated with the nobility and landlords for it to encourage land seizures or other encroachments on pre-capitalist privileges. As for the rights of the masses of the oppressed, the growing proletariat in the cities was too great a threat to warrant any loosening of autocratic repression. Trotsky retrospectively summed up his differences with the Menshevik leader Plekhanov: "Plekhanov obviously and stubbornly shut his eyes to the fundamental conclusion of the political history of the nineteenth century: whenever the proletariat comes forward as an independent force the bourgeoisie shifts over to the camp of the counterrevolution. The more audacious is the mass struggle all the swifter is the reactionary degeneration of liberalism. No one has yet invented a means for paralyzing the effects of the law of the class struggle." That is, when the proletariat not only grows in weight but also goes into social motion - when it becomes an "independent force" - then all property is threatened, not just pre-bourgeois property. No wonder the bourgeoisie runs from revolution.

"The masses can rise to an insurrection only under the banner of their own interests and consequently in the spirit of irreconcilable hostility toward the exploiting classes beginning with the landlords. The 'repulsion' of the oppositional bourgeoisie away from the revolutionary workers and peasants was therefore the immanent law of the revolution itself..." This was the basis of Trotsky's theory of permanent revolution. Because capitalism had become reactionary, socialist revolution was needed to

45. Trotsky, "Three Conceptions of the Russian Revolution," *Writings 1939-40*, p. 61

achieve even the democratic tasks still unfulfilled. The peasantry too would rebel against the exploiting classes but it was incapable of wielding power independently. Still, because of its immense numbers in Russia, it would be the decisive force in deciding the outcome of the revolution, depending on which urban class it supported. The proletariat had no alternative but to carry out the democratic tasks of the revolution under its own banner with the peasantry's support.

Further, under conditions of Russian backwardness, the workers' state would have to spread the revolution across the continent to the more advanced countries. Russia badly lacked the material productivity and abundance necessary for communism. Together with the capitalist threads tying Russia to the world economy, this fact meant that socialism could be achieved there only through an *international* proletarian revolution. The traditional Marxist understanding that the proletarian revolution had to be internationalist was for Russia reinforced by glaring necessity.

The workers and peasant-soldiers overthrew the Czar in February 1917. Under the leadership of the Mensheviks and Social Revolutionaries (SRs), they handed power to the bourgeoisie. But they also maintained a volatile "dual power" by setting up Soviets: mass-based democratic councils representing workers, soldiers and peasants which held an effective veto power over all government acts. In the countryside, where poverty and the war had devastated the peasantry, the bourgeoisie's betrayal of democratic aspirations won the vast sea of landless peasants to the program of extending the revolution under proletarian leadership.

The contradiction in Bolshevik theory had come to a head. World War I and his understanding of imperialism compelled Lenin to change his strategy. He recognized that Russia, even under a "democratic" capitalist government led by the proletariat, would inevitably remain subordinated to the Western powers. But he had to fight against the entire social-democratic tradition and even the leaders of his own party to convince the Bolsheviks to renounce support for the class-collaborationist Provisional Government (which included bourgeois, Menshevik and SR ministers) and stand for a socialist, not just radical democratic, revolution:

"The person who *now* speaks only of a 'revolutionary-democratic dictatorship of the proletariat and the peasantry' is behind the times, consequently he has in effect gone over to the petty bourgeoisie against the proletarian class struggle; that person should be consigned to the archive of 'Bolshevik' pre-revolutionary antiques."⁴⁶ Led by the Bolsheviks, the workers seized state power in October. The central soviet immediately supported seizure of the land by the peasantry;

46. Lenin, "Letters on Tactics," April 1917

likewise, it granted self-determination to the national minorities in the Czarist "prisonhouse of nations." Backward Russia, Lenin's "weakest link in the imperialist chain," had opened the road to socialism. Lenin later summarized the revolution's accomplishments, acknowledging in effect that the Bolshevik strategy during 1917 had shifted to permanent revolution. "Beginning with April 1917, however, long before the October Revolution, that is, long before we assumed power, we publicly declared and explained to the people: the revolution cannot now stop at this stage, for the country has marched forward, capitalism has advanced, ruin has reached fantastic dimensions, which (whether one likes it or not) will demand steps forward, to socialism. For there is no other way of advancing, of saving the war-weary country and of alleviating the sufferings of the working and exploited people.

"Things have turned out just as we said they would. The course taken by the revolution has confirmed the correctness of our reasoning. First, with the *whole' of the peasants against the monarchy, against the landowners, against medievalism (and to that extent the revolution remains bourgeois, bourgeois-democratic). Then, with the poor peasants, with the semi-proletarians, with all the exploited, against capitalism, including the rural rich, the kulaks, the profiteers, and to that extent the revolution becomes a socialist one." Permanent revolution depended on the fact that capitalism had turned reactionary. This tied it intimately to Lenin's theory of imperialism. It was no accident that, under the impact of revolutionary events, Lenin saw through the errors of his theory of a "democratic dictatorship" that would uphold capitalist relations.

Capitalism, once the chief force in breaking down feudal obstacles and advancing both the productive forces and democratic rights, was now the chief barrier to their extension. The property forms bequeathed by feudal and despotic societies could survive, but their content would become capitalist. The Russian revolution proved in practice that capitalism could no longer be progressive, even in a vast country which, despite its backwardness, was the world's fifth industrial power.

PERMANENT REVOLUTION AND THE EPOCH

For all its profound implications, permanent revolution was originally regarded by Trotsky as specific to Russian conditions. Generalizing it required further revolutionary proletarian upsurges, especially the Chinese revolution of 1925-27. It was extended not just to other economically backward countries but to all: permanent revolution became the proletar-

47. Lenin, *The Proletarian Revolution and the Renegade Kautsky* (1918)

ian strategy for the imperialist epoch. (We spell this out in detail in Chapters 6 and 8.)

The power of the combined theories of permanent revolution and the imperialist epoch was illustrated by Trotsky's application of them from a negative angle in 1928: what would happen if the proletarian revolution was *not* forthcoming?

"The explosive character of this new epoch, with its abrupt changes of the political flows and ebbs, with its constant spasmodic class struggle between fascism and communism, is lodged in the fact that the international capitalist system has already spent itself and is no longer capable of progress *as a whole*. This does not mean to imply that individual branches of industry and individual countries are incapable of growing and will not grow any more, and even at an unprecedented tempo. Nevertheless, this development proceeds and will have to proceed to the detriment of the growth of other branches of industry and of other countries. The expenditures incurred by the productive system of world capitalism devour its world income to an ever increasing degree. And inasmuch as Europe, accustomed to world domination, with the inertia acquired from its rapid, almost uninterrupted growth in the pre-war period, now collides more sharply than the other continents with the new relation of forces, the new division of the world market, and the contradictions deepened by the war, it is precisely in Europe that the transition from the 'organic' epoch to the revolutionary epoch was particularly precipitous.

"Theoretically, to be sure, even a new chapter of a *general* capitalist progress in the most powerful, ruling, and leading countries is not excluded. But for this, capitalism would first have to overcome barriers of a class as well as of an interstate character. It would have to strangle the proletarian revolution for a long time; it would have to enslave China completely, overthrow the Soviet republic, and so forth. We are still a long way removed from all this."⁴⁸

This was a far-sighted prognosis, made when such events were only theoretical possibilities. But the isolation of revolutionary proletarian Russia, the continued treachery of the social democrats and the bureaucratization of the Soviet state paved the way for all Trotsky warned of: the strangulation of workers' revolutions, the subordination of China to imperialism, the triumphs of fascism and, crucially, the "overthrow [of] the Soviet republic," namely the destruction of the workers' state from within. Capitalism, incapable of flourishing in the face of a mobilized working class, did succeed in renewing itself on the basis of a series of working-

48. Trotsky, *The Third International after Lenin*, pp. 80-81.

class defeats. Events of recent decades have also negatively confirmed the permanent revolution strategy: non-proletarian revolutions (in China, East Europe, Africa, etc.) were not able to break from the imperial stranglehold or establish the basic bourgeois-democratic rights.

The link between the epoch of imperialism and the strategy of permanent revolution has been challenged on two sides. One starts from the social-democratic theory of the continued progressiveness of capitalism:

"It is paradoxical and ironic that Trotsky has accepted Lenin's analysis of imperialism based on monopoly capitalism and then gone on to proclaim the revolutionary epoch based on the irreversible downward slide of capitalist development. For the ascension of monopoly capitalism had removed the inevitability of any underlying downward slide, and it had enlarged the possibility of effective government intervention to stimulate capitalist expansion."⁴⁹

This assessment could have been written only under the impact of the post-World War II boom and, moreover, from within one of the prosperous imperialist powers. It is Bernsteinism brought up to date and thereby made all the more absurd: Bernstein at least didn't have to account for fascism, world wars and the misery of hundreds of millions in the underdeveloped world in insisting on the bourgeois state's capacity to overcome capitalism's inequities. The social democrats' inability to perceive the economy's downward slide even in 1975 reflects their abandonment of Marxism and their role as apologists for bourgeois interests.

The other challenge to permanent revolution comes from "third-world-ist" analysis, which recognizes more of the reality of the modern world but is little better from the point of view of political strategy than the social-democrats. For example:

"Trotsky's theory of the 'permanent revolution' ... involves an analysis in terms of unequal development; but this theory is not linked directly to the problem of imperialism and the role of the periphery in the socialist revolution, because Trotsky remains 'economistic' and retains a 'West-centered' outlook, underestimating the importance of the peasant and colonial question."⁵⁰

Trotsky is labeled economistic and West-centered because he holds, along with Marx and Lenin, that proletarian revolution in the advanced countries is necessary to provide the material base for the achievement of authentic socialism. Therefore he is blamed for making the role of the "third world" less central; likewise for his insistence that imperialism means the epoch of capitalist decay and not just the domination by the

advanced powers over the rest of the world. Of course, Trotsky's own leading role in the Russian revolution, as well as the theory he developed, belie the contention that he underestimated the importance of socialist revolution in backward countries. Those who argue in this way are burying the class question; they reject *proletarian* revolution in the oppressed countries in favor of bourgeois national revolutions.

The Mensheviks of 1917 and the third-world Stalinists of today represent the same political current: both stress a bourgeois-democratic "stage" instead of proletarian socialism. These anti-working class revolutionists also have much in common with the seemingly opposite program of imperialist social democracy. All agree that the proletariat has no justification for its own revolution and should instead support the nationalist revolution or reforms of the petty bourgeoisie.

THE REVOLUTIONARY PARTY

In spite of his "democratic dictatorship" theory, Lenin fought for the independent organization of the workers from even the anti-Czarist bourgeoisie. He steadily attacked the Mensheviks for tailing bourgeois representatives. He denounced the SRs for trying to build a multi-class party of workers and petty-bourgeois peasants. But his own understanding of the party of the proletariat had to develop and change before it became the instrument of socialist revolution.

The proletarian revolution was possible in backward Russia because uneven and combined capitalist development had created a centralized proletariat with a high level of organization and political consciousness. But it was not a united class. Just as equality among capitalists is violated in the epoch of decay, so too capitalism creates inequality among the workers. Revolutionary consciousness could not develop in unitary fashion through the traditional social-democratic party of the whole class that tried to represent both the aristocratic layer as well as the mass of super-exploited workers.

The long struggle between Bolsheviks and Mensheviks for leadership of the Russian working class was a conflict between distinct layers of the proletariat. The reformists accepted the class struggle within the confines of the law of value, in order to bargain over the sale of labor power in the interest of the highest-paid layers of workers. The Bolshevik party, in contrast, was formed in conscious opposition to capitalism and was dedicated to fulfilling the needs of the class as a whole, especially the most oppressed workers with no stake in the system.

But even though the revolutionary party represents the real interests of the entire working class, it cannot contain all workers. Workers' consciousness develops at different rates, especially in this epoch when

49. Geoff Hodgson, *Trotsky and Fatalistic Marxism* (1975), p. 26.

50. Samir Amin, *Imperialism and Unequal Development* (1977), p. 258

capitalism is compelled to deepen old and create new divisions among them. Spontaneity, the reliance on militancy without conscious leadership, is no answer. If those with socialist consciousness do not intervene to *lead* the backward layers who are under the ideological domination of the bourgeoisie (through the intermediary of the petty-bourgeois bureaucracy), the class as a whole will never reach revolutionary consciousness.

Lenin taught for years that bourgeois rule, no matter how decadent it became, would not rot to death of its own accord: a disciplined fight was necessary to destroy it. The vanguard of the proletariat not only had to increase their fellow workers' social understanding; they also had to be independently and tightly organized in order to have a significant material impact. The revolutionary party embodying advanced consciousness and democratic centralist discipline was therefore a necessity. This is another critical issue on which Lenin opposed Luxemburg; despite her early insight into the reformism of the SPD, Luxemburg only began the construction of a revolutionary cadre party after the German revolution had begun.

Democratic centralism, of course, has nothing in common with the travesty understood by both Stalinist proponents and bourgeois critics. It does not mean top-down dictatorship but rather systematic and scientific functioning. Opposing points of view within the party are debated - that is democracy; the majority view becomes the party line, and all members work to carry it out - that is centralism. The positions decided on are thereby tested in practice by the party as a whole. Whether or not they prove successful, they continue to be discussed within the party, and if necessary can be changed by the same process. Indeed, the Bolshevik party until its bureaucratic degeneration had room for wide-ranging and vociferous debates, even in the midst of revolutions and civil war. In contrast, the indecisive debates within the social-democratic parties make them little but talk-shops, where actual decisions are made by a handful of officials behind the backs of the members and the working class.

The creation of Soviets by the Russian workers during the revolutions of 1905 and 1917 was the great test of the revolutionary party. The Soviets were theaters of interaction between the different layers of workers. The great majority of the workers participated in them and in other class institutions: militias, factory committees, trade unions, etc. Even though all workers were not fully conscious of it, the Soviets represented a direct challenge to the bourgeoisie's right to hold state power. In themselves they were instruments of dual power but not necessarily of revolution; what made them revolutionary in 1917 was the victory of the most advanced and far-seeing workers, the Bolsheviks, in their struggle for leadership. Without that the Soviets would eventually have succumbed to the retreats and betrayals of the Provisional Government and the reformist parties.

PETTY BOURGEOISIE VS. WORKING CLASS

It is important to dispel one of the standard myths about Leninism: that the proletarian party depends fundamentally on the efforts of non-proletarian revolutionaries. This myth is based on a kernel of truth: in 1902 Lenin criticized those who "imagine that the labor movement pure and simple can elaborate, and will elaborate, an independent ideology for itself, if only the workers *wrest their fate from the hands of the leaders'." He went on to make the point explicit by citing the "profoundly true and important" words of Karl Kautsky:

"Socialism and the class struggle arise side by side and not one out of the other; each arises under different conditions. Modern socialist consciousness can arise only on the basis of profound scientific knowledge. Indeed, modern economic science is as much a condition for socialist production as, say, modern technology, and the proletariat can create neither one nor the other ...; both arise out of the modern social process. The vehicle of science is not the proletariat, but the *bourgeois intelligentsia*: it was in the minds of individual members of this stratum that modern socialism originated, and it was they who communicated it to the more intellectually developed proletarians who, in their turn, introduce it into the proletarian class struggle where conditions allow that to be done. Thus, socialist consciousness is something introduced into the proletarian class struggle from without and not something that arose within it spontaneously." Further, Lenin commented, if the intelligentsia does not introduce socialist ideas into the proletariat, the workers will be left with only trade union consciousness: "The spontaneous working-class movement is trade unionism, is *Nur-Gewerkschaftlerei*, and trade unionism means the ideological enslavement of the workers by the bourgeoisie."⁵

That is, the choice is between the workers' trade unionism and the intellectuals' socialism - or between reformism and revolution. Lenin was never one for moderating his words to conceal his views, and that is what he wrote. It is not so well known that he changed his mind. Even among Trotskyists, Lenin's judgment of the inherently reformist nature of spontaneous proletarian consciousness is often taken for orthodoxy. So it is worth citing Trotsky to demonstrate that Lenin reversed his opinion. "According to Lenin's representations, the labor movement, when left to its own devices, was inclined irrevocably toward opportunism; revolutionary class-consciousness was brought to the proletariat from outside, by Marxist intellectuals. ... [He] himself subsequently acknow-

51. Lenin, "What is to be Done?", *Collected Works*, Vol. 5, pp. 383-4.

52. The German words mean roughly "trade union only-ism."

ledged the biased nature, and therewith the erroneousness, of his theory, which he had parenthetically injected as a battery in the battle against 'Economism' and its deference to the elemental nature of the labor movement."⁵³ Another remark along the same lines was made almost in passing, as if all understood it: "Lenin, at times, erred not only in minor but in major issues. But he corrected himself in good time.... Plekhanov was right in his criticism of Lenin's theory of the development of socialism 'from the outside'."⁵⁴

Trotsky's opinion on the question is clear. There are also several statements by Lenin that show the accuracy of Trotsky's conclusion. One is in a summary article about the 1905 revolution:

"At every step the workers come face to face with their main enemy — the capitalist class. In combat with this enemy the worker becomes a *socialist*, comes to realize the necessity of a complete reconstruction of the whole of society, the complete abolition of all poverty and all oppression."⁵⁵

An earlier reference came during the 1905 upsurge itself:

"The working class is instinctively, spontaneously Social Democratic, and more than ten years of work put in by Social Democracy has done a great deal to transform this spontaneity into consciousness."⁵⁶

These passages reflect the new understanding that Lenin gained as a result of the workers' actions in 1905. The fact that the workers' revolution taught this lesson itself is a dialectical proof that socialist consciousness develops not outside the proletariat but through its own motion. Lenin operated on the new understanding for the rest of his life and expanded on it when he came to analyze the transformation of capitalism into imperialism. Reformism may indeed be an outlook within the working class at any time, even the predominant one. But this is a conjunctural matter; it does not represent the historic, lawful outlook of the proletariat as it comes face to face with the drive for surplus value of its capitalist enemy. On the other hand, the petty bourgeoisie *does* have material interests deeply rooted in bourgeois society. Its inevitable perspective is to reform the system's inequities and work for class peace through class collaboration. These are Utopian hopes, given the system's compulsions, and the

53. Trotsky, *Stalin*, Vol. 1, Chapter 3, p. 97.

54. *Trotsky's Notebooks 1933-35*, Philip Pomper, ed. (1986), p. 84.

55. Lenin, "The Lessons of the Revolution," *Collected Works*, Vol. 16, p. 302.

56. Lenin, "The Reorganization of the Party," *ibid.*, Vol. 10, p. 32. Here "Social Democratic" refers to the revolutionary party as it was called before 1917, after which Lenin would have said "Communist."

petty bourgeoisie is fated to be increasingly subject to the big bourgeoisie as capital centralizes. Nevertheless, given the decay of capitalism, battered petty-bourgeois masses can be won to proletarian leadership. But in the imperialist epoch petty bourgeois leaders come to play an increasingly influential role in the mass organizations of workers. As Luxemburg noted against Bernstein:

"The question of reform and revolution, of the final goal and the movement, is basically, in another form, only the question of the petty-bourgeois or proletarian character of the labor movement."⁵⁷ Luxemburg's insight is profound. For decades since, the class character of the parties that the mass of workers adhere to has been the decisive question in every revolution. On this question she was years ahead of Lenin, who only fully understood the role of the petty-bourgeois bureaucracies within the working-class parties and unions much later, when they betrayed proletarian internationalism at the start of World War I. It was this shock that inspired his renewed study of capitalist change and thereby his theory of imperialism.

THE MARXISM OF THE INTELLIGENTSIA

Latter-day Leninists' misrepresentations of Lenin are of two kinds. For one, Cliff in his biography quotes both of the passages by Lenin cited above. But he cuts the second one off so that it says, "The working class is instinctively, spontaneously Social Democratic."⁵⁸ Thus he dishonestly turns the leader and patient teacher of the proletariat into a spontaneist.

Cliff has a vested interest in claiming that the working class is inherently socialist and not reformist - not because of any faith in the class's capacity to reach revolutionary consciousness, but for the opposite reason. His own strategy is to tailor his program for workers to the reform demands they spontaneously raise. The idea is that trade union militancy, even though intertwined with anti-revolutionary political views, will lead to socialism if carried out consistently. Such a method is a cover for tailing working-class backwardness.

The Cliff tendency advocates a revolutionary party with centrist inconsistency. The programmatic conclusion of a key work on Stalinism does not mention the revolutionary party at all.⁵⁹ Cliff's book on Russia brings it up as an afterthought without elaboration, literally the very last words of the last chapter. For years the tendency's founders based themselves on a quasi-spontaneist theory of organization; their taste shifted

57. Luxemburg, *Reform or Revolution*, Introduction.

58. Cliff, *Lenin*, Vol. 1, p. 176.

59. Chris Harman, *Bureaucracy and Revolution in Eastern Europe* (1974), pp. 269-72.

to "Leninism" with the political winds in the 1960's. The consistent thread is their notion of the party as an organizational network which could link up with militant class struggles and gain their support. When student and youth activities predominated, the notion was spontaneist; when workers' struggles heated up, a "Bolshevik" network came to the fore. Throughout, an organization that embodies a political program and fights for that program against all tendencies in the workers' movement - Lenin's theory and practice - has been absolutely foreign to them.

On the other hand, more "orthodox" Trotskyists rely on Lenin's 1902 position to justify their belief that the workers cannot be trusted without intervention from outside the class. Thus the British group Workers Power asserts that "new leaders, often of a militant left reformist variety," as well as "the entrenched, conservative bureaucracy," both "reflect the consciousness of the workers who elect them. As such they represent, and become the means of maintaining, the reformist limitations of the consciousness of these workers." In plain words, the benighted workers get the leaders they deserve.

Typically, the most extreme presentation of this position comes from the Spartacist tendency, self-identified as an alien class element: "Socialist consciousness is based on knowledge of the history of the class struggle and, therefore, requires the infusion into the class-struggle process of socialist conceptions carried by declassed intellectuals organized as part of the vanguard party. Socialist revolution does not occur through the intensification of traditional class struggle, but requires a leap from a vantage point outside bourgeois society altogether."

Nothing in Lenin can justify the incredible claim that socialist consciousness arrives on the historical stage as a *deus ex machina* from outside bourgeois society. This is only the petty-bourgeois conceit that its own altruistic concerns float far above the earthly appetites and selfish interests of all classes under capitalism, the workers included. The material

60. See Ian Birchall's "History of the International Socialists," *International Socialism* Nos. 76 and 77 (1975). As an illustration, the original version (1959) of Cliffs pamphlet on Rosa Luxemburg argued that her non-cadre "conception of the structure of the revolutionary organization ... fits the needs of the workers' movement in the advanced countries much more closely than Lenin's conception of 1902-4," a passage that was dropped in the 1968 edition (without mention or explanation).

61. "Theses on Reformism," *Permanent Revolution* No. 1 (1983). For our reply see "Workers Power: A Powerless Answer to Reformism," *Proletarian Revolution* No. 23 (1985).

62. Spartacist League, "Trade Union Memorandum," *Marxist Bulletin* No. 9, Part III (1972)

aspirations of the working class for a decent life are equated with the very real greed of the bourgeoisie for surplus value. It was no leap at all for such an outfit to delight in the suppression of millions of Polish workers by the Jaruzelski regime in 1981, on the grounds that they were "demanding the biggest free lunch the world has ever seen."⁶³

It is significant that none of the orthodox Trotskyists ever try to come to grips with their rejection of the considered opinions of both Lenin and Trotsky. We don't say they must automatically agree, of course, but they are obliged to explain why they disagree and where the Marxist tradition went wrong. The essential reason for their failure is that the question at issue is one of class, a matter on which they are understandably very sensitive about making their disagreement public.

The anti-working class conceptions of the middle-class Marxists are sometimes explicit, often hidden. But all implicitly accept the common-sense belief that the proletariat is inherently reformist. And all consequently envisage a gulf between their revolutionary selves and the working class. Lenin, on the contrary, learned that the leadership that the revolutionary party fights for is a relation *within* the working class, not between intellectuals and proletarians. Himself a man of middle-class origins who joined his life to the proletariat, he changed his view on spontaneity through the lessons taught by the revolutionary proletariat itself.

Lenin and Trotsky did recognize that the proletariat could make use of the knowledge and abilities of middle-class intellectuals. But as Trotsky pointed out, without Marx and Lenin "the working class would have worked out the ideas it needed, the methods that were necessary to it, but more slowly."⁶⁴ The question for us today is not simply whether the working class movement needs intellectuals in its ranks who are ready to fight the capitalism that trained them as its servants; that remains true. We also have to deal with the problem of a greatly expanded middle-class layer that chooses to betray not capital but the proletarian revolution - in its own interests but in the name of Marxism.

As we have seen, the "new middle class" intelligentsia arose out of the needs of state monopoly capitalism. It plays important roles in society, extending from the white-collar working class to the labor bureaucrats, academics, literati, low-level managers and technicians — the trouble-shooters, mediators and ideological mythmakers. The expanding state is a major source of employment, but this is not the sole reason for intellec-

63. Spartacist pamphlet, *Solidarnosc: Polish Company Union for CIA and Bankers*. For the truth, see Chapter 8.

64. Trotsky, "Tasks of the Twelfth Congress of the Russian Communist Party," (1923); in *Leon Trotsky Speaks*, p. 170

tuals' infatuation with state power. The intelligentsia is weak and unorganized within capitalism, with no independent role in the process of production. Threatened by giant monopolies on the one hand and by the vast, dissatisfied working class on the other, middle-class elements look to the state as an institution above society that under their guidance can act rationally for the general good.

The desire for rationality in a world spinning out of control is central. Rational allocation of resources is superior to cutthroat competition, so middle-class ideology mirrors the state and the monopolies' attempts to eliminate anarchy (despite their "free market" propaganda). Because the intellectual often opposes the competitiveness and narrow self-interest of the old petty bourgeoisie, he sees himself as altruistic, the good citizen independent of narrow special interests. He does not understand that he is acting in his own social interest derived from his role in capitalism, or that his image of a competition-free rational society is false consciousness, precisely the ideology needed to defend state monopoly capitalism and especially its statified sectors.

Having no alternative, the intelligentsia's only road to power is to attach itself either to the bourgeoisie, as do liberal intellectuals - or to the proletariat, in the case of radicalized elements. Hence the popularity of reformism, mixed-economy socialism, Stalinism (until recently) and a dozen other petty-bourgeois "socialisms" which strive to harness the class struggle against capitalism. These ideologies have nothing to do with the interest of the working class, which is to overcome *all* the workings of capitalism, including the laws deemed rational by the intelligentsia. Anything else serves to prolong the agonies of a system in senile decay.

Chapter 3

The Transition to Socialism

1. THE MARXIST THEORY OF TRANSITION

The Bolshevik revolution was an overwhelming confirmation of Marxism: the proletariat, even under the backward conditions of Russia in 1917, proved capable of overthrowing bourgeois state power. Yet the subsequent history of the Soviet Union raises the doubt: how could the liberating revolution have created such a regressive society as Stalinism? From the beginning, there have been socialists who challenged the very basis of the revolution, claiming that the Soviet state was never proletarian - just as there are those who proclaim against all reason that it still is. In this chapter we analyze the expectations and hopes engendered by the revolutionary Soviet state as well as the causes of its initial deformation.

Marx saw the need for a transitional society between capitalism and communism because he understood that no society departs this earth before it fulfills its capacity to develop the forces of production. Capitalism in its epoch of decay blocks its own potential: bourgeois rule, capitalist relations and nationalist rivalries stand in the way of productive advance. It remains for the proletariat to start from the unfulfilled potential of capitalism and to complete and go beyond the bourgeois tasks. Only thus can human productive forces be raised to the level where a classless society free of scarcity is possible.

The Bolshevik revolution, therefore, was dedicated to the achievement of communism through the workers' state (or "dictatorship of the proletariat"). Marx and Engels never provided a descriptive plan for such a transitional society; this could only be done by the working class in practice under concrete circumstances. Yet certain general features could be outlined in advance by studying the dynamics of capitalist development. There was also the brief experience of the Paris Commune for comparison. Recovering these lessons is necessary because the counterrevolution buried the very meaning of a workers' state, as well as its embodiment in the early USSR, under tons of lies and social debris.

SOCIALISM AND VALUE

Analysis of the transitional workers' state depends on first characterizing the society it is transitional to. Marx's analysis of communism begins with a significant distinction: there are *two* stages of communist society. The final goal is a society of material abundance in which the oft-cited program, "from each according to his abilities, to each according to his needs," can be achieved. But abundance cannot arise overnight. The higher stage of communism would be preceded by a lower stage in which the questions of planning and scarcity would have to be solved.

Engels and Lenin referred to the lower stage of communism as socialism, and for clarity we will do so too. The virtue of Marx's work on socialism is that it illustrates what life would be like free from its subordination to value, which is so dominant under capitalism that it colors our perceptions of all other societies, past and future. In particular, Marx gave a description of the distribution of goods under socialism which has been so variously interpreted that we need to quote it at length:

"Within the cooperative society based on common ownership of the means of production, the producers do not exchange their products; just as little does the labor employed on the products appear here *as the value* of these products, as a material quality possessed by them - since now, in contrast to capitalist society, individual labor no longer exists in an indirect fashion but directly as a component part of the total labor. ...

"What we have to deal with here is a communist society, not as it has *developed* on its own foundations, but on the contrary, just as it *emerges* from capitalist society, which is thus in every respect — economically, morally, intellectually - still stamped with the birth marks of the old society from whose womb it emerges. Accordingly, the individual producer receives back from society - after the deductions have been made - exactly what he gives to it. What he has given to it is his individual quantum of labor. For example, the social working day consists of the sum of the individual hours of work; the individual labor time of the individual producer is the part of the social working day contributed by him, his share in it. He receives a certificate from society that he has furnished such and such an amount of labor (after deducting his labor for the common funds), and with this certificate he draws from the social stocks of means of consumption as much as costs the same amount of labor. The same amount of labor which he has given society in one form he receives back in another.

"Here obviously the same principle prevails as that which regulates the exchange of commodities, as far as this is exchange of equal values. Content and form are changed, because under the altered circumstances no one can give anything except his labor, and because, on the other

hand, nothing can pass to the ownership of individuals except individual means of consumption. But as far as the distribution of the latter among the individual producers is concerned, the same principle prevails as in the exchange of commodity-equivalents: a given amount of labor in one form is exchanged for an equal amount of labor in another form.

"Hence, *equal right* here is still in principle - *bourgeois right*, although principle and practice are no longer at loggerheads, while the exchange of equivalents in commodity exchange only exists *on the average* and not in the individual case."¹

Note the assumption that the work of society and the compensation of individual producers will be scientifically organized: the time taken by particular tasks and the time contributed by each worker will be calculable and known. This means that value has been abolished, for as we have seen value is an imprecise, indirect and after-the-fact measurement of work performed. In socialist society, when labor and production are genuinely collectivized, production can be consciously organized for use rather than for an unseen market. Goods are no longer commodities, and in the absence of privileged classes and exploitation, the labor time embodied in production is measured directly rather than through the obfuscating formulas of value and money. It is *directly* social labor; it does not have to wait for the realization of commodities on the market.

As well, no one owns property except for the needs of individual consumption; therefore, no special rate of return for private ownership has to be included in the "value" of products. So the labor time embodied in a product undergoes none of the distortions that prevail under capitalism. Nevertheless, Marx observes that the "same principle prevails" in this first stage of communism as in capitalist society, where commodity exchange and value are dominant. What is this principle? "A given amount of labor in one form is exchanged for an equal amount of labor in another form." This is of course the law of value in its pure formulation: the principle of equal exchange. But value itself no longer exists, and in this society "producers do not exchange their products"! This is no mystification. Marx is simply pointing out that the genuine principle of equal "exchange" of labor time can only be achieved when value itself is done away with, when science rather than blind law governs society - when in fact there is no exchange of separately produced products, no barrier between individual and social production.

The principle of equality, even after the abolition of capitalist value, is still one of "bourgeois right" (or bourgeois law), because it represents

1. *Critique of the Gotha Program*, Part I, section 3

unequal distribution despite the mask of an equal standard. (More on this below.) This highest degree of bourgeois right can be achieved only when bourgeois *rule* has been overthrown. Here we have an unexpected example of permanent revolution: only the overthrow of the bourgeoisie can achieve the bourgeois program of democracy and equality.

Lenin, writing during the 1917 revolution, elaborated Marx's point that elements of bourgeois economy survive under socialism, noting especially that this occurs in distribution but not in property rights over production:

"And so, in the first phase of communist society (generally called socialism), 'bourgeois right' is *not* abolished in its entirety, but only in part, only in proportion to the economic transformation so far attained, i.e., only in respect of the means of production. 'Bourgeois right' recognizes them [the means of production] as the private property of separate individuals. Socialism converts them into *common* property. *To that extent, and to that extent alone*, 'bourgeois right' disappears.

"However, it continues to exist so far as the other part is concerned; it remains in the capacity of regulator (determining factor) in the distribution of products and allotment of labor among the members of society."²

Thus the law of value as the regulator of production has been eliminated because production has become consciously, scientifically planned by the associated producers. We are therefore justified in calling this society communist despite its bourgeois survivals. Inequalities of various kinds remain among the producers at the lower stage of communism, but there exist no separate classes that institutionalize inequality. Classes exist in pre-communist society because of the need for distinct, opposed, relations to production. But when property is held in common, the basis for class differentiation disappears and the classes themselves disintegrate. The whole people - the associated producers - share the same relation to production. The remaining inequalities will die out when planned socialized production succeeds in achieving the necessary abundance.

SOCIALIST INEQUALITY

Marx's reminder that bourgeois rights in distribution will still exist under socialism opened up a dispute over what these bourgeois rights are. We quote the controversial passage from the *Critique of the Gotha Program* as a whole; it directly follows the long passage previously quoted. "In spite of this advance, this *equal right* is still constantly stigmatized by a bourgeois limitation. The right of the producers is *proportional* to the labor they supply; the equality consists in the fact that measurement

is made with an *equal standard*, labor.

"But one man is superior to another physically or mentally, and so supplies more labor in the same time, or can labor for a longer time; and labor, to serve as a measure, must be defined by its duration or intensity, otherwise it ceases to be a standard of measurement. This *equal right* is an unequal right for unequal labor. It recognizes no class differences, because everyone is only a worker like everyone else; but it tacitly recognizes unequal individual endowment and thus productive capacity as natural privileges. *It is therefore a right of inequality, in its content, like every right.* Right by its very nature can consist only in the application of an equal standard; but unequal individuals (and they would not be different individuals if they were not unequal) are measurable only by an equal standard insofar as they are brought under an equal point of view, are taken from one *definite* side only, for instance, in the present case, are regarded *only as workers* and nothing more is seen in them, everything else being ignored. Further, one worker is married, another not; one has more children than another, and so on and so forth. Thus, with an equal performance of labor, and hence an equal share in the social consumption fund, one will in fact receive more than another, one will be richer than another, and so on. To avoid all these defects, right instead of being equal would have to be unequal."

"But these defects are inevitable in the first phase of communist society as it is when it has just emerged after prolonged birth pangs from capitalist society. Right can never be higher than the economic structure of society and its cultural development conditioned thereby."

Despite the high social consciousness of socialist society, some degree of inequality will necessarily remain. We note, however, that the extent to which even the shadow of the "law of value" applies under socialism depends on specific historical conditions. Marx wrote that in socialism:

"The mode of ... distribution will vary with the productive organization of the community, and the degree of historical development attained by the producers. We will assume, but merely for the sake of a parallel with the production of commodities, that the share of each individual producer is determined by his labor time."³

That is, as the lower stage of communism further moves toward abundance, the need for bourgeois right will be to that extent diminished. Of all the bourgeois leftover Marx mentions, the clearest example of this development is in the last. Despite equal shares in consumption per worker, Marx says that some persons will receive more than others because

2. Lenin, *State and Revolution*, Chapter 5, part 3

3. *Capital*, Vol. I, Chapter 1, Section 4 (p. 78)

workers will still have different needs resulting from the size of their families, conditions of health, etc. Today we can add that much of this inequality would be mitigated by measures such as supplements for children and social benefits distributed publicly, independent of the labor contribution of individuals. The possibilities of a "social wage" are more visible in our day than in Marx's.

The most controversial aspects of bourgeois right under socialism derive from differences among labors over skill and intensity. Stalin, for example, during the course of the counterrevolution, sought to justify the growing inequality of Soviet society and impose stricter capitalistic restraints on the working class. He argued for higher wage differentials for skilled workers:

"The consequence of wage equalization is that the unskilled worker lacks the incentive to become a skilled worker and is thus deprived of the prospect of advancement ... that the skilled worker is obliged to wander from factory to factory until he finds one where his skill is properly appreciated. ... In order to put an end to this evil we must abolish wage equalization and discard the old wage scales.... We cannot tolerate a situation where a rolling-mill hand in a steel mill earns no more than a sweeper. We cannot tolerate a situation where a railway locomotive driver earns only as much as a copying clerk. Marx and Lenin said that the difference between skilled labor and unskilled labor would exist even under socialism, even after classes had been abolished; that only under communism would this difference disappear and that, therefore, even under socialism 'wages' must be paid according to work performed and not according to needs."⁴

Stalin's thinking was pure management rationalization - appropriately enough, since this speech was made to a conference of Soviet "business executives." But his audience in 1931 was still largely made up of old-time party members, so he invoked the authority of Marx and Lenin. In contrast to Stalin, of course, when Marx and Lenin said that under socialism inequalities would exist, they meant that these would be remnants of capitalism which the workers' state was dedicated to eliminate, not preserve. As for the distinction between skilled and unskilled labor that so concerns Stalin, Engels had mocked the idea that under socialism there would be differences in compensation. When society has taken over the responsibility of training and educating workers from the individuals themselves, there will be no justification for disproportionately rewarding those who are using the skills society has supplied. Engels was addressing his contemporary Dühring but could have been speaking straight to Stalin:

4. Stalin, "New Conditions, New Tasks in Economic Construction" (1931), *Problems of Leninism*, pp. 206-7

"For socialism, which will emancipate human labor power from its position as a *commodity*, the discovery that labor has no value and can have none is of great importance. With this discovery all attempts ... to regulate the future distribution of the necessities of life as a kind of more exalted wages necessarily fall to the ground. And from it too comes the further conviction that distribution, insofar as it is governed by purely economic considerations, is regulated by the interests of production, and production is most encouraged by a mode of distribution which allows *all* members of society to develop, maintain and exert their capacities in all possible directions. It is true that, to the mode of thought of the educated classes which Herr Dühring has inherited, it must seem monstrous that in time to come there will no longer be any professional porters or architects, and that the man who for half an hour gives instructions as an architect will also push a barrow for a period It is a fine sort of socialism which perpetuates the professional porter!"⁵

And, we might add, it is no socialism that preserves the professional sweeper or clerk - or, conversely, the professional manager and bureaucrat. That in Soviet Russia in the 1930's capitalistic norms were being sustained and admired, rather than regretted and combatted, demonstrates the conscious cynicism with which the Stalinist officials stepped up exploitation under the guise of having achieved socialism.

The most difficult question posed by Marx's analysis of bourgeois right arises over the intensity of labor. Should workers having the same skills and training and working the same number of hours still get the same return if one works harder than another? In the first passage from Marx cited above - "the social working day consists of the sum of the individual hours of work; the individual labor time of the individual producer is the part of the social working day contributed by him, his share in it" — Marx suggests that workers under socialism would be compensated for their hours of labor only: the standard would be the quantity and not the quality of their labor.

But the second passage is more ambiguous. If labor is measured by its "duration *or intensity*," if "unequal individual endowment" is recognized as a natural advantage, then the more intense or capable worker who contributes more effort in the same time could then receive greater compensation. That is one way to interpret "unequal right for unequal labor." On the other hand, the "right of inequality" can also be read as a right to equal compensation even though the work done is unequal, as long as its duration is equivalent. The latter interpretation is in keeping with the

5. Engels, "Simple and Combined Labor," *Anti-Dühring*, pp. 228-9

abolition of the law of value under socialism, when workers are motivated not simply by compensation but by their conscious participation in the socialist society.

This interpretation is also that of Engels and Lenin. Engels observed that the "basic law of the new economic commune" would be "equal wages for equal labor time."⁶ And Lenin noted that in the first phase of communist society:

"The ... socialist principle: 'An equal amount of labor for an equal quantity of products,' is also already realized. But this is not yet communism, and it does not abolish 'bourgeois right,' which gives to unequal individuals, in return for an unequal (actually unequal) amount of work, an equal quantity of products."⁷

That is, individuals of different capacities who perform unequal amounts of work but do so in equal hours of labor will nevertheless receive an equal share of society's output. It also should be noted that under socialism the labor required of society will be carried out collectively to the extent possible in every sphere. The element of competition among fellow-workers for higher compensation will be reduced or eliminated, and the element of cooperation for improving work will become dominant. Such conditions make all the more unnecessary the retention of most forms of inequality in distribution.

In sum, the Marxist tradition postulates that the transition of society to the highest state of communism necessarily passes through a socialist stage in which some bourgeois forms of inequality still remains. In part these "bourgeois rights" act in the opposite direction from what the name suggests: certain unequal rights will favor the worse-off sections of workers. But since "equal pay" will still be the governing principle for workers with unequal needs, the workers with greater needs will suffer comparatively. Before that stage, of course, the more familiar sort of bourgeois inequality would hold, where higher quality of labor would exchange for higher wages — to the degree that the law of value still operates. We will see this specifically in the early Soviet state, but first we investigate the transitional workers' state in general.

THE WORKERS' STATE

Until the higher stage of communism, bourgeois economic remnants will survive. So thought Marx, and Lenin went a step further: since the existence of material rights requires their enforcement, a state must still exist under the first stage of communism. What kind of state? Since it

defends bourgeois rights it is a bourgeois state; but it is not run by capitalists, since none exist, nor even by a separate class of workers, since all producers are now of the same class. Lenin termed this "bourgeois state without a bourgeoisie"⁸ a paradox, as indeed it is. It is the last flicker of the state before it is extinguished. But if such a state, however withered, is still necessary under socialism, how much more necessary is it in the transitional period between capitalism and socialism.

Marx postulated a state transitional between capitalism and the first stage of communism under which the development of the new conditions and social relations would be carried out:

"Between capitalist and communist society lies the period of the revolutionary transformation of the one into the other. There corresponds to this also a political transition period in which the state can be nothing but *the revolutionary dictatorship of the proletariat*. In a draft of his essay "The Civil War in France" on the Paris Commune of 1871, Marx outlined the tasks of the workers' state:

"The working class know that they have to pass through different phases of class struggle. They know that the superseding of the economical conditions of the slavery of labor by the conditions of free and associated labor can only be the progressive work of time, ... that they require not only a change of distribution, but a new organization of production, or rather the delivery (setting free) of the social forms of production in present organized labor (engendered by present industry), of the trammels of slavery, of their present class character - and their harmonious national and international coordination. They know that this work of regeneration will be again and again relented and impeded by the resistance of vested interests and class egotisms. They know that the present 'spontaneous action of the natural laws of capital and landed property' can only be superseded by 'the spontaneous action of the laws of social economy of free and associated labor' by a long process of development of new conditions ... But they know at the same time that great strides may be made at once through the Communal form of political organization and that the time has come to begin that movement for themselves and mankind."¹⁰

In brief, through its political control of the state, the proletariat will be able to combat all the hangovers of capitalist rule, above all the remaining features of capitalist economy and in particular the law of value. Setting

6. Engels, p. 229.

7. Lenin, *State and Revolution*, Chapter 4, part 3

8. Lenin, *State and Revolution*, Chapter 5, part 4.

9. Marx, *Critique of the Gotha Program*, Part IV.

10. Marx, First Draft of "The Civil War in France," *Marx and Engels on the Paris Commune*, Hal Draper, ed., pp. 154-5

up a "new organization of production" along with "harmonious national and international coordination" is no easy task, especially when there remain bourgeois forces to defend their old interests. We will discuss the political economy of the workers' state in greater detail, but first there are other matters to take up.

THE WORKERS' STATE AND "SOCIALISM"

It is common practice in describing Marx's theory of the transition to overlook the workers' state entirely - for example, to assume that the workers' state is the same thing as socialism. The superficial reason for the confusion is that both are transitional to the higher stage of communism. But it is not difficult to discern Marx's intention as well as the lessons of Soviet history.

The socialist stage refers to communist society "when it has just emerged after prolonged birth pangs from capitalist society." This does not mean that socialism is created right after the socialist revolution, when the bourgeoisie is ousted from state power; that would deny any transitional society between capitalism and communism. No, it implies that the workers' state that leads up to socialism is still part of the capitalist stage of history. The proletariat is a class that only exists within capitalism, as part of the wage-labor relationship. Since it cannot be abolished and still rule its own state (the dictatorship *of the proletariat*), that state is in that sense still bourgeois.

The early Soviet state, for these reasons, was considered by its founders to be not socialist but rather a transitional proletarian state. For example, the name "socialist" was included in the "Union of Soviet Socialist Republics" (USSR) to indicate the goal, not a status already achieved. As Lenin explained, "No one, I think, in studying the question of the economic system of Russia, has denied its transitional character. Nor, I think, has any Communist denied that the term Socialist Soviet Republic implies the determination of Soviet power to achieve the transition to socialism, and not that the new economic system is recognized as a socialist order."¹¹

Nevertheless, E.H. Carr, the eminent historian of the early Soviet state, contrasts Marx's "eventual communist society" (the higher stage) with his "transitional society which 'is just emerging from capitalist society' and continues to bear the 'birth marks' of its source." He is obviously quoting Marx on the first stage of communism and equating this with the tran-

sitional workers' state. Similarly, the Marxist Bertell Oilman claims that "Marx divides the communist future into halves, a first stage generally referred to as the 'dictatorship of the proletariat' and a second stage usually called 'full communism'.... The dictatorship of the proletariat comes in the wake of the revolution and exists until the onset of full communism."

Such writers obviously mean that Marx never expected full-fledged communism to emerge the morning after the revolution. Their implication is that Marx understood the difficulties that the transitional society would encounter. But the practical effect of confusing the two stages is to downplay the problems faced by the transitional society which has *not yet* emerged from capitalist conditions of production.

In a different spirit, Stalin decreed in the mid-1930's that the USSR had achieved socialism and was therefore no longer a proletarian dictatorship. For him nationalization of the means of production was the essential determinant of socialism. He could not pretend that separate classes no longer existed (only that they were "non-antagonistic") or that the state had withered away. As a result he invented a hitherto unforeseen stage of "communism" in which classes continued to exist and the state grew stronger.

As we will see in the next chapter, Stalinism at this time was driving headlong toward the restoration of capitalism in the USSR. The emerging ruling class needed to move away from the concept of a proletarian state and working-class rights. The Stalinists came up with the notion of "socialism" as a state no longer belonging to the workers but to the "whole people": the rule of the new intelligentsia/bureaucracy was advertised as a stage *beyond* the proletarian dictatorship. The 1936 Constitution mimicked the ideology of the "democratic bourgeoisie" in order to cement the diplomatic alliance with the Western powers; similarly, "people's power" in the USSR fed into the strategy of building Popular Fronts with bourgeois parties in the West, which also embraced the fiction of non-antagonistic classes.

Today Stalinist and Maoist theorists conveniently forget that the Soviet Union was not considered socialist at the start, even by Stalin. They use "socialism" instead of "dictatorship of the proletariat" to describe countries they consider transitional between capitalism and communism — for one reason, because of the obvious lack of anything proletarian in their dictatorship. Even so sophisticated a Maoist as Bettelheim praises Lenin for "renouncing" Marx's "idea that commodity categories were destined to disappear in the first phase of socialist society."^{1*} Obviously Marx was

11. Lenin, "Left-Wing' Childishness and the Petty-Bourgeois Mentality," May 1918, *Collected Works*, Vol. 27, p. 335.

12. Carr, *The Bolshevik Revolution*, Volume 2, pp. 14-15

13. Oilman, "Marx's Vision of Communism," *Critique* No. 8 (1977), pp. 9, 15.

14. Bettelheim, *The Transition to Socialist Economy*, Chapter 2, p. 111

referring to the first phase of communism, while Lenin was speaking of the early workers' state; Lenin never gave up the principle that socialism, a stage of communism, would be a society where scientific planning, not value, reigned.

The terminological misrepresentation goes to the heart of the Russian question. It is fundamentally a device for awarding Marxist authority to anti-working class social structures. In fact, the Stalinists who modeled post-World War II Eastern Europe on the Soviet Union never called their conquests "workers' states" They claimed originally that their states had a multi-class or popular character, using terms like "people's democracy." Only later did they apply the title "socialist." By avoiding an explicitly proletarian stage, they sidestepped having to explain the lack of any genuine role for the workers. Only the "orthodox Trotskyists" labeled the Stalinist states workers' states, with the adjective "deformed" attached to try to bring theory closer to reality (see Chapter 7); the rulers never bothered, and the masses knew better.

The theoretical elimination of the proletarian dictatorship from the transition to communism fits into the middle-class Marxists' rejection of the proletariat as the self-emancipating revolutionary class. As long as rational thinkers on top of society are going to do all the planning and eventually carry society to communism, why worry about distinctions between popular fronts, workers' states and socialism? There's no need to overthrow anybody once we're in power. That is the real meaning of Mao's "uninterrupted revolution": we're the leadership all the way. It has nothing in common with Trotsky's permanent revolution, a materialist assessment of the limitations of bourgeois rule in this epoch. Where Trotsky's strategy was aimed at winning the workers' independence from temporary and unreliable petty-bourgeois allies, Mao's aim was to prevent working-class independence and *genuine* proletarian revolution.

DICTATORSHIP AND DEMOCRACY

The term "dictatorship" in "dictatorship of the proletariat" has also been much misinterpreted. Marx was not a partisan of the dictatorial form of government that the word now suggests and that bourgeois commentators love to use in order to blame him for Stalinist totalitarianism. For Marx, *every* state, even the most democratic, was a dictatorship, because every state was the instrument of one class's domination over all others - through every means necessary, above all the monopoly of armed force. Any capitalist state, for example, is a "dictatorship of the bour-

geoisie"; even if it uses the most democratic mechanisms, it safeguards capitalist interests no matter how individuals are selected for state office. Thus property qualifications have often been used as barriers to voting and to holding office; they were abandoned under mass pressure but only when more sophisticated obstacles had been devised.

By the same token, any workers' state is a proletarian dictatorship. Marx and Engels so characterized the 1871 Commune - despite, on the one hand, its tragic reluctance to use sufficiently dictatorial methods against the bourgeoisie; and, on the other, its remarkably non-dictatorial innovations in the sphere of working-class democracy. Likewise, in rough parallel to a bourgeois state's favoritism towards wealthy property owners, the early Soviet state deliberately gave electoral advantages to the outnumbered working class. A significant symbol of the Stalinist counterrevolution was the abolition of these class privileges in the 1936 Constitution, which established "democratic" (i.e., formally bourgeois) parliamentary forms - on paper only, since Stalinist reality was far from democratic in any form.

Here we use the simpler term "workers' state" interchangeably with "dictatorship of the proletariat." But we do not mean to suggest that the workers' dictatorship entails no consequences that would frighten a petty-bourgeois democrat. The term "dictatorship" does not mean autocracy, but it does reflect the highly centralized character that a workers' state would need in order to ensure the domination of the working class. Democracy for the many means suppression of the special privileges of the exploiters, therefore suppression of their bourgeois-democratic rights. As opposed to bourgeois "pluralism," decisions made for society as a whole by the proletariat would be decisively carried out, since promises are meant to be kept and not bargained away to the highest bidder or lost in mazes of corruption and power-brokering. It is no accident that many socialistic opponents of Stalinism reject not only Stalin's dictatorship but also centralization, which is an authentic proletarian requirement. Their alternative of decentralization and "democracy" means a return to the class-based norms of the bourgeoisie.

The bourgeois conception of democracy was always pluralist rather than majoritarian. Genuine majority rule in capitalist society would obviously be threatening to the minority bourgeoisie in its struggle against the working class; hence the bourgeois propaganda today that labor is just one "special interest" among many. Likewise, the early republicans who wrote the United States constitution deliberately tried to hamper the formation of dangerous majorities. Their system was codified through the famous "checks and balances" and the "separation of powers" in the state. In this way they institutionalized the inherent rivalry and suspiciousness between

15. For a history of the controversy, see Draper, *Karl Marx's Theory of Revolution, Vol 3: The "Dictatorship of the Proletariat"* (1986)

the multiple centers and different forms of capital; they produced a market version of the bourgeois state.

Even the reformist, labor-bureaucratic notion of democracy has nothing to do with the workers' democracy exemplified by the Paris Commune. It simply extends the ruling-class understanding of pluralism to incorporate the proletarian masses. The workers have to be convinced that they can share political power and change the system - and simultaneously be prevented from doing so. Reformists consequently seek all possible deterrents and counterbalances to defend their own stake in society, their local baronies for brokering the sale of labor power.

In contrast, the workers' state enables the working class as a whole to wield state power. As the Commune and the early Soviets demonstrated, workers' delegates are subject to the intentions of, and immediate recall by, their constituents; they are given no special rights; their wage is no higher than that of ordinary workers; and they are responsible for carrying out the measures they adopt. Moreover, the Commune armed all citizens, including women, capable of bearing weapons.

The reformist view of democracy assumes the absurd: that equality can really exist in a society built on the division of the population into social classes. In contrast, the achievement of proletarian democracy depends on resolving the inherent contradictions of bourgeois-democratic rights through the steady advance of the productive forces, centralization of power and dissolution of the classes from which inequality springs. A workers' state is based on the principles of proletarian democracy and at the same time fulfills many bourgeois-democratic rights left over from capitalism. Its aim, however, is not to preserve democracy in any form but to eliminate the need for any state at all.

The reformist's democracy is in fact a defense of the content of the law of value underneath its egalitarian appearance: the law of unequal exchange and deepening exploitation. (We will see this program made explicit in Chapter 8.) Whereas proletarian democracy points to the fulfillment of the original promise that the law of value embodies: equality achieved through the ending of classes. At that point democracy will disappear as well, even proletarian democracy, for without antagonistic classes there is no need for a separate state apparatus of any kind, democratic or not. In Engels' famous phrase, the state withers away. "The government of persons is replaced by the administration of things."

POLITICAL ECONOMY OF A WORKERS' STATE

The founding Marxists all recognized that communist society requires not only a long period of time before it can be established but also new conditions which have to be constructed from scratch. Socialized forms of production already exist under capitalism, but not the requisite social

relations. Lenin put the problem this way:

"One of the fundamental differences between bourgeois revolution and socialist revolution is that for the bourgeois revolution, which arises out of feudalism, the new economic organizations are gradually created in the womb of the old order, gradually changing all the aspects of feudal society. The bourgeois revolution faced only one task — to sweep away, to cast aside, to destroy all the fetters of the preceding social order. By fulfilling this task every bourgeois revolution fulfills all that is required of it; it accelerates the growth of capitalism.

"The socialist revolution is in an altogether different position. ... The difference between a socialist revolution and a bourgeois revolution is that in the latter case there are ready-made forms of capitalist relationships; Soviet power - the proletarian power — does not inherit such ready-made relationships ..."¹⁶

In short, the bourgeois revolution places the bourgeoisie in power *after* its economic power has already been established, after the bourgeoisie has long existed as an economic class. Whereas the socialist revolution places the workers in power *before* socialist economic forms exist — before, for example, there can be any generalized non-commodity production. It is not enough, therefore, for the proletariat to simply do away with capitalists and their property; it must create from nothing the economic organization of socialism. The socialist revolution, unlike the bourgeois, is a conscious act of social transformation. Nevertheless, the workers' state inherits a capitalist economy and must therefore live with it at the same time that it transforms it - it is indeed a bourgeois state without the bourgeoisie. In order to overcome the laws and relations inherited from capitalism, the workers must consciously plan their economy. As increasingly more is produced and scarcity is conquered, the bourgeois laws are gradually reduced in force. Planning becomes fully dominant only when scarcity is ended, when the higher state of communism is reached. After all, there can be no qualitative change in production relations without a qualitative development of the productive forces.

The economic task of the workers' state is therefore to carry out the accumulative potential of capitalism and destroy the social basis for continued scarcity. The proletarian logic is to eliminate value production, since this means class exploitation and is therefore a barrier to the advance of the productive forces. (In contrast, under capitalism workers must often resist modernization in order to defend their working and living conditions against deeper exploitation and unemployment.)

16. Lenin, "Political Report of the Central Committee," March 7, 1918; *Collected Works*, Vol. 27. pp. 89-90

The proletarian state can accumulate value without the contradictions due to the separate ownership of capitalism — which makes exchange value and the labor time underlying it diverge. The reduction of scarcity undermines the existence of classes, as owners and petty owners are transformed, forcibly in some cases and slowly in others, into producers. Thus the growing use values gradually lose their aspect as capital. When the proletariat finally eliminates itself as a separate class, the last remnant of capitalism is abolished in production and socialism begins.

As we know, Marx from time to time illustrated the contradictory nature of capitalism by comparing it with the future socialist society. One question he dealt with was why the barriers to accumulation inherent in capitalism would not also apply to communism or the transitional workers' state. Here he shows how one capitalist barrier to the introduction of new machinery would be broken through:

"The use of machinery for the exclusive purpose of cheapening the product is limited in this way, that less labor must be expended in producing the machinery than is displaced by the employment of that machinery. For the capitalist, however, this use is still more limited. Instead of paying for the labor, he only pays the value of the labor power employed; therefore the limit to his using a machine is fixed by the difference between the value of the machine and the value of the labor power replaced by it."¹⁷

In Marx's algebraic notation, where the value of commodities produced is $C + V + S$, the capitalist will employ new methods only if they lower his costs, $C + V$ (constant plus variable capital) - that is, only if the additional C he must spend is less than the V that he saves. In contrast, in a workers' state, efficiency would be less restrictive, and of course would exclude efforts to lower wages. Machinery could be introduced simply if it lowered the total cost; that is, if the additional C were less than $V + S$ - an easier condition to meet.

Our interpretation of Marx's falling rate of profit theory provides an additional illustration of the greater efficiency of a workers' state. Under standard interpretations, the FRP is an automatic consequence of the rising organic composition of capital. But the organic composition will continue to rise in a workers' state: modernization and accumulation of capital to expand the resources of society are a necessity, hence embodied dead labor increases faster than living labor. If the standard interpretation were correct, the rising organic composition would make the rate of profit fall and would mean that society's rate of growth must slow down as dead labor accumulates. Thus the workers' state would stagnate, as in Bukhar-

17. *Capital*, Vol. I, Chapter 15, Section 2 (p. 392)

in's model of state capitalism.

In our interpretation, on the contrary, the FRP comes to dominate its countertendencies because of the disproportionate power of the strongest capitals that characterizes the epoch of decay. It depends both on the preponderant role played by monopolies in preventing equalization of the rate of profit and generating fictitious capital, and on the international inequality that allows imperialists the lions' share of surplus value. But under a workers' state, the major industries will be taken over from private capital, the special influence of powerful monopolies and the role of fictitious capital will end, and national limitations will be on their way out. The devaluation of fixed capital (in terms of labor time) that comes with increased productivity would make it easier, not harder, to invest in new techniques of production. Consequently, even during the period when the workers' state has not yet succeeded in abolishing value and capital, productive advances would not cause it to stagnate.

The early Soviet Union, the only workers' state that has yet existed long enough to put theory to the test, reflected these theoretical considerations only in part. It suffered from the illnesses of backward, not advanced, capitalism; still it was able to overcome the economic stagnation dominant in the capitalist world in the 1930's, largely because of the centralized power of its state. Today's USSR, however, embodying statified capitalism, does exhibit the stagnation tendencies imposed by the FRP (Chapter 5).

MANDEL'S THEORY

To examine the economy of a workers' state further we consider the views of Mandel and Cliff expressed in their theories of the Soviet system.

Mandel defines the economy of the Soviet "workers' state" as "marked by the contradictory combination of a non-capitalist mode of production and a still basically bourgeois mode of distribution."¹⁸ More recently he has used the term "post-capitalist." But since the only post-capitalist mode of production is the communist or socialist one, his implication is that the Soviet mode of production is socialist. Mandel's orthodoxy prevents him from calling Soviet production openly socialist, so he invents new terms.

Mandel's wording above echoes Marx's analysis in the *Critique of the Gotha Program*. He even cites Marx directly: "What we have to deal with here is a communist society, not as it has developed on its own founda-

18. Mandel, *Marxist Economic Theory*, Volume 2, Chapter 15, p. 565. In later work he argued that a workers' state must have specific "relations of production," different from both capitalism and communism; this avoids the question of the mode of production. ("Ten Theses on the Social and Economic Laws Governing the Society Transitional Between Capitalism and Socialism," *Critique* No. 3, 1974.)

tions, but, on the contrary, just as it emerges from capitalist society." Marx, as we have seen, was speaking here of socialism, not the workers' state - further evidence that Mandel's underlying conception is that Stalinism has a socialist mode of production.

Of course, if Marx could expect capitalist remnants under socialism, surely we will see them under a workers' state. But applying Marx's picture to Stalin's USSR requires a leap over logic and history. The exchange of equal amounts of labor which Marx discussed in no way applies to Stalinism (or, for that matter, to the early USSR of Lenin's day). Stalinism made inequality of exchange (especially of wage labor) the dominant principle. This was not just the paradoxical inequality that arise out of equal rights under socialism, but inequality in the everyday decadent capitalist sense.

Further: the bourgeois right that remains in socialist distribution is by no means a bourgeois (or even "basically bourgeois") *mode* of distribution. As Marx explained:

"If the material conditions of production are the cooperative property of the workers themselves, then there likewise results a distribution of the means of consumption different from the present one. Vulgar socialism (and from it in turn a section of the democracy) has taken over from the bourgeois economists the consideration and treatment of distribution as independent of the mode of production and hence the presentation of socialism as turning principally on distribution. After the real relation has long been made clear, why retrogress again?"¹⁹

In Marx's day, of course, the "present" conditions of distribution were bourgeois; hence the "different" distribution applicable to socialism is not bourgeois, basically or otherwise. It will be basically socialist, despite its bourgeois hangovers - in what other society is distribution genuinely based on the work done by the producers? Bourgeois *forms* will remain without their class *content*.

Mandel has taken Marx's analysis of distorted bourgeois rights under socialism as a license to discover socialist production where bourgeois forms are distorted by state ownership. And since he conceives that the Soviet Union fails to be socialist solely because of its bourgeois distribution, he indeed presents socialism as "turning principally on distribution." It is only another aspect of standard middle-class populism - or, for Marx, "vulgar socialism."

19. Marx, *Critique of the Gotha Program*, Part I, section 3.

20. Mandel's misrepresentation of Marx is standard among "orthodox Trotskyists," even his political opponents. The same errors can be found, for example, in *Marxism and the USSR* (1979) by Paul Bellis, pp. 20-23, and *The Degenerated Revolution* (1982) by the MRCL, pp. 4-5

Mandel undoubtedly believes that in all this he is following Trotsky, who wrote, for example, that "The [Soviet] state assumes directly and from the beginning a dual character: socialistic, insofar as it defends social property in the means of production; bourgeois, insofar as the distribution of life's goods is carried out with a capitalistic measure of value..."²¹

Trotsky was wrong to suggest that the only bourgeois remnants in the Soviet workers' state were in distribution. But there is a significant difference between Trotsky and Mandel. Trotsky called Soviet *property* social, not the socio-economic system or mode of production as a whole. His term "socialistic" - like Lenin's "USSR" - referred to the goal to be achieved; he did not claim that socialist production already existed in the transitional state. This is clear from his more exact elaboration on "social property":

"In order to become social, private property must as inevitably pass through the state stage as the caterpillar in order to become a butterfly must pass through the pupal stage. But a pupa is not a butterfly. Myriads of pupae perish without ever becoming butterflies. State property becomes the property of "the whole people" [as Stalin claimed] only to the degree that social privilege and differentiation disappear, and therewith the necessity of the state. In other words: state property is converted into socialist property in proportion as it ceases to be state property. And the contrary is true: the higher the Soviet state rises above the people, and the more fiercely it opposes itself as the guardian of property to the people as its squanderer, the more obviously does it testify against the socialist character of this state property."²²

For Trotsky, Soviet property in the mid-1930's was "socialistic" in that it was state-owned, but it was hardly *socialist*. Mandel's contrary conception goes a long way toward accepting the Stalinist redefinition of the Soviet state as socialist.

CLIFFS THEORY

Despite his formal difference with Mandel over whether Stalinist production is non-capitalist, Cliff agrees that a workers' state has no fundamental laws (although it does have some features) in common with capitalism. This shows up in his argument implying that the law of value cannot apply in a workers' state:

"In a workers' state as well as in the capitalist, commodity economy equivalents are exchanged; a product containing a certain quantity of

21. Trotsky, *The Revolution Betrayed*, Chapter 3, p. 54.

22. *The Revolution Betrayed*, Chapter 9, p. 237

socially necessary labor is exchanged for another product containing an equivalent amount. But in a workers' state this result is achieved firstly through the conscious direction of the economy and not through the action of blind forces, and secondly - and this is of fundamental importance - the exchange of equivalents is based on the existence of the equality of rights of all direct producers as regards the ownership of the means of production. This description of consciousness ruling over blind laws clashes sharply with the severe conditions of Soviet Russia in the mid-1920's, which Cliff (correctly) considers to have been still a workers' state. But Cliff is wrong even with respect to Marx's understanding of political economy in a more advanced workers' state. He is making the same error as Mandel of reading Marx's description of the first stage of *communist* society and applying it to the workers' state that still has to cope with the law of value.

Mandel and Cliff share the idea that the workers' state can abolish capitalism's laws of motion before it yields the historical stage to communism. This is another clue to the political outlook of middle-class Marxists. To deny the capitalist content of the workers' state means in reality to reject the transitional stage completely, for the logic of the position is to insist that value be immediately abolished. The contrast with Marx's view could not be sharper. Moreover, it follows that if workers cannot do the job of abolishing value directly (because they allegedly have interests too closely linked to money-grubbing capitalism), then the task falls on other shoulders, the benevolent and disinterested middle classes. The position is as self-serving as it is un-Marxist.

Cliff and Mandel present a "workers' state" in which the law of value has been abolished - at the same time that scarcity reigns. The idea is an idealist absurdity, a typically middle-class conception that asserts the primacy of consciousness ("planning," however mangled) over objective conditions. It is of a piece with their common claptrap that use values are dominant in the scarcity-ridden Russia of today. It shows that the law of value for them is not an inherent law mediating scarcity but an optional tool which society may or may not choose to employ - a notion they share with the Stalinist planners.

Cliff's foremost theoretical co-thinker for many years, Michael Kidron, went so far as to deny, in a polemic against Mandel, that a transitional workers' state was conceivable. "But what is a transitional society in Mandel's context other than a verbal convenience? Is such a form possible between capitalism and socialism?" Answering his own questions, Kidron allowed that transitional societies had existed in the historical past, citing

23. Cliff, *Russia, a Marxist Analysis*, p. 98; *State Capitalism in Russia*, p. 153

capitals sprouting within feudal society.

"But socialism is a total system. It cannot grow piecemeal within the interstices of a capitalist society. How does workers' control of production coexist with control by a ruling class when the means of production in dispute are one and the same? ... There may be room for transitional forms in distribution, but at the level of production the only possible transition is a sudden, revolutionary one."²⁴

Kidron thereby disavows a major teaching of Marxism, the chief justification for the Bolshevik revolution against charges of adventurism and prematurity from the Mensheviks and other social democrats. He also provides evidence for the standard Stalinist slander of Trotskyism, that permanent revolution means that the workers have to overthrow capitalism everywhere at once. Kidron's position is obviously at variance with Cliffs. Nevertheless, when Mandel replied to Kidron's article (including an attack on this point) and the Cliff tendency responded at length, their spokesman had nothing to say about Kidron's theoretical innovation.²⁵ The Cliffites' performance was another illustration of the middle-class Marxist view that the question of the workers' state is a hairsplitting point that really doesn't matter very much.

THE PARADOX OF A WORKERS' STATE

Since production and distribution operate under a new mode in the socialist stage of communism, in the transitional workers' state before socialism this mode must be gradually overcoming the capitalist heritage of value and scarcity. Even under the best of circumstances this heritage bears a grave danger for the workers' state. It is the basis for restoration of capitalist relations.

A genuine workers' state is truly paradoxical. For example, the proletariat is the ruling class, ruling over the petty bourgeoisie and whatever remains of the capitalists. Most major industry, eventually all of it, will be owned by the state. The proletarians working for the state still produce value and therefore surplus value. But they are not exploited, because there is no exploiting class, no bourgeoisie, to appropriate the surplus value; it goes to the state to be used for the collective good of the workers as determined by the collective working class (for further accumulation, insurance against disasters, etc.)

24. Kidron, "Maginot Marxism: Mandel's Economics," *International Socialism* No. 36 (1969), reprinted in *Capitalism and Theory* (1974).

25. Chris Harman, "The Inconsistencies of Ernest Mandel," *International Socialism* No. 41 (1969-70). Mandel's reply is in the International Marxist Group's pamphlet, *The Inconsistencies of State Capitalism*

But in the early stages of a workers' state - especially one that remains backward, isolated internationally or for whatever reason cannot as yet expropriate the internal capitalists - capitalist relations survive. Industries still need to compete; planning is to that degree determined by capitalist conditions beyond the workers' control. The state allows some capitalists to exploit workers, it itself produces and accumulates in part for sale to capitalists, perhaps on unequal terms; in this sense the workers' state is compelled to act as an exploiting agent over its own workers, even though it controls and subordinates this "exploitation" to the utmost.

This contradictory condition is possible only because it is temporary and changing. As the proletarian state develops toward socialism, as capitalism is gradually undermined and destroyed, the workers' "self-exploitation" withers away. When the socialist revolution occurs in an industrially advanced group of countries the transitional period of workers' states could be short. But as long as the transitional state has not withered away, there is always the possibility of slipping into reverse gear and moving in the other direction, back towards capitalism. That is what we see in the initial years of the Soviet state.

Another paradoxical condition is that, as the workers' state expropriates the bourgeoisie and consolidates capital into its own hands, it creates in effect a single capital. But as we saw in Chapter 2, a single capital is an impossibility. Under bourgeois rule, it would be prevented by the internal rivalries of the bourgeoisie and their fear that it would become too tempting a target for the workers' revolt. Even under a workers' state, a "single capital" would appear to be a contradiction in terms, because with a genuine collective ownership there would be no need for a now artificial value to measure quantities of products for distribution.

The resolution of this contradiction is that, as the workers' state moves toward socialism, the separate enterprises develop toward a single capital - although to one degree or another they still are obliged to compete in order for society to evaluate production with the greatest efficiency. When that level of planning can be achieved, then in effect the workers' state has reached its end - and with it, the "single capital."

Recall from Chapter 2 that Engels wrote that with the statification of capital, "the capitalist relation is not done away with; it is rather brought to a head. But brought to a head it topples over." This is true even if the state ownership is accomplished by the workers rather than the bourgeoisie. Engels' response - "state ownership of the productive forces is not the solution of the conflict, but concealed within it are the technical conditions that form the elements of that solution" - reflects the truth that statification *under the workers' centralized state power* is the active agency that can transform potential into reality by laying the basis for the abolition of the capitalist relation

2. THE STRUGGLE FOR THE SOVIET STATE

Contrary to Marx's expectations, the proletarian revolution first occurred not in an advanced capitalist country but in the most primitive of the imperialist empires. Although revolutionary uprisings spread across Central Europe, they were everywhere defeated — above all because of the treachery of the social-democratic politicians, aided by the Kautskyist centrists. As a result the difficulties the Bolsheviks faced in the transitional period were far greater than had been foreseen.

The full tragedy of the decay of the Soviet revolution cannot be depicted in an analytical work. What we have to do here is explain the political significance of the strategies and programs to defend the Soviet workers' state that were adopted or rejected by the contending forces.

INITIAL BOLSHEVIK POLICIES

The Russian revolution faced the immediate problem of survival in an economically backward, internationally isolated and war-torn country. These burdens were multiplied by the needs of military defense of the new Soviet state against imperialist invasions and homegrown counterrevolutionary armies. While the revolution's military foes were defeated, so too was the international revolution; the battered workers' state was left to deal with its backwardness alone. The Bolshevik strategy was to surmount Russia's overwhelming limitations enough to hold out until the proletarian revolution erupted again abroad.

The Bolsheviks threw much of their limited resources into the task of aiding revolutions. It may seem strange in comparison to the nationalist assumptions of much of today's left, but Lenin was no Soviet nationalist. He stressed the central importance of the revolution in Germany (the industrial country where working-class organizations were strongest); he said that if the Russian revolution had to be sacrificed to bring about the German, so be it. The main significance of the Russian revolution was the part it could play in triggering the world revolution. The Bolsheviks' first aim, therefore, was the creation of the Communist Third International to replace the "yellow" social-democratic Second.

At home, in the first months of the revolution, major economic steps were taken. The banks were expropriated, a state monopoly of foreign trade was established, and in the countryside the land was nationalized and the large estates broken up and distributed among the peasants. The government at first attempted to restore industrial production with private firms operating under workers' control (i.e., supervision), but in the face

of capitalist hostility and the workers' pressure, industries had to be nationalized as well.

As we have seen, at the birth of a workers' state, capitalist conditions may yield only slowly to socialist measures like state planning. This general problem was qualitatively worse for the USSR. Shortly after the revolution, Lenin observed that it was easier to expropriate capitalists than to organize the economy on proletarian lines. Compromise measures were introduced: high salaries for bourgeois experts, piecework and "much that is scientific and progressive in the Taylor system," and competitive wages to raise labor discipline. Lenin noted honestly that the Soviet government had been obliged "to take a step backward, or to agree to compromise with bourgeois tendencies."²⁶ Ten years later such measures would be hailed as the epitome of socialism.

During the strenuous, heroic civil war period, however, many Bolsheviks became convinced that capitalism had been truly abolished. The unfortunate reality was that acute wartime conditions made necessary the policy of "war communism" - elimination of the market, forced requisitions from the peasants, payment of the workers in goods rather than worthless money. But this was actually a step backward, not an advance toward the higher productivity characteristic of socialism. Lenin noted retrospectively:

"We expected - or perhaps it would be truer to say that we presumed without having given it adequate consideration — to be able to organize the state production and the state distribution of products on communist lines in a small-peasant country directly as ordered by the proletarian state. Experience has proved that we were wrong. It appears that a number of transitional stages were necessary - state capitalism and socialism - in order to *prepare* - to prepare by many years of effort - for the transition to communism. ... Aided by the enthusiasm engendered by the great revolution, and on the basis of personal interest, personal incentive and business principles, we must first set to work in this small-peasant country to build solid gangways to socialism by way of state capitalism."²⁷

We will discuss shortly what Lenin meant by state capitalism under a workers' state. The Bolsheviks misjudged war communism because they anticipated - and knew that the future of the revolution depended on - early victories of socialism in Western Europe. Only when it was clear that

such victories were not coming did they realize that they would have to live with a transitional workers' state in Russia for an extended period.

When the civil war ended in 1921, the Bolsheviks had to deal with a situation worse than mere survivals of capitalism. On the one hand, the vast majority of the people were peasants, who had acquired land through the revolution and consequently deepened their petty-bourgeois consciousness. On the other, the country was devastated, industry was producing at a fraction of its pre-1914 capacity, and the working class itself was shattered, having moved out of the cities into the army and countryside.

Under Lenin's direction the leadership sought a way out: the personal incentives and business principles just cited. His "New Economic Policy" (NEP) of the 1920's legalized the market and encouraged private commercial trading and small bourgeois production (as well as foreign investments, of which little was actually attracted). At the same time, the first steps toward state planning were undertaken in 1921: a plan for electrification and the establishment of the State Planning Commission (Gosplan). Recovery resulted, and by 1926 production had been restored to its pre-war levels: people could eat again. On the other hand, the workers' state then had to combat the effects of the small-scale capitalism that had revived. Some social benefits were introduced and others promised, but scarcity, exploitation and inequality dominated the economy. The law of value still retained its iron grip.

We have noted that the fundamental revolutionary task in the economic sphere is combatting the law of value: overcoming its effects and replacing it with conscious planning to the extent possible. But under the petty commodity production that dominated the early Soviet Union, the laws of capitalism wielded far more control than they would have under a more advanced workers' state. And because of the power of the world market, the threat was ever present that imperialism would overwhelm the workers' state, penetrating through every concession made to capitalism.

How could there be conscious workers' planning when the proletariat was small, decimated and overburdened? Only through a major industrial and cultural advance and a rise in the standard of living could the working class become genuinely dominant. But to increase the resources available to the workers, the Soviet economy had to first be put back on its feet. And this required resorting to capitalist measures even beyond the restoration of trade and petty-bourgeois production. These dangerous but desperately necessary measures could maintain the USSR as a workers' state only for a time. Revolutions in advanced countries were critical to break the imperialist encirclement and allow revolutionary Russia to survive.

26. Lenin, "Six Theses on the Immediate Tasks of the Soviet Government," *Collected Works*, Vol. 27, p. 315.

27. Lenin, "Fourth Anniversary of the October Revolution," *Collected Works*, Vol. 33, p. 58

"STATE CAPITALISM"

Lenin's solution was summarized as "state capitalism." This term had been used by Marxist writers to mean intervention by a bourgeois state into the economy, up to and including state ownership of major means of production. The German war economy gave state capitalism the concrete meaning of planning and organization in the war years preceding the revolution; it was a powerful example, for Lenin especially. He wrote in 1918:

"What is state capitalism under Soviet power? To achieve state capitalism at the present time means putting into effect the accounting and control that the capitalist classes carried out. ... If we had it in Russia, the transition to full socialism would be easy, would be within our grasp, because state capitalism is something centralized, calculated, controlled and socialized, and that is exactly what we lack; we are threatened by the element of petty-bourgeois slovenliness, which more than anything else has been developed by the whole history of Russia and her economy, and which prevents us from taking the very step on which the success of socialism depends."²⁸

The petty-bourgeois attitude against which Lenin wrote was that of "grabbing as much as possible for himself, to exploit the fruits of victory [over the big bourgeoisie] for himself and for his own ends." The Russian petty bourgeois, only recently emerged from pre-capitalist rule, acted as a capitalist only in the pettiest sense of narrow-minded avarice, not with the goal of economic development. A peasant, for example would not conceive of investing his surplus in industries vital for producing the goods needed in agriculture, even if this was certain to be profitable. He would rather seek to extend his own petty holdings, perhaps hire labor to help work the land, or hoard his surplus.

In contrast, "state capitalism" meant the highest degree of planning and centralization yet attained by civilization. Lenin was not dealing here with the decadence of state and monopoly capitalism that he had stressed in his work on imperialism. The wasteful and reactionary aspects of monopoly would be eliminated by accounting and control in the interest of the worker and peasant majority. Since the revolution's chief economic problem was to overcome backwardness, Lenin saw state capitalism as an ally of the workers' state, an unavoidable stage (under Russian conditions) on the way to socialism

28. Lenin, "Report on the Immediate Tasks of the Soviet Government," April 29, 1918, in *Collected Works*, Vol. 27, pp. 294-5; see also p. 339. The same ideas were repeated after the adoption of the NEP; see "The Tax in Kind," *Collected Works*, Vol. 32, from p. 330 on, and "Report to the Fourth Congress of the Communist International," November 13, 1922, Vol. 33, pp. 418-22

Given Soviet conditions, the planning that the workers' state sought to undertake could not yet be socialist planning based on the full scientific consciousness of free, associated producers. Nor, on the other hand, could the workers limit themselves to capitalist state planning with the bourgeois goal of expanding value and surplus value. What had to be done was conscious intervention of the proletarian state into the economy to lessen the harmful consequences of capitalist relations for the workers, on the one hand, and to find strategies for developing the economy, on the other.

With the distinction between petty capitalism and capitalist socialization in mind, Lenin distinguished five categories of Soviet production: 1) "natural" (pre-capitalist) farming; 2) small commodity (e.g., peasant) production; 3) private capitalism on a larger scale; 4) state capitalism; and 5) socialism. Under state capitalism he included: a) concessions to foreign or domestic capitalists for the development of state-owned industry and raw materials; b) cooperatives for petty-bourgeois and peasant producers (which facilitated organization and state supervision); and c) hiring capitalists as agents for selling state-produced goods.

Lenin's term "socialist" production referred to the factories owned by the state and directly managed by its agents; he clearly used the word in the same sense that he had with the name "USSR," meaning industry that was furthest along the path to the socialist goal. On the distinction between state capitalist and socialist industry, Trotsky criticized Lenin's use of "the term 'state capitalism' which we employ in referring to our state economy."²⁹ He also generalized the term "socialist," applying it in Lenin's directional sense to all Soviet industry:

"The industry of the workers' state is a socialist industry in its tendencies of development, but in order to develop, it utilizes methods which were invented by capitalist economy and which we have far from outlived as yet. ... In our country, the growth of Soviet state industry signifies the growth of socialism itself, a direct strengthening of the power of the proletariat."³⁰

The term "socialist industry," however, has been badly misused, above all in Stalin's self-serving claim that capitalist laws disappear when *all* industry and agriculture is statified. It would have been clearer had the Bolsheviks called the entire economy of the workers' state under the NEP "state capitalist," in order to show that the operational laws of capitalism had only barely been touched in any sphere of the economy.

29. We can find no example of Lenin using "state capitalism" for the state economy as a whole. A later comment by Trotsky confirms this: "The Class Nature of the Soviet State," *Writings (1933-34)*, p. 110. [30. Trotsky (1922), *The First Five Years of the Comintern*, Vol. 2, pp. 244-5

The error was compounded in the theoretical work of Preobrazhensky, which became the model for much confusion in what was later called the "political economy of socialism." As we saw in Chapter 2, for Preobrazhensky capitalist state ownership meant, "almost completely," the end of value production. All the more so for the Soviet state:

"In Soviet economy the connection between trustified state industry and the independent peasant holding is infinitely weaker in respect of exchange and of credit, while the *organizational* structure of industry is historically of a higher type than in any capitalist country. As a result we must inevitably have a far-reaching atrophy of the working of the law of value within the state economic sector, along with a very great development of the working of the law of value beyond the limits of the state economy..."³¹

Preobrazhensky believed that in the state-owned industries value was essentially eliminated because of the dominance of planning and the weakness of trade with the petty-bourgeois sector. He regarded the law of value chiefly as a regulator of prices based on supply and demand in the market, not as a guide to the objective tendencies of the economy rooted in production by means of labor power. Indeed, he believed that state industry, despite the backwardness of the level of production, was "abolishing the commodity status of labor power" to a great degree. The full implications of this error were drawn out only later by others, including Stalin, and we will take them up in Chapter 5.

In contrast, Trotsky's description of state industry made its adherence to capitalist norms of labor was unmistakable: "The principles of commercial calculation have been reintroduced into the state-owned enterprises and the wages again made dependent on skill and output of workers."

Lenin went even further. As the famous trade union debate within the party showed, he understood the implications of bourgeois drives within the NEP far better than other leaders (including Trotsky, who was on the wrong side on this question). It was not enough to admit that labor would be treated capitalistically; as well, workers would have to be free to defend themselves from the inherent dangers of capitalist operation:

"The transfer of state enterprises to the so-called profit basis is inevitably and inseparably connected with the New Economic Policy;... In view of the urgent need to increase the productivity of labor and

make every state enterprise pay its way and show a profit, and in view of the inevitable rise of narrow departmental interests and excessive departmental zeal, this circumstance is bound to create a certain conflict of interests in matters concerning labor conditions between the masses of workers and the directors and managers of the state enterprise, or the government departments in charge of them. Therefore, as regards the socialized enterprises, it is undoubtedly the duty of the trade unions to protect the interests of the working people ..."³⁴

Despite the capitalist norms of their internal operation, Lenin hoped that the state firms, through participation in planned economy and production for the interests of the proletariat, would help bring the Soviet state towards socialism. This failed: conditions were too harsh, and the advanced elements of the working class too few, to carry out the necessary organization and planning. "There is hardly any evidence of the operation of an integrated state economic plan," Lenin wrote in 1921 to the head of the state planning commission. He advocated favoring the most essential industries and shutting down inefficient factories "which are being kept running by tradition, routine and the unwillingness of the workers to change their occupation and domicile." And in 1922 he warned the party congress, "During the past year we showed quite clearly that we cannot run the economy. That is the fundamental lesson. Either we prove the opposite in the coming year, or Soviet power will not be able to exist."³⁵

There were "left communists" at the time who regarded Lenin's NEP as an unprincipled return to capitalism, in effect the overthrow of the proletarian revolution. This view ignores not only that capitalist relations of production are unavoidable in the first period of any proletarian state, but also that under the prevailing conditions they could hardly have been done away with. Politically the anti-NEP view represents a moralistic ultra-left refusal to retreat when necessary; it also reveals the same idealistic understanding of the law of value that is so pervasive today. With the NEP the Bolsheviks recognized the undeniable reality of the USSR's petty-capitalist environment and attempted to adapt to it economically in order to overcome it. That they failed was partly a product of devastating economic conditions, but most significantly the result of the party's political accommodation to the necessity of retreat.

It must be said that the Bolsheviks made important mistakes under the enormous pressures they faced. For example, the banning of factions within

31. Preobrazhensky, *The New Economics*, p. 161.

32. *The New Economics*, p. 191.

33. Trotsky (1922), *The First Five Years of the Comintern*, Vol. 2, p. 267. Note that Trotsky did not pretend that Soviet wages, dependent as they were on value considerations such as skill and intensity, were examples of socialist distribution

34. Lenin, "The Role and Function of the Trade Unions Under the New Economic Policy," January 1922; *Collected Works*, Vol. 33, pp. 185-6.

35. Lenin, "Letter to Comrade Krzhizhanovsky," *Collected Works*, Vol. 32, pp. 371-4; and *Collected Works*, Vol. 33, p. 274

the Communist Party and the prohibition of all other working-class parties were measures taken under duress and initially regarded as temporary. (The last soviet party aside from the Bolsheviks, the Social Revolutionaries, had to be suppressed because of their adherence to the armed counterrevolution during the civil war of 1918-21.) But as during war communism, positions of retreat were too often defended as substantive conquests, increasingly so as the workers' state degenerated. Severe measures necessary to defend the workers' state, like the suppression of the Kron-stadt mutiny in 1921, later became the justification for armed repression of the workers' state's defenders.

THE ORIGINS OF BUREAUCRATIC DECAY

The element of workers' consciousness that characterizes a workers' state was seen first of all in the instruments of proletarian power: workers' councils (the Soviets), militias, factory committees, trade unions, working-class parties, etc. These organs need to grow to include broader sections of the working class. After the working class was so terribly weakened in the civil war, only the revolutionary vanguard was taking part in economic and political administration. But gradually the entire class would have to become involved directly. To make this possible required raising wages and shortening working hours so that workers had the time, energy and enthusiasm to devote to politics.

Lenin enumerated the virtues of the Soviets for the early Soviet state:

"The Soviets are a new state apparatus which, in the first place, provides an armed force of workers and peasants; and this force is not divorced from the people, as was the old standing army, but is very closely bound up with the people... Secondly, this apparatus provides a bond with ... the majority of the people so intimate, so indissoluble, so easily verifiable and renewable, that nothing even remotely like it existed in the previous state apparatus. Thirdly, this apparatus, by virtue of the fact that its personnel is elected and subject to recall at the people's will without any bureaucratic formalities, is far more democratic than any previous apparatus. Fourthly, it provides a close contact with the most varied professions, thereby facilitating the adoption of the most varied and most radical reforms without red tape. Fifthly, it provides an organizational form for the vanguard, i.e., for the most class-conscious, most energetic and most progressive sections of the oppressed classes,... by means of which the vanguard of the oppressed classes can elevate, train, educate and lead the entire vast mass of these classes, which has up to now stood completely outside of political life and history. Sixthly, it makes it possible to combine the advantages of the parliamentary system with those of immediate and direct democracy, i.e., to vest in the people's representatives both legislative and executive

functions."³⁰

The fifth factor listed by Lenin - the role of the vanguard party - is especially significant. We have seen the role of the party in making the dual-power Soviets revolutionary during the events of 1917. It is doubly necessary after the revolution. The political life of the workers' state features struggles not only against the bourgeoisie and its allies but also within the working class, against the backward sectors prone to adapt to bourgeois interests.

Tragically, the Soviets as described by Lenin did not survive the civil wars. Many of the leading proletarians left to constitute the backbone of the predominantly peasant Red Army. Others had to leave the factories and become attached to the apparatuses developing inside the party and state. Their ties to the masses loosened. The Soviets, once teeming with the heady political life of increasingly conscious masses taking their own destiny in hand, turned into institutions of command, dispensing with debate in the effort to organize survival. As hunger narrowed the workers' horizons, bureaucracy supplanted initiative. And the workers' state had no choice but to incorporate elements of the old Czarist and bourgeois order; who else was educated and trained in the military arts and administration?

In 1919 Lenin observed that "the Soviets, which by virtue of their program are organs of government *by the working people*, are in fact organs of government *for the working people* by the advanced section of the proletariat, but not by the working people as a whole." By 1921 the situation was far worse: the state was "not quite a workers' state" but one with "a bureaucratic twist to it," or "a workers' state with bureaucratic distortions." The Bolshevik party, capable of making the revolution through the efforts of a small but politically conscious and dedicated proletarian cadre leading masses of workers and peasants, was overwhelmed by the problems of governing a vast country facing economic disaster and a decimated proletariat. It had to rely heavily on officials and experts from the former state bureaucracy and the Czarist intelligentsia - for both their administrative experience as well as specialized knowledge. In 1922 Lenin summed up the situation:

"If we take Moscow with its 4700 Communists in responsible positions, and if we take that huge bureaucratic machine, that gigantic heap, we must ask: who is directing whom?"³⁸

36. Lenin, "Can the Bolsheviks Retain State Power?," *Collected Works*, Vol. 26, pp. 103-4.

37. Lenin, "Report on the Party Program," *Collected Works*, Vol. 29, pp. 183; Vol. 32, pp. 24, 48.

38. *Collected Works*, Vol. 33, p. 288. Lenin cites a figure of 243,000 public officials in Moscow at that time (p. 394).

With the trade unions and Soviets bureaucratized or atrophied, the Bolshevik party remained the only workers' institution linking the working class to the state. But the party too was succumbing to bureaucracy. Joseph Stalin became the party's general secretary (originally an administrative post, not the top political position) and accrued more and more power through appointments to the expanding apparatus.

In the absence of revolution abroad, Lenin spent the last years of his life struggling over the degeneration of the party and the state without finding a solution. In his final effort, his Testament, he demanded Stalin's removal as general secretary and the expulsion of other Bolsheviks whose bureaucratic methods had come to his attention; he proposed a bloc with Trotsky to these ends. But the struggle was delayed, and bureaucratism expanded - beyond degenerating officials using bad methods to a whole parasitic layer infecting the entire party and the state apparatus.

In 1923 when Lenin was ill, Stalin's bureaucracy proved able to control elections to the party congress and force opponents into public silence. After Lenin's death in 1924, for example, his Testament was kept from the party membership. Then Stalin engineered the infamous "Lenin levy," recruiting into the party tens of thousands of more backward members; this swamped the old Bolshevik cadre and diluted the party's revolutionary character. Advancement within the party and state was increasingly determined by bureaucrats who owed their positions to Stalin and his inner apparatus; this faction grew like a tapeworm in the party's vital organs. Ex-Menshevik careerists were welcomed into the party despite their record of opposition to the 1917 revolution, and soon were rewarded with leading positions; they came to the forefront later in the struggle against the opposition against the Stalinist bureaucracy led by Trotsky.

The events of 1917 had proved Lenin right on the centrality of the revolutionary party; proletarian leadership was the decisive question of the epoch, the essential ingredient of permanent revolution. So too with the fate of the Soviet state when the Bolshevik party was under siege. Trotsky later characterized the 1923-24 period as the "Thermidor" of the Russian revolution, the turning point when the anti-proletarian forces who would pave the way to counterrevolution got the upper hand.

Lenin had already labeled the Soviet Union a "workers' state with bureaucratic deformations," and it is clear that the history of even the early Soviet Union hardly fits the Marxist model of a proletarian state. It would not be incorrect to call it a "deformed workers' state" almost from the start, a workers' state whose transition to socialism was disastrously

hampered by its backwardness and isolation. Such a usage would have to be distinguished from the post-World War II "deformed workers' state" notions that contrasted the later Stalinist creations with the "healthy workers' state" of Lenin and Trotsky (the latter is a grotesque label if ever there was one, given the reality). The difference is that the early Soviet state *was* a workers' state, however deformed. The workers created it through their revolution, defended it against the combined attack of the imperialists and autocrats and sacrificed - and were to continue to sacrifice immensely - to allow it to survive and develop.

THE LEFT OPPOSITION

During the New Economic Policy period of the 1920's after Lenin's death, the political struggle within the Communist Party appeared to be three-cornered. The working class confronted bourgeois elements built up under the NEP on the one hand* and the bureaucracy on the other, growing ever more separate from the workers. Since other parties had been suppressed, all the divergent class forces in Soviet society were reflected within the ruling CP.

While the NEP stimulated economic recovery by reviving peasant and private capitalist production, industrial growth as well as conscious control over the economy lagged behind. Trotsky cited the "scissors crisis," in which peasants hesitated to sell their goods at prices that were relatively far below the costs of the industrial goods they needed. After Lenin died in 1924, the party majority under Stalin and Bukharin resisted industrialization in order to avoid conflict with the peasantry, which held in its hands the bulk of the country's surplus value. But the state needed surplus value to develop the productive forces and to advance the masses' living standards. How could this be accomplished through proletarian methods?

Trotsky led the wing of the party, the Left Opposition, that advocated faster industrialization in order to strengthen and enlarge the proletariat. The Left called for a progressive tax on the richer peasantry and an extension of the sector governed by the plan. The state had to not only take over the dead labor held by the old bourgeoisie but also to accumulate further. Not, as under capitalist rule, for the purpose of replacing living labor in order to weaken the workers' power in production; but on the contrary, to improve the conditions of the masses and defend them from competition of bourgeois forces within the country and outside. This demanded restrictions on the law of value: state monopoly of foreign trade to prevent imperial domination of domestic markets, controlling the banks and other financial institutions, and strictly supervising major industrial enterprises. Above all it meant raising the political activity, consciousness and conditions of the mass of workers.

39. Trotsky, "The Workers' State, Thermidor and Bonapartism," Writings 1934-35

The Left Opposition's specific proposals called for defense of working conditions, wage increases at least as great as productivity increases, proportionate unemployment benefits, improvements in workers' housing, genuine agreements with trade unions, managers' obedience to the Labor Code, equality for women workers, etc. In agriculture, when Bukharin and Stalin made overtures toward denationalizing land ownership and giving property titles (as opposed to leases) to the peasants, the Opposition forced them to retreat. It counterposed instead a systematic introduction of rural cooperatives and collectivized farming, a proposal having nothing in common with *the forcible* enslaving of the peasants to "collective" farms that Stalin imposed at the end of the decade.

The Left's agricultural proposals were linked to demands for planning and industrialization, since without stepped-up production of consumer goods and industrial goods needed on the farm, the peasants's resistance to grain collection could only increase. But the Oppositionists were mocked as socialist romantics and "super-industrializers" by the same people who turned in desperation to Stalin's chaotic and brutal super-industrialization programs of the 1930's. Nevertheless, under the Opposition's pressure the first plans were drawn up, but in the hands of the ruling bureaucratic wing they were restricted to the most timid measures. To accumulate capital in a balanced way required as well an active international policy, both in the economic sphere through trade and investment and above all in politics. The USSR had to take advantage of the world division of labor without being dominated by it. The Left championed industrialization and defense of the foreign trade monopoly in order to expand trade in manufactured goods with the capitalist world. The Opposition understood that in the long run, without socialist revolution in the advanced countries, economic development could prolong the life of the workers' state but not save it. The tragedy of Soviet history was that international necessities in the economic and political spheres were not carried out. The Left Opposition summed up the critical situation:

"The appropriation of surplus value by a workers' state is not, of course, exploitation. But in the first place, we have a workers' state with bureaucratic distortions. The swollen and privileged administrative apparatus devours a very considerable part of our surplus value. In the second place, the growing bourgeoisie, by means of trade and gambling on the abnormal disparity of prices, appropriates a part of the surplus value created by our state industry."

40. Trotsky, Zinoviev, et al., *Platform of the Opposition* (1927); in Trotsky, *The Challenge of the Left Opposition* (1926-27), p. 312. Note the explicit assumption that the state sector in a workers' state produces value and therefore commodities. Coming from the central programmatic document of the Left Opposition, this subverts the theories of various modern Trotskyists

The Left Opposition correctly saw the restoration of capitalism "on the installment plan" as the chief danger facing the workers' state. Within the ruling party this threat was represented by the right wing led by Bukharin, which defended the interests of the kulaks (rich peasants), the NEPmen and the union aristocracy; it was developing into a bourgeois current within the workers' movement. Because of the overall danger, the Opposition demanded *party* democracy but opposed the call for democracy in the country as a whole raised by social democrats (as well as liberals and middle-class leftists abroad). Given the vast peasant majority in Russia and their mistrust of the Communists, such "democracy" could only have meant the restoration of capitalist rule under Czarist or fascistic reaction.

Moreover, without its own industry to produce machinery for farming, a bourgeois Russia's inevitable entry into the world market would inevitably have subordinated it to imperialism. The peasantry itself cannot rule a modern society. In Russia in 1917 it ultimately followed the proletariat because following bourgeois leaders had not won them the land. In the 1920's a peasant victory could only have meant imperialist domination, since the old Russian capitalist class had been shattered and was by then only a servant of foreign capital.

The centrist Stalinist wing of the party represented the bureaucracy, especially those sectors closest to the state apparatus. In Trotsky's view the bureaucracy lacked a firm class base and stood for no social alternative outside of blind self-aggrandizement; it was therefore destined to vacillate politically in centrist fashion between left and right. But as a parasite on the surplus value produced by the workers, it was necessarily attuned to the right, against the interests of the proletariat.

"SOCIALISM IN ONE COUNTRY"

The Soviet Union's economic problems were reinforced by the conservatism of the bureaucracy even while Lenin was alive. Afterwards they were compounded by the bureaucracy's policy of building "socialism in one country," in Stalin's phrase. This path was inspired by the defeat of revolutions outside Russia. Showing less and less confidence in the working class as their own bureaucratic power expanded, the Soviet authorities looked abroad to bourgeois allies who might align with them against their main antagonist, British imperialism. Their foreign policy was dictated no longer by proletarian internationalism but by class-collaborationist maneuvers to prod the world proletariat into support of "anti-imperialist" bourgeois elements. Their notion of defense of the workers' revolution was

becoming defense of the "national interest" - their own power.

The new strategy openly took the form of opposition to the theory of permanent revolution, even though the Bolshevik revolution had proved the accuracy of this perspective. As the faction fight developed in the post-Lenin years, permanent revolution became a major issue for Stalin and Bukharin, but largely a defensive one on the part of the Left. As we saw in Chapter 2, Trotsky and other adherents regarded permanent revolution as a program specific to Russia. It was not seen as a guide for communist work, even immediately after its triumph in 1917, and it remained undeveloped in the press of practical activity.

Stalin and his followers claimed that the Soviet Union could achieve socialism despite isolation by relying on its own political and material resources. But socialism cannot be built on backwardness; the only way to avoid doubling the masses' suffering under the law of value was to hold out and fight for the spread of the revolution to the advanced countries. The bureaucrats' go-slow policy and deepening cynicism toward proletarian revolution led them to misadvise and help undermine the German revolution of 1923. In 1926 they refuse to break with the labor-aristocratic bureaucrats who led the British general strike to defeat, thereby giving betrayal the cover of the Russian Revolution.

The bureaucracy's first great disaster took place in China. The Comintern decided that a revolutionary bourgeois stage was necessary under the leadership of Chiang Kaishek's Kuomintang (KMT), a bourgeois nationalist party which, according to Stalin, embodied the interests of the workers and peasants as well as the "anti-imperialist" bourgeoisie. Stalin invoked Lenin's old theory of the "democratic dictatorship of the proletariat and the peasantry" to justify his line. Trotsky fought a losing battle in the Comintern and the Soviet party against the Chinese CP's "Bloc of Four Classes" with the nationalist bourgeoisie, a policy which led to its permanent entry into the Kuomintang and the welcoming of the KMT into the Comintern. Trotsky was proved right when, during the civil war of 1925-27, the "democratic" KMT capitulated to imperialism, broke its alliance with the Communists and slaughtered the workers of Shanghai.⁴¹

The Chinese events inspired Trotsky to revive permanent revolution and apply it beyond the Russian case. The original theory argued that the proletariat would have to carry out the necessary bourgeois democratic tasks because of the counterrevolutionary role of the national bourgeoisie. As we saw, this class, fettered though it was by feudal and other pre-capi-

talist relations, feared endangering any form of property by opening revolutionary gates that the newly developing proletariat could march through. But after the experience of the world war and Lenin's analysis of the imperialist epoch, it was clear that the main barrier to advancing the productive forces and achieving the democratic tasks was no longer precapitalist relations, but capitalism itself in the shape of imperialism.

Increasingly even pre-capitalist forms were becoming capitalist in content. The Chinese case was decisive. Under the Kuomintang, the old social relations of China were increasingly subordinated to the needs of imperialism - despite the Stalinists' assertion that the issue was bourgeois democracy versus "feudalism." Just as the Russian revolution had brought the centrality of the independent revolutionary party into bold relief, the Chinese revolution highlighted it negatively. Trotsky concluded that the only way China could gain independence, solve its agrarian problem and achieve democratic rights was through a proletarian revolution, supported by the peasants and linked to the international revolution.

Despite the embarrassment of the Chinese defeat, its consequence was that the Stalinist bureaucrats gained more influence in the Soviet and other communist parties. Even though the Left's warnings had proved correct, the defeat engendered a growing cynicism towards the possibility of successful workers' revolutions anywhere. This pessimism, along with the loss of China as a potential bourgeois-nationalist ally, heightened the bureaucracy's sense of national isolation and fear. The idea that the USSR must strengthen itself *as a nation* in order to survive became the dominant consequence of "socialism in one country."

At home, the bureaucracy not only stepped up its attacks on the Left Opposition; as it turned away from the workers' struggles internationally, it increasingly tightened the screws on the workers at home. Throughout the later NEP period the Left endured political persecution, Siberian exile, vile slanders and Jew-baiting. It fought heroically and at great human cost against the bureaucratic reaction that was corrupting every proletarian tradition of socialism and Bolshevism.

"SOCIALIST ACCUMULATION"

The struggle of the Left Opposition in defense of proletarian interests took place on the theoretical level as well as the practical. Given the vital importance of the debates in the world's only workers' state, theoretical errors of Opposition leaders had far-reaching consequences.

Preobrazhensky was the outstanding case. He expanded on the idea of a struggle between socialist consciousness and the capitalist inheritance embodied in the law of value. He regarded this struggle as one between two laws, the law of value and the "law of primitive socialist accumula-

41. The disaster was the fruit of the Comintern's policy of the "Anti-Imperialist United Front." This policy was to mimicked later by the post-World War II Trotskyist movement (Chapter 7)

tion.⁴² By this he meant the need of the workers' state to expand production in the state-owned sector of the economy, mainly the largest enterprises in heavy industry, by siphoning off a portion of the surplus value produced by the peasantry. If the state sector were left to expand solely on the basis of the surplus value it produced itself, it would grow only "at a snail's pace" (Bukharin's phrase), and the working class would remain a minority of the population for a long time.

State accumulation was certainly necessary, but Preobrazhensky's theory was wrong. The dual character of production in a workers' state cannot be represented as combat between two laws, a capitalist law of value and a socialist law of accumulation. First of all, we have seen that accumulation is an unfulfilled *capitalist* task left to the workers' state to carry out. The laws of accumulation are derived from the laws of value, not counterposed. In the short run, accumulation runs counter to raising the cultural and living standards of the masses; obviously it could be accomplished far more speedily if the masses sacrificed their immediate well-being and all resources were dedicated to more means of production. In the long run, if dead labor dominates the living - that is, if accumulation is the supreme goal - then all the evils of capitalism in its epoch of decay will follow, and accumulation itself will be undermined.

Nor is accumulation by the state at the expense of the petty-bourgeois peasantry specifically socialist. Achieved by transferring surplus value from the weaker and smaller units of capital to the larger, centralized and more advanced, it is again a law of *capitalist* development. Even if the entire economy were brought under state ownership, accumulation would still be a capitalist survival. The socialist tasks would remain: advancing the cultural and material level of the workers, shortening the working day, bringing the masses into the running of the state, increasing equality, etc. The struggle against the law of value would continue.

The reason why Preobrazhensky's theory is wrong is that the proletarian consciousness that combats the law of value is not a blind law independent of the will of the workers. There is no law regulating conscious planning (other than the law of value itself - which holds it back, restricts it and subjects it to the economic scarcities of the existing society.) Preobrazhensky's own attempts to formulate his "law" present no objective developmental process. They merely acknowledge the level of Soviet economic

42. Preobrazhensky, *The New Economics*. This term had been criticized by Lenin as "extremely unfortunate" and "a childish game in its imitation of terms" when used by Bukharin. See Bukharin, *Economics of the Transformation Period* (1920; English version 1971, pp. 110, 191, 223)

backwardness.⁴³ The best interpretation that can be made is that Preobrazhensky's law was an effort to give theoretical backing to the Left Opposition's strategy for industrialization. But it had the effect of drawing a line between the state sector and the private sector, as if the law of value could penetrate the former only from outside. Adopted without acknowledgment by the Stalinists, it misguided generations of oppositional communists.

Like many Bolsheviks, Preobrazhensky had come to see accumulation as inherently progressive and did not recognize the need for conscious resistance against the encroaching norms of capitalism. This left the workers disarmed in the face of the Stalinist attack. Stalin used the idea of the primacy of accumulation to "enforce," in effect, the law of value against the working class - that is, to implement its consequences: inequality, a labor aristocracy, imperialism, etc.

Preobrazhensky's transformation of proletarian consciousness combatting value into an objective law was itself a demonstration of cynicism toward the revolutionary capacity of the proletariat. It was no accident that he was an early Left capitulator to Stalin. He opposed Trotsky's fight with Stalin over China, fatalistically accepting the defeat of the workers and seeing no point to fighting for an alternative. In capitulating to Stalin's super-industrialization of the late 1920's, he claimed that this policy was what the Left Opposition had been fighting for all along - whereas Trotsky bitterly observed that Stalin's "planning" lowered the living standard of the workers instead of raising it.

Many of the capitulators were motivated by careerism and personal unwillingness to brave ostracism in the party and Siberian exile. Some had grown cynical and agreed that Stalin's brutal methods were the only way to achieve socialism on the backs of a retarded proletariat. But the motivation of strategists like Preobrazhensky can be located more sharply. The initial struggles waged by the Left Opposition against the snail's pace course of Stalin-Bukharin enlisted not only those dedicated to the proletariat and internationalism; they also attracted Communists motivated chiefly by the need for national development out of backwardness. The latter were choice candidates for Stalin when he abandoned Bukharin and embarked on his nationalist accumulation policy.

BUKHARIN'S CONSERVATISM

Bukharin, the theoretician behind whom the Stalinist wing operated in the mid-1920's, reflected the demoralization brought on by the international defeats. Previously on the ultra-left wing of the party, he adapted

43. See *The New Economics*, pp. 84, 124, 146.

44. Trotsky, "A Wretched Document," in *Writings* (1929), pp. 198-212

to the conservative pole. On the question of value, where the Trotskyist Left held that the goal of the workers' state was to restrict the operation of the law of value, Bukharin argued that the state should utilize it to control the economy. He wrote:

"When we speak of our economic growth on the basis of the market (this is the meaning of the New Economic Policy from a certain viewpoint), we thereby refute the view that socialist accumulation is opposed to the law of value. Figuratively speaking, we force the law of value to serve our purposes. The law of value 'assists' us and, strange as it may seem, prepares thereby its own destruction." ⁴⁵

For Bukharin, the plan was an anticipation of what spontaneous competition would determine, without the uncertainties and crises of an unregulated market. This meant in effect rejecting the struggle against the effects of the law of value. Stalin's policy reversal at the end of the 1920's (Chapter 4) put an end to talk of utilizing the law, but the concept returned in force during the Second World War.

In 1925 Bukharin went so far as to urge the wealthy peasants to "enrich yourselves." More precisely, he argued that "the prosperous farms have to be developed in order that aid may be provided to the middle and poor peasants."⁴⁶ This strategy was meant to build up resources for socialism, but in reality it could be accomplished only at the expense of the urban workers and weak peasants. Moreover, a strong capitalist peasantry was a deadly threat to the workers' state. Objectively, therefore, Bukharin and his allies were setting the stage for counterrevolution.

Bukharin overlooked the danger of counterrevolution through private capitalism because he feared a different threat: capitalist restoration arriving by means of the all-powerful state:

"We will arrive ... at a situation in which all our declarations, our banners, the singing of the Internationale, the Soviet form of government will remain in place on the surface, while the inner content of all of this will already have been transformed: this content will correspond to the attempt, to the wishes and hopes of this new bourgeois layer which constantly increases, becomes constantly stronger and by way of slow and organic changes will succeed in transforming all the characteristics of the Soviet state and placing it bit by bit on the rails of a purely capitalist policy. ...

45. Quoted in the major Soviet economic textbook of the NEP period, written by two Bukharinists: Lapidus and Ostrovitianov, *An Outline of Political Economy*, p. 471.

46. "Concerning the New Economic Policy and Our Tasks" (1925), in Richard B. Day, ed., *N.I. Bukharin: Selected Writings on the State and the Transition to Socialism* (1982), p. 198

"The old rotten bourgeoisie, which lived on the charity of Czarism, will have thus been replaced, thanks to our Russian revolution, by a new bourgeoisie ... which retreats before nothing, which makes its way under the sign of nationalism but hides under the phraseology and the banners of internationalism in order to advance towards a new capitalist and bourgeois Russia, strong and powerful.

"The working class can mechanically defeat its adversary, it can physically take possession of what exists but it can at the same time be absorbed by adverse cultural forces. This danger inevitably threatens every working class which conquers state power. If that happens, we will transform ourselves into a new bourgeoisie because we will detach ourselves without noticing it, but completely, from the general proletarian base and we will thus transform ourselves into a new social formation."⁴⁷

In showing that the USSR's capitalist heritage could be reasserted by the transformation of the state apparatus into a new bourgeois class, Bukharin's warning was perceptive - but it was nevertheless based on a cynical and fatalistic understanding of the proletariat. He attributed the danger to automatic processes, overlooking the need to raise rapidly the workers' material standards. No doubt the danger represented by the backward culture of the workers was initially the deadliest obstacle, but it soon yielded first place to the fungus-like spread of the bureaucratic apparatus. Lenin had fought this new danger in the last period of his life, and Trotsky hammered away at it, stressing the effect of scarcity:

"While the first attempt to create a state cleansed of bureaucratism fell foul, in the first place, of the unfamiliarity of the masses with self-government, the lack of qualified workers devoted to socialism, etc., it very soon after these immediate difficulties encountered others more profound. That reduction of the state to functions of 'accounting and control,' with a continual narrowing of the function of compulsion, demanded by the party program, assumed at least a relative condition of general contentment. Just this necessary condition was lacking."⁴⁸

It was the concrete condition of economic scarcity in Russia that produced the new strata of petty-bourgeois bureaucrats. Trotsky pointed out that Lenin, in his concern about the cultural level of the workers, had misjudged the seriousness of bureaucratization. Lenin's "obvious underestimation of impending difficulties," Trotsky wrote, "is explained by the

47. Bukharin, "Proletarian Revolution and Culture," cited in Bettelheim, *Les Luites de Classes en URSS*, Vol. 1, p. 264.

48. Trotsky, *The Revolution Betrayed*, p. 59

fact that the program was based wholly on an international perspective."

In placing the blame on the workers rather than the Stalinist apparatus, Bukharin blinded himself to the real threat. Applying his assumption to the proletariat everywhere, he adopted increasingly conservative views on the prospects for revolution internationally, the only hope for the USSR. The solution that flowed from these premises was a disaster: adaptation to the peasant and petty-bourgeois forces of private capitalism. The result was that Bukharin's faction of the party contributed all the more to the bureaucratic capitulation to the bourgeois forces during the NEP period. In contrast with Stalin's bureaucratic collectivization of agriculture policy a few years later, Bukharin's peasant policy would have maximized the threat of imperialist penetration of the USSR. Soviet industry, advancing slowly according to Bukharin's formula, would be unable to meet the demand of the most prosperous peasants; in their search for household and capital goods, they would be drawn inevitably to their subordination, and consequently Russia's, to the world market.

Looking back on the Soviet industrialization debates with the advantage of hindsight, it is clear why Bukharin and Stalin were able to agree on "socialism in one country" despite their underlying differences. Stalin was heading for a policy of brutally "building socialism" by command from the top down, while Bukharin preferred a moderate but equally autarkic (self-reliant) mode. Both regarded the international revolution as dubious. The bureaucracy was unconsciously feeling its way; its narrowness and pragmatism led it toward building up the national economy with no internationalist expectations. Its goal was a national "socialism" to defend against the imperial threat. The bureaucrats were by no means yet bourgeois in consciousness: they still hated imperialism and domestic capitalism. But their cynicism toward the proletariat was the starting point for their degeneration and the counterrevolution.

The popularity of Bukharin's views among leftists today reflects their discouraged attitude towards the prospects of the working-class movement, linked to the fear that the program of the Left Opposition would have led to a centralization equally obnoxious to middle-class sensibilities as Stalin's. Stalin's autarkic scheme has so obviously turned to disaster that even these fatalists are forced to find an alternative in a pro-bourgeois course. But Bukharin's program, now being echoed at the highest levels of the Soviet and allied ruling classes, had nothing to do with genuine socialism: the classless society by way of proletarian power. It was only "capitalism in one country" by a different route.

49. Trotsky, *The Revolution Betrayed*, p. 58

Chapter 4

The Stalinist Counterrevolution

1. THE POLITICAL COUNTERREVOLUTION

Looking back on the changes created in the USSR during the 1930's, one is struck by two remarkable and unforeseen developments. The first is the transformation of a backward country into an industrial power capable of defeating Hitler's armies. The other is the emergence of a totalitarian state that slaughtered more communists than Hitler could dream of. The counterrevolution carried out by the Stalinist ruling party created the "existing socialism" that still exists. The route it took and the problems of analysis it engendered are the topics of this chapter.

Whereas the founders of Marxism had laid the basis for analyzing the progress of a workers' state toward socialism, there had never before been any consideration of the *degeneration* of working-class rule. The Left Oppositionists were compelled to come to grips theoretically with the transformation of the Soviet system. Not surprisingly, their positions shifted over time - because of both a changing reality and their growing understanding.

In this first section we take up the development of Left and in particular Trotsky's analyses of the Soviet state and the Stalinist party, through three stages: on the eve of Stalin's dramatic break with the Bukharinists; just after the "revolution from above"; after the crisis of Stalinism caused by economic disaster in the USSR and the triumph of fascism in Germany. Then the central part of the chapter presents our own analysis of the completion of the counterrevolution. Finally, we criticize Trotsky's last positions.

SOCIAL VS. POLITICAL COUNTERREVOLUTION

In the late 1920's the Left Opposition included several theoretical tendencies. One held that the workers' state had already been smashed; another, that the bureaucracy, despite everything, was building socialism. Trotsky was among the few to hold to the position that the counterrevolution was taking place but was not yet triumphant.

Oppositionists who believed that the workers' state no longer existed reasoned that the Soviets, the organs of the workers' class power, had

become moribund. Trotsky did not challenge the fact; he pointed instead to the centrality of the Communist Party, the working-class institution which still held the reins of power.

"The socialist character of our state industry - considerably atomized as it is: with the competition between the various trusts and factories; with the onerous material position of the working masses; with the inadequate cultural level of important circles of the toilers - the socialist character of industry is determined and secured in a decisive measure by the role of the party, the voluntary internal cohesion of the proletarian vanguard, the conscious discipline of the administrators, trade union functionaries, members of the shop nuclei, etc.

"If we allow that this web is weakening, disintegrating and ripping, then it becomes absolutely self-evident that within a brief period nothing will remain of the socialist character of state industry, transport, etc. The trusts and individual factories will begin living an independent life. Not a trace will be left of the planned beginnings, so weak at the present time. The economic struggle of the workers will acquire a scope unrestricted save by the relation of forces. The state ownership of the means of production will be first transformed into a juridical fiction, and later on, even the latter will be swept away."¹

The recognition that state ownership could become a legal fiction masking an alien power over the workers was insightful. But Trotsky held that all was not lost, since the socialist character of the productive forces and therefore of the state (socialist in direction, not yet in content) depended on the proletarian nature of the ruling party. The situation stood on the edge, however: Trotsky saw "a strongly advanced process of dual power" between the working class and the NEP bourgeoisie, parallel to the months between February and October 1917 when the Soviets competed for power with the bourgeois Provisional Government. In 1928 unlike in 1917, a workers' revolution was not yet called for:

"Is the proletarian core of the party, assisted by the working class, capable of triumphing over the autocracy of the party apparatus, which is fusing with the state apparatus? Whoever replies in advance that it is *incapable* thereby speaks not only of the necessity of a new party on a new foundation but also of the necessity of a second and new proletarian revolution. It goes without saying that it can no way be stated that such a perspective is out of the question under all circumstances. ...

"A condition of dual power is unstable, by its very essence. Sooner or later it must go one way or the other. But as the situation is now,

the bourgeoisie could seize power only by *the road of counterrevolutionary upheaval*. As for the proletariat, it can regain full power, overhaul the bureaucracy, and put it under its control by *the road of reform of the party and the Soviets*. These are the fundamental characteristics of the situation."²

Trotsky resisted surrendering any achievement of the working class that was not yet irretrievably lost. He placed the burden of proof on those who considered the workers' state defeated; he demanded evidence that the party and Soviets could not be regained by the workers through reforms. Throughout the decade he battled against cynics who gave up on conquests of the working class in Russia and abroad.

In fact, it was undoubtedly true that the Left Opposition could have gained control of the party by means of a workers' reform movement, even as late as 1928 - but only on condition of a reassertion of proletarian revolution abroad. That would have made it possible to force out Stalin, who had declared in 1927 that only a civil war could oust the bureaucracy from power.

But Trotsky's position was not yet developed theoretically. To see why, we first cite his later distinction between political and social revolutions (and counterrevolutions). In a **social revolution** the class character of the state changes; the new state serves a different class, its economic relations and forms of property. Whereas in a **political revolution** the class character of the state remains unchanged but a different section of the ruling class takes over the government and the state apparatus.

Trotsky's argument that the bourgeoisie needed a violent overthrow to destroy the workers' state meant that a social counterrevolution had not taken place, despite the bureaucracy's capitulations to capitalist interests. But he was later to understand that a counterrevolution *by the bureaucracy* was already under way, within the framework of the workers' state - a political counterrevolution. He did not fully understand the degree of degeneration of the party until the mid-1930's, when external events proved that peaceful reform was impossible (see below).

If a political counterrevolution had occurred, a new political revolution would be needed for the working class to regain political power. Thus

2. Trotsky, "Our Differences with the Democratic Centralists," *The Challenge of the Left Opposition* (1928-29), pp. 293-5.
3. See Trotsky, "The Class Nature of the Soviet State," *Writings* (1933-34), p. 117.
4. It is widely believed that Trotsky called for a political revolution to overthrow the bureaucracy from 1933 on; even Trotsky recollected as much at the end of the decade. In fact he does not seem to have used the term until 1936. In the interim he made clear that force would be needed, but he avoided the call for revolution

1. Trotsky, *The Third International After Lenin* (1928), p. 300

building a new revolutionary party, in 1928 not on Trotsky's agenda, would become a necessity. Trotsky's later shift in perspective also demonstrated that the reformability criterion of 1928 was insufficient as a basis for determining whether the USSR was a workers' state: the *political* counterrevolution could occur (and make party reform impossible) without overturning the workers' state.

The failure to differentiate between the political counterrevolution already taking place and the threatened social counterrevolution was understandable. The Bolsheviks had long been aware of the danger of a (social) counterrevolution from outside; that had been the fate of the Paris Commune and the aborted workers' governments in Hungary and Bavaria after World War I. In Russia likewise, the danger seen by the Oppositionists was the restoration of traditional capitalism by way of the entrepreneurs and kulaks, leading to a bourgeois state subordinate to imperialism.

Although the Left was aware of both the degeneration and the strengthening of the bureaucracy, the possibility of a counterrevolution from within was entirely new. The Opposition interpreted the bureaucracy's triumph over the workers not as a political counterrevolution but as a weakening of the proletarian state which, together with the creation of an internal "fifth column," would make it easy prey for *social* overthrow from outside. After all, the bourgeoisie was already a class with the capacity to rule a state; the bureaucracy, powerful and pervasive as it was, had as yet no basis for establishing a new class rule.

But if the bureaucracy was capable of seizing the reins of power for itself, then it did not have to depend for its strength on the small-scale capitalism of the NEP: it could instead feed off the centralized power of the workers' state. Indeed, its continuing suppression of the working class was setting the stage for a transformation of its base of power. Trotsky misjudged the balance of forces in 1928 because he underestimated the degree of consolidation of the bureaucracy for its independent interests.

It was natural (and correct) that in the face of imperialist pressure, the Left Opposition would see the market-oriented Bukharinist Right (resting on the NEPmen and kulaks), rather than the bureaucracy-based Stalinist Center, as the main political source of counterrevolution. Nevertheless, it was already possible to conceive of the destruction of the workers' state from within, with the bureaucracy congealing from a privileged working-class layer to a hardened ruling class. This would require major changes in the bureaucracy's mode of operation and its relations with the workers. But these had already begun: Christian Rakovsky, a prominent Left Oppositionist, called attention to them in 1928.

"When a class seizes power, a certain part ... is transformed into agents of the power itself. In this way the bureaucracy arises. In the proletarian state, where capitalistic accumulation is not permitted for

members of the ruling party, this differentiation is at first functional, but then it becomes social. I do not say class, but social. I mean that the social position of the Communist who has an automobile at his disposal, a good apartment, regular leaves, and earns the party maximum, is distinct from the position of that same Communist if he works in the coal mines ..."⁵

Less than two years later, the differentiation that Rakovsky warned against had progressed further. The campaign of slander and violence accelerated; Trotsky was expelled from the country. The suppression of the Left Opposition was an enormous defeat for the working class, reducing the potential for reconstituting workers' power. The ruling bloc then underwent a decisive change.

REVOLUTION FROM ABOVE

We observed in Chapter 2 that one aspect of the theory of permanent revolution was the joining together of disparate property owners (landlords and bourgeois) against the threat from the rising proletariat. The Soviet situation was parallel: even though neither Center nor Right of the party were property owners, Bukharin reflected small bourgeois property and Stalin stood for bureaucratic control over state property. Fear of the proletariat united them. Once the workers' threat was stifled, the Stalinists had the leeway to turn against their partners in order to establish unchallenged control over the national capital. The bureaucratic methods that the Right had helped wield against the Left were now turned against them.

In 1928-29 the ruling bureaucracy under Stalin's leadership turned sharply away from its conservatism. Responding to an intensification of the economic crisis and a rise in working-class militancy, as well as to the exacerbation of international tensions, it moved to industrialize the country at breakneck speed. Under the first Five-Year Plan it forcibly collectivized the peasantry, established mass slave-labor camps and ended the private NEP economy. Stalin called this turn the "great break."

Reflecting the changes at home, the Comintern also hardened its line abroad. In its adventurist "third period" it expelled the oppositionists, Left and Right, and rejected alliances with the "social-fascist" Social Democracy - thereby undermining the possibility of compelling the class-collaborationist reformists to join in united working-class struggles against real fascism and other capitalist attacks. The German Communist Party, following this line, bears a great responsibility for the triumph of Nazism.

5. "Letter on the Causes of the Party and Governmental Apparatus," 1928; in R.V. Daniels, ed., *A Documentary History of Communism*, Vol. 2, pp. 9-10. Also in Rakovsky, *Selected Writings on Opposition in the USSR 1923-30*, p. 126

The Stalinist "revolution from above" was a violent departure from previous practice. Forced collectivization shattered the policy of persuasion and example for winning the peasantry to a socialist agricultural program. It was, moreover, a collectivization of backwardness: the state took over farms working under pre-capitalist conditions. Driving millions of peasants off the land and into the cities created a new industrial labor force, but while industrialization accelerated from its snail's pace to an insane gallop overnight, the workers were stripped of union and other rights so that they could not defend themselves against the managers and bureaucrats. The population of the infamous Gulag concentration camps increased from 30,000 in 1928 to 600,000 in 1930 and nearly two million in the middle of the decade;⁶ slave labor was used for major construction projects like the White Sea-Baltic Sea canal, where thousands died.

In the ideological sphere the Stalinists declared the laws of capitalism abolished. The economist Strumilin declared, "We are bound by no economic laws. There are no fortresses which Bolsheviks cannot conquer by assault. The question of tempo is subject to the will of human beings." Stalin himself denounced "decreasing Trotskyist curves" of economic growth as counterposed to "increasing Bolshevik curves."

The new "revolution" mobilized enthusiastic party cadres eager to break out of the stagnation of the late NEP period and lead the country down the road to socialism by any means necessary. But the Five-Year Plan contained less economic planning than bureaucratic exhortation. That industry at every level was characteristically commanded to "overfulfill" its targets shows that the "planning" was anything but scientific. Despite the revolutionary fanfare and rhetoric reminiscent of the war communism period, the "great break" widened inequalities within the working class and between workers and managers, rather than narrowing them.

The period also witnessed what has been termed the first socialist "cultural revolution," in which young Communists from proletarian or peasant backgrounds were hastily given a minimal technical education and trained in "class-war" methods to build a new world for the "new Soviet man." This misguided revolutionary energy was used, however, first to purge the party of Left and Right opponents of the bureaucratic Center and then to smash every vestige of working-class power in the state.

Despite its brutality and counterrevolutionary implications, however, the industrialization drive of the 1930's was an unprecedented achievement. It made possible the Soviet Union's advance from a backward country to the

world's second economic power by the end of World War II - in a period, moreover, when most capitalist countries were mired in the Great Depression and could not expand at all. The key was the centralized state power achieved by the soviet revolution. It enabled the party to mobilize the cadres' devotion to socialism, focus resources on selected heavy industrial projects and utilize the masses of labor thrown into production during the decade. But as under capitalism, the workers' achievements were turned against them. The paradox is that only a workers' state could have accomplished this contradictory achievement.⁸

Trotsky noted another irony. "The conclusion is clear," he wrote: "even apart from the socialist perspective it opens up, the Soviet regime is for Russia in present world conditions the only thinkable regime of *national independence*."⁹ He did not think that proletarian internationalism and nationalism were identical; simply that socialism and national independence from imperialism took the same road for a time. Thus a state monopoly of foreign trade was necessary both for an workers' state and Stalinist nationalism: strong measures were required to develop the economy and keep backward Russia out of the imperialist grip.

Stalin understood this in a distorted fashion; hence his break from Bukharin and his attempt to build "socialism in one country" by force. Against the Left's perspective of developing the Soviet state in connection with the world division of labor, Stalin sought to build a self-reliant bastion against encirclement. Just as capitalism had developed in Western Europe by consolidating national states in order to control home markets and protect nascent industries, Stalin too sought to build the independent power of the USSR to survive in a world of imperialist depredation.

But the cost was enormous. State power was used to enforce starvation on the rural poor and drive down workers' living standards to abysmal levels. Stalinist industrialization was based on a unique combination of super-centralization and intensification of capitalist relations, an unstable combination that could not last. That masses of workers and peasants were enslaved for the creation of dead labor showed that the law of value had the workers' state by the throat.

6. D. Dallin and B. Nicolaevski, *Forced Labor in Soviet Russia* (1948).

7. Strumilin is cited in Bettelheim, *Les Luttres de Classes en URSS, 1923-1930*, p. 366; Stalin, *Political Report to the 16th Party Congress* (1930)

8. As Trotsky commented, the bourgeois economists "who confine themselves to remarks about an 'extreme exploitation of the peasantry' ... are missing a wonderful opportunity to explain why the brutal exploitation of the peasants in China, for instance, or Japan, or India, never produced an industrial tempo remotely approaching that of the Soviet Union." (*The Revolution Betrayed*, p. 1.)

9. "Toward Capitalism or Socialism?", *Writings* (1930), p. 196. "Soviet regime" means the workers' state in general, not just Stalin's regime

LEFT INTERPRETATIONS

Many leftists share with the Stalinists the view that the first Five-Year Plan was a decisive turning point in Soviet history, as profound in its effects as 1917. Tony Cliff, for example, takes the "great break" to be *the* counterrevolution:

"A quick accumulation of capital on the basis of a low level of production ... must put a burdensome pressure on the consumption of the masses The bureaucracy, transformed into personification of capital, for whom the accumulation of capital is the be-all and the end-all, must get rid of all elements of workers' control, must substitute conviction in the labor process by coercion, must atomize the working class, must force all social-political life into a totalitarian mold.... [This] transforms the bureaucracy from a layer which is under the direct and indirect pressure and control of the proletariat into a ruling class ,..."¹⁰

Cliff's approach has inescapable difficulties. All workers' control and much "conviction in the labor process" had long since passed away under the NEP, even though labor discipline became qualitatively more repressive when it ended. Nor was the bureaucracy under the "control" of the working class before 1929, even indirectly; for that matter, "indirect pressure" applied even after the 1929 turn.

Most importantly, Stalin's worsening of the material conditions of the workers was not an imperative result of capital accumulation. We argued in Chapter 3 that accumulation is a necessary, bourgeois, task of the workers' state: carrying it out cannot in itself signify the restoration of capitalist rule. As Marx said in the *Communist Manifesto*, "The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the state, i.e., of the proletariat organized as the ruling class; *and to increase the total of productive forces as rapidly as possible.*" Fixing on Stalinist accumulation as the *cause* of the counterrevolution suggests that Bukhara's "snail's pace" strategy would have been correct. The Left's counter-posed proposal, planned industrialization in coherence with the world market, can be dismissed as a Utopian impossibility only if the continuation of a dominant, swollen bureaucracy is taken as given.

On another level, Cliff's dating of the counterrevolution at 1928-29 credits the great Soviet industrial buildup to a capitalist state. To say that capitalism broke through its own barriers against advancing the productive forces and expanded as rapidly as did the USSR marks capitalism as still progressive and challenges the Marxist assessment of the epoch of decay. Against this implication we note that none of the post-World War II Stal-

inist states could accomplish similar feats of industrialization, since they were never workers' states. Nor could the postwar (and post-counterrevolution) Soviet Union surpass capitalist rates of economic expansion.

In contrast to Cliff, the former Trotskyist Isaac Deutscher saw Stalin carrying out a perverted variant of permanent revolution: a brutal and irrational but necessary and progressive one which would ultimately work to the benefit of mankind.

"However 'illegitimate' from the classical Marxist viewpoint, Stalin's revolution from above effected a lasting and as to scale unprecedented change in property relations, and ultimately in the nation's way of life."¹¹

Many leaders of the Left Opposition similarly interpreted Stalin's new policy as an adoption, however distorted, of the Trotskyists' program. (The idea of "permanent revolution from above" also became a staple of "orthodox Trotskyism" after World War II.) If the only alternatives were the NEP bourgeoisie and the proletariat, they reasoned, and if the Stalinists were waging an all-out fight against the bourgeoisie, we must join them - whatever crimes they may commit against the workers along the way. These capitulators made their peace with Stalin and agreed to serve the party in the lower echelons of the bureaucracy. Even so almost all of them perished in the purges to come.

THE BUREAUCRATIC DANGER

The bureaucracy's dramatic about-face has also been the focus of theories of a new form of class society in the USSR. Writing for Left Oppositionists inside the USSR, Rakovsky posed the question this way:

"Secretaries, chairmen of executive committees, procurement officials, heads of cooperatives, heads of state farms, party and non-party directors of enterprises, specialists, foremen, who, following the line of least resistance, install in our industry the sweatshop system and factory despotism - here is the real power in the period of proletarian dictatorship which we are now experiencing. This stage can be characterized as domination by the corporative interests of the various categories of the bureaucracy, and internecine struggle between them.

"From the workers' state with bureaucratic perversions — as Lenin defined our form of government - we have developed into a bureaucratic state with proletarian-Communist survivals. Before our eyes a great *class of rulers* has been *taking shape* and is continuing to develop. It has its own internal subdivisions, and grows by way of calculated co-optation, through the direct or indirect appointment system (by way of

10. Cliff, *Russia, a Marxist Analysis*, p. 107; *State Capitalism in Russia*, p. 165

11. Deutscher, *The Prophet Outcast*, p. 112

bureaucratic promotion or the system of fictitious elections). The unifying factor of this unique class is that unique form of private property, governmental power. "The bureaucracy has the state in its possession,' wrote Marx, 'as rights of private property.'"¹²

The developing "class of rulers" in this document is analyzed ambiguously. On the one hand it is a "unique class" of a bureaucratic state based on governmental power as a new form of private property. On the other hand, the methods of domination described are those of capitalism: the sweatshop system and factory despotism over what is still a working class. The Oppositionists' document did not combine the two elements of its analysis to suggest that the new ruling class would be based on capitalist relations operating through the state. Indeed, it continued to warn of the "bourgeois counterrevolution," clearly still working from Trotsky's 1928 picture of bourgeois restoration. This assessment meshed with Trotsky's political analysis: although Bukharin had been crushed, the actual danger of counterrevolution still came from traditional bourgeois elements.

Unlike his comrades, Trotsky did not consider the bureaucracy to be a new class in the making, although he acknowledged that it looked that way to the workers — for good reason:

"Another element of danger is in the apparatus of the dictatorship [of the proletariat]. The bureaucracy has restored many characteristics of a ruling class and that is very much how the working masses consider it. The bureaucracy's struggle for its own preservation stifles the spiritual life of the masses by constantly forcing on them fresh illusions which are no longer in any way revolutionary, and thereby hinders the replacement of lost illusions by a realistic understanding of what is happening.

"From the Marxist point of view, it is clear that the Soviet bureaucracy cannot change itself into a new ruling class. Its isolation and the increase in its commanding social role lead unfailingly to a crisis in the dictatorship which cannot be resolved except by a rebirth of the revolution on deeper foundations, or by a restoration of bourgeois society. It is precisely the approach of this second alternative, felt by everyone even if few understand it clearly, that gives to the present regime this extreme tension."¹⁴

12. "Circular of the Bolshevik-Leninist Opposition to the Central Committee ...," April 1930; Daniels, Vol. 2, pp. 14-15. The Marx quotation is from his "Critique of Hegel's Philosophy of Law"; Marx, of course, was speaking of 19th century regimes in Europe.

13. See the version in Rakovsky, *Selected Writings* ..., p. 174.

14. Trotsky, "Toward Capitalism or Socialism?", *Writings* (1930), p. 207

Despite this foreboding of the demise of the workers' state, Trotsky saw the bureaucracy remaining in limbo between the decisive classes, the proletariat and bourgeoisie. His insistence that the bureaucracy could not become a ruling class rested on its continued dependence on the gains of the workers — the centralized power won by destroying the bourgeoisie. Indeed, we will see that the bureaucracy and this centralization would both have to be transformed for the counterrevolution to be consolidated.

The main change in Trotsky's position between 1928 and 1930 was that now Stalin rather than Bukharin represented the main danger to the revolution. Not because Stalinism could take an independent course, but because its crushing grip on state power could destroy any proletarian resurgence and pave the way for bourgeois restoration by others. "Stalinism," he wrote in the same document, is "a preparation for Bonapartism inside the party."

"Bureaucratic *centrism* begins its career as a current maneuvering between two extreme party currents, one of which reflects the petty-bourgeois line, the other, the proletarian; *Bonapartism* is a state apparatus that has openly broken from all traditional attachments, including party ones, and from now on maneuvers 'freely' between the classes as an imperious 'arbiter.' Stalinism is preparing Bonapartism, all the more dangerous since it is unaware that it is doing so."

Bonapartism, strong-man rule that balances between the contending classes in order to maintain the social power of the ruling class, was a familiar political phenomenon in capitalist countries when the bourgeoisie proves incapable of ruling in its own name. But it had never before been considered for a workers' state. In breaking new ground, Trotsky was also extending the political analogies to the great French Revolution that were common coin among the Bolsheviks. Thus he had long called the bureaucracy "Thermidorian," warning of the danger of another turning point like 1794 when the radical Jacobins led by Robespierre were overthrown and the revolution switched onto a more conservative track. In predicting Bonapartism Trotsky foresaw that the Stalinists would free themselves from the last anchor of their proletarian heritage, the ruling party.

In retrospect, Trotsky's assessment of the Stalinist wing, correct on the political level, proved clearly erroneous on the social level. He never explained how a rudderless apparatus without a firm class base, doomed to perpetual vacillation between classes, could reach the point where it could seize the reins of power and shove aside the pro-bourgeois restorationist forces. He still expected an imminent bourgeois takeover, whereas the bureaucracy had no trouble destroying the NEP bourgeoisie.

Trotsky still thought that the proletariat was gathering steam for an imminent eruption that would pulverize the bureaucracy between the two

classes and decide the fate of the USSR. In fact, he tried to account for the Stalinist centrists' seizure of sole power through the pressure of the impending workers' upheaval. Thus his 1930 analysis continued:

"Both in the present objective conditions and in the suppressed feelings of the working class, a deep resistance to the Thermidorian trend is breaking out; going over to this Thermidorian course is still not possible without real counterrevolutionary upheavals. Although it stifles the party, the leadership cannot help pay attention to it, because through its channel - however incomplete and muffled - there come warnings and appeals from the class forces. Discussion of problems, ideological struggle, meetings and congresses have given way to an information agency inside the party, to spying on telephone communications and to censorship of correspondence. But even by these devious ways the class pressure is felt. That means that the sources of [Stalin's] left turn and the reasons for its abruptness are to be found outside the leadership."¹⁵

Workers' hostility was plentiful as Stalin's turn deepened and aimed blow after blow against them, but contrary to Trotsky's hope it never came close to eruption. Nor was the working class responsible for the "left turn" in the first place. The Stalinists, rather than tailing pressure from the proletariat in moving left, had done so only after they had decapitated it by smashing the Left Opposition. (This, as we will see when we discuss the post-World War II Stalinist regimes, is again a reflection of permanent revolution, in an extended form.)

Trotsky's error was not to overestimate the working class but to underestimate the inner drive of Stalinism, a historically unprecedented phenomenon. Through their semiconscious shifts and zigzags, the Stalinists became increasingly aware that they had a social mission to create "socialism" as a system of domination over the working class.

Trotsky forcefully analyzed all the new developments but he did not gauge their full impact. He could not see that Stalin, quite unconsciously, was heading toward a restoration of Russian capitalism on an ultra-nationalist basis in order to break out of the imperialist stranglehold. The theory of permanent revolution led Trotsky to believe that any restored capitalism would capitulate almost immediately to imperialism. The flaw in the reasoning was that Stalinism, still resting on the foundations of the Soviet workers' state, was able to build up the nation to the extent that

15. This passage shows another line of continuity with Trotsky's 1928 position: the party, the one organ of the workers' state that remained to give it its proletarian character, was still fulfilling that role through methods even more bureaucratic than before

relative independence was possible. (In contrast, the non-proletarian revolutions after World War II could never break free of imperialism to anything approaching the same degree.)

Contrary to the fatalism inherent in Cliff and rampant in Deutscher, it was by no means guaranteed that there would be a new ruling class. A long struggle remained to decide whether the class taking shape would be able to smash the proletarian state - not just dispossess the workers of political rule within it — and establish a new class society.

STALINISM IN CRISIS

After the first Five-Year Plan, Stalin declared that capitalist economic relations had been destroyed (except for petty-bourgeois remnants). Citing Lenin's five categories of Soviet economy (Chapter 3), he asserted that "the fifth social-economic formation - the socialist formation - now holds unchallenged sway and is the sole commanding force in the whole national economy."¹⁶

In reality, however, the Soviet economy was on the road to chaos. Disproportions were rampant: factories lacked materials and workers; inflation skyrocketed through 1933, and in that year there was a precipitous and unplanned decline in investments. The "civil war" against the peasants (Stalin's description) led to mass famine, as peasants resisting collectivization slaughtered their animals. As a result, "1933 was the culmination of the most precipitous peacetime decline in living standards known in recorded history."¹⁷ Stalinism had entered its first economic crisis.

Unlike the capitulators, Trotsky denounced the forced pace of industrialization and collectivization: the accompanying barbarism, irrationality and disorganization had weakened the foundations of the Soviet state. "The Soviet economy today is neither a monetary nor a planned one. It is an almost purely bureaucratic economy." Accordingly, he called for a retreat from adventurist expansion and a "year of capital reconstruction." This meant replacing the Five-Year Plan with a return to the market — in the hope of later regaining the possibility of centralized scientific planning and economic accounting. Trotsky also demanded restoring workers' rights, Soviets, trade unions and internal party democracy.¹⁸

Unlike so many of his modern disciples, Trotsky understood that capitalist drives and institutions still survived in the USSR. That is why he identified the counterrevolutionary danger as a capitalist one, not that of

16. Stalin, "Report to the 17th Party Congress" (1934).

17. Alec Nove, *An Economic History of the USSR* (1972), p. 207.

18. "The Degeneration of Theory and the Theory of Defeneration," *Writings (1932-33)*; "The Soviet Economy in Danger," *Writings (1932)*

some unexplained new class. His writings and those of the Left Opposition refer often to surplus value, commodities and capital accumulation in the Soviet Union. He called for a market and a monetary regulator - not because he admired capitalist methods but because the reality of backwardness had to be recognized if the crisis was to be overcome; accurate measurement of labor time and resources was crucial. The third-period Stalinist claims that Bolsheviks were bound by no objective law value were fantasies, triply so for a society as economically retarded as Russia's.

THE NATURE OF THE COMMUNIST PARTIES

The "revolution from above" did not in itself change Trotsky's fundamental analysis of the ruling party. The swing from the conservative bloc with Bukharin to the fake leftism of the third period was the kind of centrist zigzag he had expected; now a new rightward vacillation would be in the offing after the adventurism proved futile. As a current within the party, the bureaucratic centrists were incorrigible. But until 1933 Trotsky still regarded the party as a whole to be reformable, although reform would require decapitation of the Stalinists.

The turning point was the smashing defeat of the working class in Germany. The Comintern's ultra-left policies had permitted Hitler to come to power with no organized proletarian resistance. Trotsky then pronounced the CPs dead as revolutionary organizations when the German Communist Party (and then the whole Comintern) refused to reconsider their gross misleadership. "To speak now of the 'reform' of the CPSU would mean to look backward and not forward, to soothe one's mind with empty formulas." A new Leninist party would have to be constructed.¹⁹

But this also meant that Trotsky had to alter his previous position that the rule of the Communist Party in however distorted a form was the key to the survival of the workers' state. With the party now centrist as a whole and not reformable, the only remaining characteristic that kept the Soviet state proletarian was the "property relations that have been created by the October revolution and that are fundamentally adequate for the dictatorship of the proletariat."

What was the link between Stalinism and the Soviet state?

"We call the Stalinist apparatus *centrist* precisely because it fulfills a dual role; *today*, when there is *no longer* a Marxist leadership, and none forthcoming *as yet*, it defends the proletarian dictatorship [state] with its own methods; but these methods are such as to facilitate the victory of the enemy *tomorrow*. Whoever fails to understand this dual role of

Stalinism in the USSR has learned nothing."²⁰

The attribution of a dual role to the bureaucracy is a reed that today's pseudo-Trotskyists lean on to account for Stalinism's supposedly revolutionary aspect after World War II. What is forgotten is, first of all, that Trotsky's analysis of Stalinism as centrist changed again as a result of later events; his characterizations were concrete and dialectical, not frozen. Furthermore, he already saw the Stalinists' duality as only partial, specifically *not* applicable to the international scene:

"As regards the USSR, the role of the bureaucracy ... is a dual one: on the one hand, it protects the workers' state with its own peculiar methods; on the other hand, it disorganizes and checks the development of economic and cultural life by repressing the creative activity of the masses. It is otherwise in the sphere of the international working-class movement, where not a trace remains of this dualism; here the Stalinist bureaucracy plays a disorganizing, demoralizing and fatal role from beginning to end."²¹

The distinction between the bureaucracy's reactionary international and mixed internal roles could at best be temporary; the fundamental character of any political apparatus is in the last analysis indivisible. The Stalinists' reactionary international policy reflected a similar role internally. The methods by which the bureaucracy defends the proletarian dictatorship "are such as to facilitate the victory of the enemy tomorrow," and there is nothing progressive about methods of defense that set the stage for capitalist restoration.

Trotsky's sense of the pace of the workers' state's decay was distorted because nationalized property forms remained, even though the degenerative processes were accelerating: restoring internal competition and strengthening the impact of the law of value. In retrospect the only thread still tying the bureaucracy to a proletarian base was that it was not yet consolidated behind the counterrevolution. A violent struggle had yet to be waged to destroy its remaining links with the proletarian revolution.

SOVIET BONAPARTISM

Soon Trotsky saw Stalin realizing the Soviet version of Bonapartism that he had predicted, concentrating state power at the top and resting on the military and police machinery:

"Stalin guards the conquests of the October Revolution not only against the feudal-bourgeois counterrevolution but also against the

19. Trotsky, "It Is Impossible to Remain in the Same International ...," *Writings (1933-34)*, p. 20

20. "The Class Nature of the Soviet State," *Writings (1933-34)*, pp. 114-16.

21. "The Stalinist Bureaucracy and the Kirov Assassination," *Writings (1934-35)*, p. 124

claims of the toilers, their impatience and their dissatisfaction; he crushes the left wing that expresses the ordered historical and progressive tendencies of the unprivileged working masses; he creates a new aristocracy by means of an extreme differentiation in wages, privileges, ranks, etc. Leaning for support upon the topmost layer of the new social hierarchy against the lowest - sometimes vice versa - Stalin has attained the complete concentration of power in his own hands. What else should this regime be called if not Soviet Bonapartism?"²²

He added, "Bonapartism by its very essence cannot long maintain itself; a sphere balanced on the point of a pyramid must invariably roll down on one side or the other." The regime was dangerously unstable, and in the absence of a regeneration of the soviet system by the proletariat, "The inevitable collapse of Stalinist Bonapartism would immediately call into question the character of the USSR as a workers' state."

Stalinist Bonapartism defended working-class property by propitiating the world bourgeoisie. With its sharp right turn in foreign policy (see below), it balanced not only between class layers in the Soviet Union but between the bourgeoisie and proletariat abroad.

Trotsky began to work out the important theory of the "degenerated workers' state" — a workers' state that was not only closer to capitalism than to socialism but was also in retrograde *motion* back to capitalism:

"While the bourgeois state, after the revolution, confines itself to a police role, leaving the market to its own laws, the workers' state assumes the direct role of economist and organizer. The replacement of one political regime by another exerts only an indirect and superficial influence upon market economy. On the contrary, the replacement of a workers' government [in a workers' state] by a bourgeois or petty-bourgeois government would inevitably lead to the liquidation of the planned beginnings and, subsequently, to the restoration of private property. *In contradistinction to capitalism, socialism is built not automatically but consciously.* Progress towards socialism is inseparable from that state power that is desirous of socialism or that is constrained to desire it."²³

In the bureaucratized Soviet case, not only was the state exceptionally powerful, but the workers' initiative and institutions had been so crushed that the only active elements of consciousness rested in the state. Was this state power "desirous of socialism"? Certainly Stalin wanted to eliminate private capitalism and expand the state-owned economy. But the Stalinists also saw it necessary to crush the workers in the process, whatever prole-

tarian verbiage they might continue to spout. So Stalin's regime was *already* a petty-bourgeois government within the worker's state. As Trotsky saw, it was heading towards the liquidation of the workers' state.

There were limits, Trotsky noted, to the Bonapartism analogy. After Napoleon fell, "in its essence the social pyramid of France retained its bourgeois character." Capitalism was a mode of production in itself; once the French revolution had wiped out the feudal barriers to its advance, even Napoleon's corruptions, even the restoration of the monarchy, could not erase it. A workers' state, however, is a transitional regime, and the socialist mode of production was far from established. Stalinist Bonapartism was the last stage on the bureaucracy's road to independence from the working class; that is why its collapse "would immediately call into question the character of the USSR as a workers' state." Trotsky's summed up his analysis in this period as follows: "Despite its economic successes ... determined by the nationalization of the means of production, *Soviet society* completely preserves a contradictory transitional character, and, measured by the inequality of living conditions and the privileges of the bureaucracy, it still stands much closer to the regime of capitalism than to future communism.

"At the same time, ... despite monstrous bureaucratic degeneration, the *Soviet state* still remains the historical instrument of the working class insofar as it assures the development of economy and culture on the basis of nationalized means of production, and, by virtue of this, prepares the conditions for a genuine emancipation of the toilers through the liquidation of the bureaucracy and of social inequality."²⁴

In contrast to "orthodox" interpretations of Trotsky's position, note that here he does not treat nationalized property as a formal criterion for a workers' state. State property characterizes a workers' state for a material reason: it assures the development of economy and culture and thereby paves the way for the transition to socialism. Whether Soviet property would continue to accomplish this, however, was to be determined by the response to the economic crisis of the early Five-Year Plans.

Trotsky distinguishes between Soviet society — the system of production, class structure, etc. - and the state. This summarizes his most precise definition of a workers' state, one that enable us to take its degeneration into account and determine when that state has ended. Soviet *society* was still in transition between capitalism and socialism, far closer to the former. The *state* remained a workers' institution so long as it was capable, despite its degeneration, of leading the transitional society towards socialism. In its founding years the Soviet state had led, or had tried to

22. "The Workers' State, Thermidor and Bonapartism," *Writings (1934-35)*, p. 181.

23. "The Workers' State, Thermidor and Bonapartism," p. 179

24. "The Workers' State, Thermidor and Bonapartism," pp. 170-1

lead, in that direction. But Stalinism had turned the rudder around.

Trotsky now corrected his Thermidor analogy. Thermidor was not in the future but in the past. The Thermidorian period had begun in 1923 with Lenin's removal from political activity, and was now ended; Bonapart-ism had replaced it, signifying the completion of the *political* counterrevolution. From then on the USSR was a degenerated workers' state, moving backwards towards capitalist restoration. The remaining question was whether its direction could be reversed - if not, the outcome would be *social* counterrevolution.

The answer was not long in coming. Stalinist Bonapartism was transformed, but not through its collapse and the restoration of private property tied to imperialism, as Trotsky expected. Its drive for independence was deeper. Through a new campaign against the workers and its own proletarian vestiges, the bureaucracy established itself as a new ruling class based on the institutionalization of the law of value within the confines of state property. The workers' state was destroyed in the name of socialism and replaced by an unprecedented form of capitalism built on its carcass.

2. THE COUNTERREVOLUTION COMPLETED

Faced with the two-sided crisis of the mid-1930's - economic disaster at home and the rise of fascism in Europe - the ruling bureaucracy embarked on another turn. In foreign policy Stalin reversed every Leninist principle as well as his own left adventurism, searching for bourgeois allies instead of proletarian internationalism. Less well understood are the decisive events that took place inside the USSR.

Whereas the early Bolsheviks had tried to steer a safe course among the divided Western powers - seeking transitory and practical political, military and economic agreements - Stalin now tried to consolidate long-term alliances. Support for the Kuomintang in the 1920's had been only a foretaste. As Germany under the Nazis began to challenge the division of the world dictated by the postwar treaties, the Stalinists concluded military blocs for the preservation of imperialist states, joined the League of Nations (hitherto the "den of thieves"), and ordered the Comintern parties to collaborate not only with the social democrats (ex-"social fascists") but with the bourgeois parties as well.

Stalin tried to prove his true worth to imperialism by crushing the proletarian forces in the Spanish Republic; he thereby halted the Spanish revolution at a capitalist stage and ensuring the fascist victory.²⁵ From this

25. See Felix Morrow, *Revolution and Counterrevolution in Spain* (1938) and Fernando Claudin, *The Communist Movement* (1969)

period on, the USSR has always played a conservative role on the world stage, safeguarding its own interests both in collaboration and in conflict with Western imperialism.

The Soviet Stalinists' turn from isolationism to popular-frontism abroad marked a deepening of their Russian nationalist course. The CPs abroad likewise hardened their nationalism. They had been purged and toughened in the "third period" - only to emerge as agents of blatant class collaboration, bent on convincing their bourgeois rulers to ally with Moscow against Berlin. While on the surface they reflected Soviet national interests, underneath they were digging their roots ever deeper in domestic nationalism as well: the American CP's change of slogans, from "Towards a Soviet America" to "Communism is 20th Century Americanism," was symbolic. The popular-front strategy has gone through many changes over the years; for example, in France in the late 1930's the Stalinists' "National Front" embraced homegrown anti-German fascists. But in contrast to Stalinism's previous zigzags, it has remained a constant since that time.

DOMESTIC RIGHT TURN

The international right turn in the mid-1930's reflected the domestic needs of Stalinism, and a similar turn was made at home. It is a curious fact that few observers — Marxist or bourgeois — recognize Stalinism's conservative shift inside the USSR; they are seemingly blinded by the violence of the "left turn" of 1929-30 and the great purge of the Communist Party at the end of the decade.

Tremendous pressure for a right turn came from the international situation: the rise of the menacingly anti-Communist Nazi regime, whose very existence can be credited to Comintern policies of the early 1930's. Hitler's threats intensified the bureaucrats' very real fears. The Soviet Union was now in acute danger from imperialism. One result was the intensification of Russian (as opposed to Soviet) nationalism; it reached its peak during World War II in Stalin's grotesque appeals to the memories of Czarist generals and their imperial conquests.

Another consequence was the tightening of political control. The party, army and industrial bureaucracies had to be subjected to an even more stringent discipline than before to eliminate all risk of internal subversion. This need led to the great purges, which had the effect of disrupting Soviet production instead of expanding it. But this is all well known. What needs to be brought to light is the consolidation of a panoply of capitalist methods from the mid-1930's on, revisions of Soviet theory and practice

26. The Hitler-Stalin pact appears to belie this assessment, but see Chapter 6

which have survived to the present unchanged in their essentials.

To start with, the rulers clearly had to build up the Soviet arms industry. Arms production advanced rapidly with the general industrial growth of the first Five-Year Plan, stagnated in the middle 1930's when the economy was in crisis, and then sped up again after 1936 - at a time when Soviet industrial production was otherwise decelerating. It is noteworthy that under the Hitler-Stalin pact Russia was able to supply arms to Germany. The arms build-up both drained civilian industry of resources and compelled wide sections of it to produce inputs for arms factories.

In the postwar USSR the military sector is the most technologically advanced in industry. To achieve the quality necessary for reliability (notoriously lacking in general), Soviet firms supplying the military are required to compete for contracts. Quality and precision were even greater problems in the pre-war economy, when industry was built up by throwing masses of unskilled laborers into the factories under dictatorial discipline. Under such conditions, constructing a "state of the art" military sector also have required intensified competition as an executor of the law of value. Thus the threat of war, through its nationalist and militarist effects, was a major source for the institutionalization of capitalist relations.

But these were by no means restricted to the military sphere. All kinds of traditional institutions were restored, bringing back into Soviet respectability old ruling class professionals like clergymen and lawyers. The depth of the transformation was obscured by the violence of the mass arrests and purges that accompanied it, but these, as we will see, were designed to eliminate all opponents of the new conception of socialism. The Soviet and bourgeois myth of a "Marxist-Leninist continuity" from 1917 on is entirely at variance with reality.

An notably counterrevolutionary change was Stalinism's revival of national oppression, in contrast to the early Soviet support for the rights of minority nations (including self-determination). Whole populations (Koreans, the Volga Germans, Tatars, etc.) were deported from their homelands. Several national republics were dissolved and their peoples "resettled." Russian settlers in the minority republics were granted favoritism, and non-Russian languages were Russified. The nationalist resentment thus encouraged has boiled over bloodily today.

COMPETITION AND INEQUALITY IN LABOR

The Stalinists adopted competitive techniques across the board. In agriculture, collectivization was not a socialist but a managerial project. Competition was used to break down collective labor by encouraging the

peasantry's traditional petty-bourgeois outlook.

"In one important respect ... collectivization turned out to be a less radical change in the mode of agricultural production than appeared at first glance. The peasant became a collective producer, but the land which the kolkhoz [collective farm] collectively cultivated was mainly devoted to grain, and grain ... was also the main item of state procurement. In other respects the kolkhoz peasant was able to remain a private producer, cultivating his private plot ... and entitled to raise a limited number of animals outside the collective framework. Although the private plots were small, they were of great importance to the peasants, and indeed to the national economy as a whole. Produce from the private plots could be sold in kolkhoz markets in the towns, and the proceeds went directly to the individual peasant, not to the kolkhoz. From 50 to 70 percent of total production of vegetables, fruit, milk and meat came from the private plots in 1937, and a substantial proportion of this was sold on the kolkhoz market rather than to state procurement agencies."²⁸

In labor the slogan of the day was "socialist emulation":

"Incentives were made much more effective, by the recasting of the wage scales and widening monetary differentials, then by the gradual abolition of rationing and the greater availability of goods to buy. The very high prices of basic necessities, in and after 1934, stimulated harder work on piece-rates, so as to be able to make ends meet."²⁹

A boost to such incentive policies was added with the Stakhanovist campaign that started in 1935, whereby "star" skilled workers were given human and material aid to bust work norms and establish more demanding rates for the workers as a whole. The intent was to break the Soviet workers commitment to equality as well as to create a new labor aristocracy with a deep stake in the bureaucrats' state power. The new system was an intensification of capitalist methods. Trotsky quoted the president of the State Planning Commission: "The ruble is becoming the sole real means for the realization of a socialist (!) principle of payment for labor."³⁰

Under glasnost in the USSR it was revealed that the miraculous feats of productivity achieved by the original hero, Stakhanov, were actually the work of three men, not one. Stakhanovism, moreover, contributed to an increase of mining accidents and, consequently, a campaign of persecutions against "saboteurs."³¹ There was also working-class opposition, often

28. Sheila Fitzpatrick, *The Russian Revolution* (1982), p. 146.

29. Nove, *Economic History* ... p. 231.

30. *The Revolution Betrayed*, p. 81. The "!" is Trotsky's.

31. *Le Monde*, October 18, 1988

27. Mark Harrison, *Soviet Planning in Peace and War 1938-1945* (1985), p. 8

violent, to the state's imposition of inequality and speed-up.

The regime made sure that women would bear the double burden of housework and child rearing as well as wage-labor, as under capitalism. Alarmed by the growing labor shortage, the state abolished the right of abortion, one of the leading conquests of working-class women established by the 1917 revolution. Conservative propaganda extolling the nuclear family and the "sacredness" of motherhood has been a constant in the Soviet press since then. In the same spirit, homosexuality was outlawed.

From the point of view of workers and peasants, therefore, the mid-1930's brought back traditional capitalist methods of competition aimed at stimulating production. But traditional methods were not enough: to carry out a genuine counterrevolution, increasing repression of the workers was needed, forms that led Trotsky to name the regime "totalitarian." Literature and art became monolithic and stifling. Not only was the party Stalinized and the Soviets eroded; all workers' organizations from unions to sports clubs were encrusted with a bureaucratic hierarchy.

Labor laws were drastically toughened. First the labor workbook was reintroduced, in effect creating an internal passport for the working class. Then the penalties of automatic dismissal and loss of housing for a single case of absenteeism were restored. Such measures, originally legislated in the early thirties, had lost force because individual managers did their best to ignore them; and even in the repressive climate of 1938 they fell into disuse. Finally, in 1940 job-changing and absenteeism (arriving twenty minutes late for work counted as a day's absence!) were made criminal offenses to be punished by jail terms.³² As one observer summed up, "It took only a little over twenty years to devolve from the October Revolution, which declared factories to be the property of the workers, to Stalin's decree, which reduced workers to property of the factories."³³

The Stalinist attack on the workers was accompanied by a counterrevolution in Marxist theory. Some of Stalin's theoretical contributions have already been mentioned. To illustrate further the new policy of open opposition to equality within the working class, his aide Voznesensky wrote in 1931 a defense of piecework (payment not according to hours worked but for tasks completed):

"In the period of socialism there will still be piecework wages, since this corresponds best to the principle of remuneration according to the quantity and quality of labor furnished, and since it raises the produc-

tivity of labor and guarantees socialist accumulation."-⁴

Marx, however, had characterized piecework as "the form of wages most suitable for capitalist production," for just these reasons. Under the NEP some piecework norms had been introduced as a necessary but temporary measure. Stalin's innovation was to justify the growing inequality, in part by citing Marx. Whatever the justification, the trend became dominant. By the time of Stalin's death three-fourths of Soviet industrial workers were under the piece-rate system. Trotsky commented aptly:

"When the rhythm of labor is determined by the chase after the ruble, then people do not expend themselves 'according to ability' - that is, according to the condition of their nerves and muscles — but in violation of themselves. This method can only be justified conditionally and by reference to stern necessity. To declare it 'the fundamental principle of socialism' means cynically to trample the idea of a new and higher culture in the familiar filth of capitalism."³⁵

STALINIST PLANNING

The escalation of repressive labor policies shows that the bureaucracy was increasingly conscious of its separate existence as the exploiter of the working class. Yet its own internal divisions, above all the needs of individual managers to run their plants successfully and competitively, made problematical the enforcement of central decrees that limited bosses' ability to bargain with the work force. These separate management interests were obviously not the result of individual ownership of enterprises, or of shares in separate corporations, as under traditional capitalism. To understand their development, we look at the methods of decentralization that Stalinism introduced.

The planning system is supposedly the heart of Stalinist centralism. Administration of the economy was divided into several layers: the State Planning Commission (Gosplan) on top; the various economic ministries (these multiplied from four in 1934 to twelve in 1936, then twenty-four in 1939), and more since; production or territorial sub-ministries (glavki); and the enterprises themselves. Despite the formal hierarchy of planning, where in theory all goods produced were transferred from one firm to another not through a random market but by administrative decision, the reality was that competition flourished at every level in the planning system. The more elaborate the Stalinist economy became, the more competitive the different interests became: if not over sales, then over resources, labor, funds and assignments.

32. See Donald Filtzer, *Soviet Workers and Stalinist Industrialization* (1986), Chapters 5 and 6.

33. Victor Zaslavsky, *The Neo-Stalinist State* (1982), p. 47

34. Cited in Bernard Chavance, *Le Capital Socialiste* (1980), p. 234.

35. *The Revolution Betrayed*, p. 82

"In respect to Soviet economy, there was ... a fundamental revision of theory and practice beginning in the mid-1930's, based upon a breakdown of the older theory and practice. The First and Second Five-Year Plans had succeeded in industrializing Russia to a remarkable extent; by 1936, however, it was apparent that production in itself is no solution to the basic economic problems. ... In response to such problems and because of the apparent inadequacy of earlier doctrine, ... the emphasis since the mid-1930's has been on competition ('socialist emulation'), on reward for incentive, on profits, on prices that reflect more adequately market conditions, on 'economic accountability,' on 'economic laws.' This was a return to the economic and legal institutions of the NEP, but within the framework of a planned economy."³⁶

Such policies are normally associated with the reformists of the present day USSR, but it all began with Stalin. The author of a major study of Soviet planning summed up:

"Within each ministry, enterprises competed fiercely for a privileged status, for reasonable quotas, and for easy orders. The same sort of competition existed on a lower level within each enterprise and on a higher level among ministries. The jungle of liberal capitalism of the past looks like a fencing tournament in comparison with this sordid infighting for influence interspersed with negotiations, shady deals and blackmail."³⁷

Obviously "planning" under the conditions of the struggle for survival in the Stalinist jungle is hardly the scientific mechanism that the founders of the workers' state envisaged. It is in reality administration by fiat. The very concept of "socialist competition" as a means for subordinating all units of production to the drive for maximizing accumulation makes genuine planning impossible: to calculate and foresee the output of any enterprise, shop or individual worker require regular, cooperative and predictable work practices. Stalinist methods of incentives - Stakhanovism, shock work, etc. - rule this out.

Likewise, the market for commodities was replaced by a system of mandates issued from above, based not on scientific planning that meshed resources with needs but on a system of priorities. Heavy industrial and military sectors were favored, and agriculture and light industry subordinated to them. As a result, "planned" production in the disfavored spheres was often well under the anticipated figures in the 1930's; these sectors were deprived of resources and left to scramble for what they could find. This meant that, aside from the most privileged sectors, the Soviet

economy was subjected to a plan that in effect accelerated its decentralization. We will say more about Stalinist planning in the next chapter.

The decentralist tendencies in the economy emerging in the midst of political centralization and national planning have been overlooked by Marxists of every stripe. They see only the external shape of institutions without penetrating to the contradictions between form and content. The heart of the matter was the intensification of the struggle over surplus value and accumulation. That is the essence of all the competitive forms that asserted themselves as the new ruling class prepared its takeover.

SOVIET LAW

The structure of Soviet law was likewise revised in the mid-1930's. Stalin's new Soviet Constitution of 1936 (apparently drafted by Bukharin) removed the special electoral advantages granted to workers by the original constitution adopted shortly after the revolution. In their place, it offered a model bourgeois parliamentary system based on the votes of isolated individuals. Of course, by 1936 the workers had lost their democratic rights in the Soviets anyway; and by the same token the bourgeois-type elections that were promised were never carried out.³⁸ Nevertheless, the symbolic turn from a proletarian to a bourgeois model had great significance. In Trotsky's words, it amounted to "juridically liquidating the dictatorship of the proletariat."³⁹ For Stalin it was an indication that the Soviet revolution had achieved its main political objectives and that the period of upheaval was officially ended.

The Stalin Constitution for all practical purposes defined the developing ruling class in the USSR:

"The most active and politically conscious citizens among the working class, working peasants and working intelligentsia voluntarily united in the Communist Party of the Soviet Union, which is the vanguard of the working people in their struggle to build communist society *and is the leading core of all organizations of the working people, both social and governmental.*"⁴⁰

The Communist Party included not just the top bureaucracy but a whole range of people at every level, including low-echelon working-class members. But the Constitution gave the CP hierarchy the right to appoint the entire body of leading officials in every sphere of life. (Thus was

36. Harold Berman, *Justice in the USSR* (revised edition, 1963), p. 50.

37. E. Zaleski, *Planning for Economic Growth in the Soviet Union* (1962), p. 296

38. Not until Gorbachev, that is. See Chapter 8 below.

39. *The Revolution Betrayed*, p. 261.

40. *Constitution (Fundamental Law) of the Union of Soviet Socialist Republics*, (1937), Article 126; emphasis added. The translation is adapted to conform with Trotsky's commentary following

created the so-called nomenklatura.) Trotsky observed: "This astounding-ly candid formula ... reveals the whole fictitiousness of the political role of those 'social organizations' - subordinate branches of the bureaucratic firm."⁴¹ The bureaucracy's assertion of its right to lead all social organizations signified its growing self-consciousness as a separate layer in the process of becoming a separate class.

In 1936 Stalin also extended his dogma that capitalist relations had been expunged from the Soviet Union by declaring that "the complete victory of the socialist system in all spheres of the national economy is now a fact." While the emerging ruling class could not present an open legal justification for its rule, it could deny the legitimacy of working-class rule. Stalin reasoned that the proletariat is a class exploited by the capitalists and there are no more capitalists; therefore there can be no more proletariat, and hence no dictatorship of the proletariat. As a syllogistic argument this is flawless. But there remained a slight problem. If the proletariat no longer existed, who had replaced it at the head of the state? Stalin proposed, somewhat unconvincingly, that Soviet socialism now embodied the "dictatorship of the working class," adding that "our working class, far from being bereft of the instruments and means of production, on the contrary, possesses them jointly with the whole people." So much for the Maoist claim that the "state of the whole people" was a counter-revolutionary Khrushchevite invention that overturned everything Stalin stood for.

Stalin's lying and convoluted theory aside, the changes in Soviet law accompanying the new Constitution were real enough. The specifics are given by Harold Berman, a noted authority on the Soviet legal system; we cite some especially remarkable sections. First Berman quotes from a book by a Soviet financial expert of the thirties, M.I. Bogolepov, explaining how and why Soviet firms were made economically independent in law:

"Logically, [capital accumulation] could be entirely contributed to the Exchequer, for the State is the owner of industry. In actual fact, however, the process is much more complicated. This is necessitated by the following considerations: the State seeks to create among the managers and workers of its establishments a direct interest in the results of their efforts. State-owned establishments are run as juridically independent economic units. Each establishment, having received from the State for its exclusive use both equipment and capital, proceeds to operate on its own, with its own financial accounting, bank account,

credit facilities, and, finally, with the right to make a profit. In the distribution of this profit the establishment considers its own requirements, contributes a definite sum to the workers' welfare, and provides bonuses for good workers." Berman then summarizes how this system developed in Soviet history:

"Although economic accountability (*khozraschet*) is a concept which dates from the NEP period, when state enterprises were competing with private business, it lost its reality in the period of the First and Second Five-Year Plans, when the drive was for production almost regardless of cost. ... The critical change here, as in so many other aspects of Soviet institutional development, was in 1936, when it was ordered that an end be put to state subsidies of enterprises. Although there were numerous exceptions to this rule, the principle it established has prevailed: first, that each economic enterprise should be profitable in the sense that the monetary value of its operations should exceed that of its expenditures, and second, that each enterprise must be financially responsible for its obligations."⁴³

A consequence of treating Soviet firms as juridically independent was that they could sign contracts with one another, sue if these were not fulfilled, and win damages in court. Each firm operated like a governmental corporation (or "authority") in the U.S.; although state-owned, it had financial autonomy and legal independence. Berman notes that "the director of the enterprise is in one sense like a Western civil servant, but in another sense he is like a Western business executive. He measures his success not by the welfare of the economy as a whole, but by the economic achievement of this enterprise."⁴⁴

This last point is crucial. Marx's principle that "capital exists and can only exist as many capitals" was unknowingly rediscovered and verified by Stalinism.

The disorders of the first Five-Year Plan made clear that the state's agents of capital accumulation had to be compelled to produce "rationally." The statified economy allowed violations of the law of value even greater than under traditional monopoly capitalism. To correct the excesses, surrogates for market competition had to be created — but without removing the central power of allocation made possible by nationalization. That was accomplished by making the various enterprises relatively autonomous. By arranging that each capital had to confront others in the course of production for exchange, the rulers hoped to impose the discipline of value.

41. *The Revolution Betrayed*, p. 269.

42. Stalin, "On the Draft Constitution of the USSR," *Problems of Leninism*, pp. 382-3 and 395

43. Berman, pp. 110-11.

44. Berman, p. 114

Managers whose economic stake was in their own firms' success, not that of society, became agents of the economic laws of capital. They sought to discipline their workers and to accumulate, centralize and modernize capital - not according to the needs of the nation and certainly not according to the needs and rights of the workers - but in order to maximize the value and surplus value at their disposal. The central bureaucracy, representing the interests of the rulers as a whole, had to balance its demands against the specific interests of its local agents. We will spell out the consequences in the next chapter.

THE GREAT PURGE

The mass purge of the late 1930's destroyed all ties to Bolshevism within the party and gave the new ruling upper bureaucracy its organized structure and formal recognition.

The purge wiped out hundreds of thousands of advanced workers and party officials. The party was totally transformed in its top levels: by the time of the 18th Party Congress in 1939, 70 to 90 percent of those who held office in 1934 (at the previous Congress) were removed, imprisoned or killed. Almost the entire layer of "red directors," the communists who had managed industry from the 1920's on, was eradicated. They were replaced by the "new intelligentsia," the Brezhnev/Kosygin/Andropov generation of the party who had been trained under Stalin, elevated precipitously into responsible positions and committed to the rule of the party over the masses. The purges cemented the decentralized structures and social relations established in the mid-thirties. Thus was produced the bureaucratic capitalist class and the statified capitalist system that defines Stalinism today.

The extent of the purge at the peak levels is astounding. By the end, 100 out of 139 Central Committee members were executed; likewise 90 percent of Central Committee leaders in the Soviet republics; all of the central committee of the Young Communists; six of the seven presidents of the Soviet Executive Committee; 90 percent of People's Commissars of the republics; nearly all of the Control Commission, of the Council of War and of leaders of the secret police and former Chekists; 60 percent of Comintern functionaries. In the Soviet Armed Forces, 86 percent of all superior officers and 50 percent of all officers (including noncommissioned) were shot, specifically: 14 of 16 generals of the army, 66 of 199 generals of divisions, 221 of 377 brigade generals, 8 admirals of 8, 11 of 11 commissars.⁴⁵

45. Figures taken from Khrushchev's reports in 1956, cited in David Rousset, *La Societe Eclatee* (1973), p. 355

The purge decapitated and transformed the party and shattered the state apparatus and the army, the armed power of the workers' state. Trotsky categorized the events as a "preventive civil war" by the bureaucracy against the unarmed and demoralized workers.⁴⁶

No ruling class can afford to exterminate the class it exploits, a fact that sets limits to its viciousness in the class struggle. But Stalinism, faced with the need to wipe out every remnant of proletarian power and all independent class movement and consciousness, did something else: it eliminated the revolutionary and potentially revolutionary leaders of the workers. Not only Left Oppositionists but also former Rightists and even the Stalinist core of the early 1930's were destroyed: every vestige of the heritage of October was regarded as a threat.

The purges were not confined to the party tops but extended deep into the proletariat. Any worker who stood out in defense of workers' rights or the tradition of Lenin was denounced as a Trotskyist and deported to labor camps. Accurate figures of the numbers of workers or party members slaughtered are unknown; only estimates are possible. "At the beginning of 1918 the party had numbered 260,000 to 270,000 members, mostly young people. Even taking into account the high mortality during the Civil War [of 1918-21] it can be assumed that hardly fewer than 200,000 of these people were alive at the beginning of 1939. But only 10 percent of them had remained in the party."⁴⁷ The others were liquidated or simply purged; in either case the party was no longer theirs.

As Trotsky summarized, "In order to establish the regime that is justly called Stalinist, what was necessary was not a Bolshevik Party, but the extermination of the Bolshevik Party."⁴⁸

THE NEW BUREAUCRACY

The purge created numerous administrative vacancies, and the rising layer of bureaucrats was waiting in the wings to take over: "The Party was rapidly transformed into a managerial and technical elite under the ministerial system. In 1927, there had been only 9 thousand Party members with higher education and 751 with higher technical education. In ten years, 105 thousand members had higher education and 47 thousand higher technical education. The influx into the industrial economy of young technical specialists and their promotion to leading technical and administra-

46. Trotsky, *Writings (1937-38)*, pp. 40, 58. The number of purge deaths is variously estimated to be in the hundreds of thousands or millions. Either way it shows that Trotsky's term was no literary excess.

47. Solomon M. Schwarz, "Heads of Russian Factories," *Social Research*, 1942.

48. Trotsky, *Stalin*, volume 2, p. 229

tive posts was accelerated by the purge of administrative and economic officials in 1936 and 1937. The Old Bolshevik *glavki* heads were liquidated, and the composition of plant managerial personnel altered significantly with the purge of the Red directors...."⁴⁹

That the new upper bureaucracy was indeed a separate class above the proletariat is shown by the social relations that were introduced in this period. We provide several descriptions, again because the conservatizing effects of the counterrevolutionary period are not commonly understood.

"The creation of a hierarchical scaffolding of dedicated bosses, held together by discipline, privilege, and power, was a deliberate strategy of social engineering to help stabilize the flux. It was born, therefore, in conditions of stress, mass disorganization, and social warfare, and the bosses were actually asked to see themselves as commanders in a battle. The Party wanted the bosses to be efficient, powerful, harsh, impetuous, and capable of exerting pressures crudely and ruthlessly and getting results 'whatever the cost.' ... The formation of the despotic manager was actually a process in which not leaders but *rulers* were made."⁵⁰

The newly formed ruling class organized itself through the nomenklatura, the hierarchical list of official assignments and party members eligible for them, combined with the privileges attached to each post. The old communist spirit that had fired the party even during the "revolution from above" was driven out by corruption. The classical "party maximum" that limited officials' salaries to workers' wages was now a joke; conspicuous consumption became the rule, and the special shops dispensing luxuries appropriate to rank were established as a norm that still enrages working people today. The new rulers also had to behave like a proper elite. This is described in an account that quotes several interviews with Soviet technical specialists after World War II:

"The tightening of labor discipline during the 1930's was accompanied, after 1937, by the introduction of formal, hierarchical relations. 'There were no open declarations and nothing was said at meetings or in newspapers. But privately we were told to behave differently.' Oral instructions encouraged a more rigid set of relations: 'familiarity between superiors and subordinates' was discouraged; subordinates were not allowed to sit down when reporting to a superior; reports were to be short and given only after an appointment had been scheduled; when the director or chief engineer passed through a shop, the workers had to stand up to show their respect. Hierarchical relations were also en-

couraged outside work. 'Hints were dropped that we should select our friends from among the personnel approximately equal in rank.'..."⁵¹

The new social relations transformed not only the personnel of the ruling party but also its class character. Its original proletarian base had been eroded in the early 1920's, but in the 1930's recruitment from the intelligentsia became a positive policy. Anti-Stalinist "Leninists" who believe that "socialism" must be brought to the workers from outside the class (overlooking Lenin's theoretical change described in Chapter 2) ought to take a look at their reflection in the Stalinist CP.

To consolidate their position, the new bureaucrats then made sure that the rapid social mobility out of the working class and peasantry that has started them on their road to rule was no longer operative. The chasm between bureaucracy and proletariat widened; the bureaucracy became a self-perpetuating ruling class.

"The influx of workers and workers' children into the institutions of higher education fell off markedly after 1933. Also, the promotion of workers into administrative positions was almost stopped in the second half of the 30's. The outstanding workers were now protected by higher wages, bonuses and the like, and in their social and material position they were elevated high above the majority of the workers, almost to the level of the higher ranks of plant employees and engineers. But they were no longer 'promoted'; they remained manual workers. Moreover, by this time it was for only a few of these favored workers that the way was open to a higher education, with the prospect of rising later to industrial leadership. The idea of putting the direction of industry into the hands of people rising from the working class and bound up with labor, as it had been formulated at the end of the 20's, was now lost, and the order to assure a workers' nucleus in the colleges and technical schools had been tacitly forgotten. At the end of 1940 obstacles were even put in the way of workers' children attaining a higher education."⁵²

That is, skilled workers were now recruited into the labor aristocracy but no longer into the bureaucracy. The new bureaucracy was trying to build up a mass base of support, yet at the same time it was closing the doors to class mobility behind itself. It was guaranteeing the rigorous delineation of class lines signified by the nomenklatura.

COUNTERREVOLUTION TRIUMPHANT

The formal culmination of the counterrevolution came at the 18th Party

49. William Conyngham, *Industrial Management in the Soviet Union*, p. 51.

50. Moshe Lewin, "Society, State and Ideology during the First Five-Year Plan", in Sheila Fitzpatrick, ed., *Cultural Revolution in Russia, 1928-1931*, p. 74

51. Kendall Bailes, *Technology and Society under Lenin and Stalin*, p. 322.

52. Schwarz, p. 326

Congress in March 1939. Here the triumphant CP sanctified the new social relations and openly dedicated itself to the bureaucratic intelligentsia. Beyond this point it was impossible to say that the state was ruled in the interest of the working class, in however distorted a form. The working class was deprived of even its surrogates in power, and the economic transformation already under way for much of the decade guaranteed that the state embodied no "objective" interests of the proletariat.

Whereas the 1936 Constitution had symbolically deposed the proletariat in favor of the "whole people," now the Party Congress handed power to the new bureaucracy. Party recruitment had been closed down during the purges; when it was reopened the intelligentsia categories provided over 40 percent, as compared to under 2 percent in 1929. (Worker recruitment declined from 81 to 41 percent; the remainder of about 15 percent at both times is classified as peasants.) From 1939 to 1941, workers made up less than 20 percent of new members while functionaries, employees and intellectuals constituted over 70 percent.

Addressing the Congress, Stalin's henchman Zhdanov declared that the preference hitherto given to working-class party entrants was over: "The existing system, as prescribed in the Party Rules, of admitting new members into the Party in accordance with four different categories, depending on the social status [i.e., class] of the applicant, is obviously incompatible with the changes in the class structure of Soviet society resulting from the victory of socialism in the USSR."⁵⁴

By "changes in the class structure of Soviet society," Zhdanov meant the liquidation of the old bourgeoisie and the newly prominent role of the intellectuals. Stalin himself gave backhanded recognition to the masses' lack of trust in their "friendly" layer of "non-class" intellectuals, demanding proper deference to the new class: "Our new intelligentsia demands a new theory, a theory teaching the necessity for a cordial attitude towards it, solicitude and respect for it, and cooperation with it in the interests of the working class and the peasantry. That is clear, I should think."⁵⁵

Respected or not, the new ruling class soon emerged victorious from its first trial by fire: the German invasion of World War II. During the war, the new managerial elite in industry, state and army was consolidated. Although whole layers of the Soviet population initially sided with the invading forces out of hatred for the privations and repression they had suffered for a decade, Nazi attitudes proved no more gentle to "subhuman"

nations. By the end of the war, the Stalinist rulers had established sovereignty over the reluctant masses. They have since made that heroic period, rather than the nightmare of the 1930's or even the revolution, the defining legend of the Soviet state.

The Stalinists owed their social base of support not to socialism and international revolution but to their arousal of sentiments for "defense of the motherland." They emerged from the war a confident ruling class, solidified in power within the USSR and able to expand Stalinism abroad when conditions demanded it.

3. TROTSKY'S LAST ANALYSIS

We have seen Trotsky's position on the nature of the USSR develop through several phases. In the early stages of degeneration, he still considered the USSR to be a workers' state because the ruling party was reformable by the workers. He designated the party as centrist in 1933; still, part of the bureaucracy's dual character was to defend the degenerated workers' state in its own interest and in its own way. By the end of the decade he changed this assessment as well. But even though he recognized that the great purges represented a "civil war" by the bureaucracy against the working class, and that the political counterrevolution had already taken place, he failed to draw the conclusion that the workers' state had been overthrown.

COUNTERREVOLUTIONARY STALINISM

Trotsky continued to develop his analysis of what he already considered to be the counterrevolutionary international role of Stalinism. In 1935 he noted that "Nothing now distinguishes the Communists from the Social Democrats except the traditional phraseology which is not difficult to unlearn." He thought the merger of the two tendencies to be quite possible.⁵⁶ And with the betrayal of the Spanish Revolution in 1937, he abandoned all vestiges of his previous assessment of Stalinism as bureaucratic (or any kind of) centrism. In Spain, allied with the extreme right wing of the Socialists, the Stalinists led the repression against the working-class left and joined the side of counterrevolution.

"The interests of the Bonapartist bureaucracy can no longer be reconciled with centrist hesitation and vacillation. In search of reconciliation with the bourgeoisie, the Stalinist clique is capable of entering into alliance only with the most conservative groupings among the interna-

53. T.H. Rigby, *Communist Party Membership in the USSR*, pp. 223-5.

54. *The Land of Socialism Today and Tomorrow (Reports and Speeches at the Eighteenth Congress of the Communist Party of the Soviet Union (1939))*, pp. 180-1.

55. *The Land of Socialism...*, pp. 52-3

56. Trotsky, "The Comintern's Liquidation Congress," *Writings (1935-36)*

tional labor aristocracy. This has acted to definitively fix the counter-revolutionary character of Stalinism on the international arena." ⁵⁶

The bureaucracy no longer vacillated between its base in the workers' state and world capitalist pressures. It had now become an active counter-revolutionary agent of imperialism, as Spain had decisively proved, and therefore even its defense of the Soviet state for its own aims was compromised. The purges were proof as well. "The Moscow trials had already revealed that the totalitarian oligarchy had become an absolute obstacle in the path of the country's development."⁵⁸ In the Transitional Program of 1938 he drew the conclusion:

"The political prognosis [for the USSR] has an alternative character. Either the bureaucracy, becoming ever more the organ of the world bourgeoisie in the workers' state, will overthrow the new forms of property and plunge the country back to capitalism; or the working class will crush the bureaucracy and open the way to socialism."

The Stalinists' role in Spain represented the working-out of tendencies set in motion after Hitler's victory, notably the class-collaborationist pact with the French bourgeoisie of 1934. Spain was simply the first revolution that Stalin had the opportunity to destroy from within. Likewise, the "civil war" in the Soviet Union was the culmination of deep-seated tendencies that had previously been established: the rise of the new bureaucracy, the suppression of working-class gains, the subordination of the economy to value. Once the basis for the new ruling class had been laid, all that remained was to remove the obstacles to its power.

Trotsky understood this very well. Take his analysis of the bureaucracy (before he classified it as counterrevolutionary):

"In its intermediary and regulating function, its concern to maintain social ranks, and its exploitation of the state apparatus for personal goals, the Soviet bureaucracy is similar to every other bureaucracy, especially the fascist. But it is also in a vast way different. In no other regime has a bureaucracy ever achieved such a degree of independence from the dominating class [the proletariat]. ... In this sense we cannot deny that it is something more than a bureaucracy. It is in the full sense of the word the sole privileged and commanding stratum in the Soviet society.

"Another difference is no less important. The Soviet bureaucracy has expropriated the proletariat politically in order by methods of *its own* to defend the social conquests. But the very fact of its appropriation of

political power in a country where the principal means of production are in the hands of the state creates a new and hitherto unknown relation between the bureaucracy and the riches of the nation. The means of production belong to the state. But the state, so to speak, 'belongs' to the bureaucracy. If these as yet wholly new relations should solidify, become the norm and be legalized, whether with or without resistance from the workers, they would, in the long run, lead to a complete liquidation of the social conquests of the proletarian revolution. But to speak of that now is at least premature."⁵⁹

So conjunctural an assessment of "new and hitherto unknown" relations should have warned Trotsky's followers that re-examining the role of the bureaucracy might be called for. Fifty years later the new relations have not only solidified but calcified. In any case, the legalization of the new relations was already taking place: we have already cited Trotsky's view that the 1936 Constitution amounted to "juridically liquidating the dictatorship of the proletariat," even though it did not enshrine the bureaucracy as ruling class. Trotsky understood that the bureaucracy, as "something more than a bureaucracy," was on the road to destroying the workers' state.

His theory at this Stage was perched like the Stalinist state itself on the point of a pyramid: the two-pronged prognosis just cited was on the verge of being tested as the counterrevolution came to a head. Any overall characterization of Stalinism had to be above all temporary. Thus he labeled the bureaucracy a "caste" because he needed a term and "the old sociological terminology did not and could not prepare a name for a new social event which is in the process of evolution (degeneration) and which has not assumed stable forms."⁶⁰ The degenerated workers' state had precisely such an ephemeral quality; it could only exist for a moment in historical time on the road to counterrevolution.

Trotsky regarded the purge trials as a sign of the weakness and imminent breakup of the Stalinist regime. But in fact the transformation of the party and bureaucracy showed not weakness but the strength the Stalinists now had as a stabilized class. Having erased the last vestiges of workers' power in the state apparatus, party and army, the regime did not collapse in World War II, as Trotsky expected, but rather consolidated its power.

59. *The Revolution Betrayed*, pp. 248-9.

60. Trotsky, "The USSR in War" (1939), *In Defense of Marxism*, p. 6. Trotsky noted that the Brahmin caste bore some resemblance to the bureaucracy: "its shut-in character, its arbitrary rule and the haughtiness of the ruling stratum ..." But "it would enter nobody's mind" to identify the enduring Hindu caste with the unstable Stalinist one

57. Trotsky, "The Lessons of Spain: The Last Warning" (1937); in *The Spanish Revolution*, p. 311.

58. "Manifesto of the Fourth International ...", *Writings (1939-40)*, p. 200

Nevertheless, Trotsky's position looks insightful today, and it is in no way understood by his epigones: the Stalinist system, after a delay of several decades, is proving to be as weak as Trotsky foresaw — for different but related reasons.

Trotsky's life was murderously ended by Stalin just as the bureaucracy settled into the mold which it would inhabit for the next half century. His theory, which should have continued to develop, was embalmed by his followers. It is as if Lenin had died on the eve of the First World War; he then would be remembered for an increasingly erroneous theory. Only the concrete events of the February 1917 revolution proved that the "democratic dictatorship of the proletariat and peasantry" was obsolete.

THE STALINIST ECONOMY

There were important elements in Trotsky's theory of the Soviet Union that could have allowed for the necessary changes as events ripened. The bureaucracy's counterrevolutionary character was proved once again by its suppression of working-class revolts after the Second World War. As well, Trotsky's insistence on the material impact, not just the form, of nationalized property pointed to an altered conclusion. As the Transitional Program said, "the apparatus of the workers' state" had been "transformed from a weapon of the working class into a weapon of bureaucratic violence against the working class, and more and more a weapon for the sabotage of the country's economy." A workers' state incapable of advancing the productive forces is a workers' state on the verge of extinction.

In the same vein Trotsky observed that "The progressive role of the Soviet bureaucracy coincides with the period devoted to introducing into the Soviet Union the most important elements of capitalist technique." It could borrow and transplant but not innovate - a farsighted assessment, given today's crises. Moreover,

"It is possible to build gigantic factories according to a ready-made Western pattern by bureaucratic command - although, to be sure, at triple the normal cost. But the farther you go, the more the economy runs into the problem of quality, which slips out of the hands of a bureaucracy like a shadow. The Soviet products are as though branded with the grey label of indifference. Under a nationalized economy, *quality* demands a democracy of producers and consumers, freedom of criticism and initiative - conditions incompatible with a totalitarian regime of fear, lies and flattery."⁶¹

Trotsky's deep understanding that the survival of the Soviet Union depended on surpassing the capitalists' productivity of labor pointed to the

need to reassess the degenerated workers' state theory after it had become obsolete. His own failure to produce a consistent assessment of Stalinism's capacity to advance the productive forces undoubtedly had material causes. In the first half of the 1930's he produced regular analyses of the state of the Soviet economy, but this output dwindled to nothing in the second half of the decade. The reasons no doubt included the closing off of his sources within the USSR as the purges intensified, along with the necessity to devote maximum effort to refuting the charges against him and his followers in the Moscow trials.

Nevertheless, there was a central theoretical weakness that prevented him from coming to a satisfactory analysis of the counterrevolution. We saw in Chapter 2 that Lenin, as opposed to Kautsky, had understood that the epoch of monopoly capitalism intensified competition among the monopolies. But as monopolism expanded to embrace statified production, others - notably Bukharin - drew the conclusion that competition would not intensify but would wither away *within* the framework of the state monopoly. Now the theoretical gap delivered its consequences: the Bukharinist thesis was being proved false in the case of the Soviet state monopoly, but the Leninists failed to grasp the importance of the decentralizing trend.

An important factor underlying Trotsky's errors shows through in his last major work on Soviet society, *The Revolution Betrayed*, a seminal dissection of the Stalinist phenomenon. He warns against capitalist aspects in the Soviet economy in the sphere of distribution only:

"Two opposite tendencies are growing up out of the depth of the Soviet regime. To the extent that, in contrast to a decaying capitalism, it develops the productive forces, it is preparing the economic basis of socialism. To the extent that, for the benefit of an upper stratum, it carries to more and more extreme expression bourgeois norms of distribution, it is preparing a capitalist restoration. This contrast between forms of property and norms of distribution must in one form or another spread to the means of production, or the norms of distribution must be brought into correspondence with the socialist property system."⁶² Marx insisted that the mode of distribution depended on production (Chapter 3), so from this standpoint Trotsky was certainly justified to say that the two could not long remain disparate. But he was wrong to imply that bourgeois norms were expressed only in distribution. We have already seen that Trotsky knew better, for he took pains to counter the Stalinist myth that bourgeois production had been overcome. Here he is explicit:

62. *The Revolution betrayed*, p. 244. We cited a similar passage in Chapter 3

61. *The Revolution Betrayed*, pp. 275-6

" "The worker in our country is not a wage slave and is not the seller of a commodity called labor power. He is a free workman.' (*Pravda*.) For the present period this unctuous formula is unpermissible bragging. The transfer of the factories to the state changed the situation of the worker only juridically. In reality, he is compelled to live in want and work a definite number of hours for a definite wage.⁶³

That is, in contrast to Stalin, Preobrazhensky and his own modern epigones, Trotsky knew that labor power *is* a commodity, and the workers' rights in selling it were being increasingly abused. Bourgeois norms were operative and strengthening *in production*, and this meant that the "socialist property system" was ever more becoming a juridical fiction. The proletarian property forms that Trotsky weighed so heavily were already wielded by the Stalinists against the workers for counterrevolutionary purposes; they already had a bourgeois content. When form and content are temporarily at odds, the class content will ultimately win out and produce forms compatible with it. The capitalist class content that appears today in one Stalinist-ruled country after another was already being established under Stalin. But Trotsky had only a partial perception of the problem.

We cannot close a discussion of Trotsky's assessment of the Stalinist USSR without citing his farsighted description of a hypothetical bourgeois counterrevolution (in contrast to a revived workers' revolution).

"If - to adopt the second hypothesis - a bourgeois party were to overthrow the ruling Soviet caste, it would find no small number of ready servants among the present bureaucrats, administrators, technicians, directors, party secretaries and privileged upper circles in general. A purgation of the state apparatus would, of course, be necessary in this case too. But a bourgeois restoration would probably have to clean out fewer people than a revolutionary party. The chief task of the new power would be to restore private property in the means of production. First of all, it would be necessary to create conditions for the development of strong farmers from the weak collective farms, and for converting the strong collectives into producers' cooperatives of the bourgeois type — into agricultural stock companies. In the sphere of industry, denationalization would begin with the light industries and those producing food. The planning principle would be converted for the transitional period into a series of compromises between state power and individual 'corporations' - potential proprietors, that is, among the Soviet captains of industry, the emigre former proprietors and foreign capitalists. Notwithstanding that the Soviet bureaucracy has gone far toward preparing a bourgeois restoration, the new regime

63. *The Revolution Betrayed*, p. 241

would have to introduce in the matter of forms of property and methods of industry not a reform, but a social revolution."⁶⁴

Most of this is recognizable today. Soviet enterprises have long had many similarities with traditional capitalist public corporations, and more differences are being eliminated through Gorbachev-type reforms. The counterrevolutionary purge of the state apparatus took place, shortly after Trotsky wrote. Denationalization is already well under way in the Stalinist states; the planning principle has long contained the series of compromises Trotsky suggested. All that remains of the once-proletarian state is the nationalized property form, gutted of its content and therefore losing more of its proletarian shape every day. That this could happen is the one possibility Trotsky overlooked.⁶⁵

A NEW CLASS SOCIETY?

One of Trotsky's last major articles, written at the peak of Hitler and Stalin's power on the eve of World War II, contains an unnecessarily pessimistic theoretical alternative about the extension of Stalinism on a world scale. We cite it at length:

"If this war provokes, as we firmly believe, a proletarian revolution, it must inevitably lead to the overthrow of the bureaucracy in the USSR and regeneration of Soviet democracy on a far higher economic and cultural basis than in 1918. In that case the question as to whether the Stalinist bureaucracy was a 'class' or a growth on the workers' state will be automatically solved. To every single person it will become clear that in the process of the world revolution the Soviet bureaucracy was only an *episodic* relapse.

"If, however, it is conceded that the present war will provoke not a revolution but a decline of the proletariat, then there remains another alternative: the further decay of monopoly capitalism, its further fusion with the state and the replacement of democracy wherever it still remained by a totalitarian regime. The inability of the proletariat to take into its hands the leadership of society could actually lead under these conditions to the growth of a new exploiting class from the Bonapartist fascist bureaucracy. This would be ... a regime of decline, signalling the eclipse of civilization.

64. *The Revolution Betrayed*, p. 253.

65. But not completely. Trotsky did see that capitalist restoration could occur without ending state property: "Should a bourgeois counterrevolution succeed in the USSR, the new government for a lengthy period would have to base itself upon the nationalized economy." ("Not a Workers' and Not a Bourgeois State?", *Writings* (1937-38), p. 63.)

"An analogous result might occur in the event that the proletariat of advanced capitalist countries, having conquered power, should prove incapable of holding it and surrender it, as in the USSR, to a privileged bureaucracy. Then we would be compelled to acknowledge that the reason for the bureaucratic relapse is rooted not in the backwardness of the country and not in the imperialist environment but in the congenital incapacity of the proletariat to become a ruling class. Then it would be necessary in retrospect to establish that in its fundamental traits the USSR was the precursor of a new exploiting regime on an international scale. ...

"The historic alternative, carried to the end, is as follows: either the Stalin regime is an abhorrent relapse in the process of transforming bourgeois society into a socialist society, or the Stalin regime is the first stage of a new exploiting society. If the second prognosis proves to be correct, then, of course, the bureaucracy will become a new exploiting class. However onerous the second perspective may be, if the world proletariat should actually prove incapable of fulfilling the mission placed upon it by the course of development, nothing else would remain except only to recognize that the socialist program, based on the internal contradictions of capitalist society, ended as a Utopia. It is self-evident that a new 'minimum' program would be required - for the defense of the interests of the slaves of the totalitarian bureaucratic society."⁶⁶

Trotsky's selection of alternatives was wrong in theory and proved wrong in actuality. The Stalin regime turned out to be more than episodic: it expanded after the war and still exists, half a century later. On the other hand, capitalist imperialism survived without transforming itself into a new totalitarian class society (although in some countries it certainly is totalitarian). Stalinism was a relapse, but a relapse back to capitalism. It survived the war along with imperialism as a necessary prop for the world system and a uniquely deformed part of it.

The reason imperialism survived was neither the world proletariat's "decline" (inability to rise up in revolution against capitalism), nor its surrender of conquered state power to Stalinist-type bureaucracies. Workers in advanced capitalist countries did revolt but were *defeated* (Chapter 6). That was not because of any congenital incapacity, but because Stalinism had usurped their foremost conquest and turned it against them. What Trotsky most fundamentally overlooked was the alternative of a massive defeat of the proletariat *by capitalism*, including its Stalinist component. The workers were not historically set back to a form of slav-

ery, and capital still needed to exploit the masses *as workers*. They have risen up again and again against their exploitation by capital, notably in the Stalinist countries themselves - with demands that are socialist in their implicit content if not always in explicit form.

Their movement confirms again Marx's conclusion that the laws of motion of capitalism drive the workers to struggle for communism. What they have lacked is not proletarian momentum but revolutionary *leadership* (as Trotsky more than anyone else took pains to emphasize) - and that too is a result of Stalinism's years of unprecedented opportunism, ideological stultification and outright murder. Stalinism's present-day decay is further reason for renewed revolutionary optimism: it is one enemy the working class will not have to confront again at full strength.

Trotsky's failure to estimate the outcome of World War II was linked to his wrong assessment of the nature of the USSR. Both resulted from an incomplete understanding of the capitalist aspect of the workers' state, despite his frequent insights into just this. His error fed into the middle-class-based pessimism of his epigones, both those who took the USSR to be a new form of society, and others who imagine a degenerated workers' state frozen midway between capitalism and socialism for half a century.

For Marx, capitalism was destined to be the last class society on earth because of its capacity to develop the productive forces to the point where class oppression was no longer progressive; the revolutionary workers' state and socialism would then be able to achieve genuine abundance. If Trotsky's alternative of a new slave society were to occur, that would mean that the productive forces had not only stagnated but had been qualitatively destroyed, on a scale of centuries. Given capitalism's enormous advancement of the forces of destruction, this possibility cannot be absolutely ruled out, but there is nothing inevitable about it.

The reason Trotsky posed the alternative so pessimistically was his certainty about Stalinism's weakness. It was not a new class but a Bonapartist balancing act. He did not think it strong enough to smash the workers; therefore Stalinism's survival could only reflect the proletariat's incapacity for power. Continuing that outlook in the face of Stalinism's postwar triumphs could lead only to cynicism towards the proletariat.

Trotsky did not think this perspective likely; revolutionary optimism and confidence in the workers' gains from 1917 were in his nature. But he felt obliged to consider all theoretical alternatives, and his theory was flawed. His most pessimistic pronouncement of the past, also based on the supposition of working-class passivity, was more accurate than his 1939 outlook, since it did not assume the end of the proletariat:

"If we grant - and let us grant it for the moment - that the working class fails to rise in revolutionary struggle, but allows the bourgeoisie

66. "The USSR in War" (1939), *In Defense of Marxism*, pp. 8-9

the opportunity to rule the world's destiny for a long number of years, say two or three decades, then assuredly some sort of new equilibrium will be established. Millions of European workers will die from unemployment and malnutrition. The United States will be compelled to reorient itself on the world market, reconvert its industry, and suffer curtailment for a considerable period. Afterwards, after a new world division of labor is thus established in agony for 15 or 20 or 25 years, a new epoch of capitalist upswing might perhaps ensue."⁶⁷

Most of this in fact happened, and a period of upswing did follow World War II. But it was not a new "epoch": the productive forces were not set back to the point where capitalism became again a progressive society, despite the decades of prosperity in the imperialist countries. The result was instead the unnecessary prolongation of the imperialist epoch that we live in today.

Despite the incompleteness of his theory, no one can reach a Marxist understanding of the Stalinist counterrevolution and society today without starting with Trotsky's work, notably *The Revolution Betrayed*. Its conclusion that the USSR remained a degenerated workers' state on the edge of counterrevolution was correct at the time it was written. It also laid the basis for a growing understanding as the historic events of World War II unfolded. Moreover, Trotsky is not responsible for the gross absurdities of his epigones; the "deformed workers' states" created to crush the workers, for example, and the idea of a "workers' state" frozen motionless for fifty years, have no foundation in Trotsky. Yet as he and Lenin both pointed out, theoretical errors can leave open the door to political capitulations when conditions are ripe for them. That was the fate of the Trotskyist movement not long after his death.

"Dialectical thinking analyzes all things and phenomena in their continuous change, while determining in the material conditions of those changes that critical limit beyond which 'A' ceases to be A,' a workers' state ceases to be a workers' state. The fundamental flaw of vulgar thought lies in the fact that it wishes to content itself with motionless imprints of a reality which consists of eternal motion."⁶⁹

67. Trotsky, "Report on the World Economic Crisis" at the Third World Congress of the Communist International (1921); in *The First Five Years of the Comintern*, Vol. 2, p. 211.

68. We will see this in Chapter 6. We have already cited (in Chapter 3) Trotsky's more developed view based on the actual course of events in the 1920's that does not presume a new, post-decay epoch at all.

69. Trotsky, "The ABC of Materialist Dialectics," *In Defense of Marxism*, p. 50

Chapter 5

Stalinist Capitalism

1. PSEUDO-SOCIALIST CAPITALISM

In this chapter we analyze the Stalinist system as it arose in the USSR and then spread to other states. Even though the Soviet model never matched the designs of Stalinist theorists, a general interpretation of that model is necessary both to distinguish it from other forms of capitalism and to account for the deviations it inevitably went through.

Three decades ago Khrushchev brimmed over with confidence in the future of his socialism. "We will bury you," he told the United States, boasting that the Soviet economy would soon outproduce the American. "Your grandchildren will live under communism." Although Khrushchev was ousted by his fellow bureaucrats for "harebrained schemes," the official optimism continued under Brezhnev. Today Gorbachev tells a different story. Since coming to power in 1985, the new General Secretary (now President) has repeatedly proclaimed that the Soviet economy is in critical shape and must undergo a "revolutionary" restructuring.

The Soviet crisis has been previewed by events in China and East Europe. Whereas Russia was able to become a superpower by usurping the gains of the Soviet workers, the newer Stalinist regimes had no way to overcome their inherited backwardness. They escaped only temporarily from the clutches of imperialism. After brief spurts of growth their economies now are in ghastly shape, no better off (in most cases far worse) than the traditional capitalist countries of similar development, and all again depend on the West for capital and technology. Their crises were apparent since the first workers' revolts of the 1950's, and the now-obvious devolutionary tendency towards orthodox bourgeois methods of exploitation was theoretically predictable.

Until recently a Marxist analysis of the USSR would have had to prove

1. We wrote in 1976: "Internal competition has to be reintroduced for the sake of efficiency ... Capitalist decay means that state capitalism decays in the direction of anarchic state monopoly capitalism." (*Socialist Voice* No. 1.)

at length that Soviet-style "socialism" had not accomplished what Stalinist mythology claimed (and millions of working people still hoped and believed) it had. Today the leading authorities admit the fact readily, with startling if self-serving candor. But there remains the task of theoretical clarification. In the words of former Soviet leader Yuri Andropov:

"Frankly speaking, we have not yet studied properly the society in which we live and work, and we have not yet fully discovered the laws governing its development, especially economic laws. Therefore we are at times forced to act, so to speak, empirically, in a quite irrational manner of trial and error."²

Of course, the fact that the bureaucracy acts blindly, empirically and irrationally is itself a function of the laws of development that operate. The bureaucracy is as incapable of laying bare the laws of its own rule as is the bourgeoisie in the West. It is a task only for Marxists.

THE SOCIAL GOAL OF PRODUCTION

According to Marx, capitalism is continually compelled by its internal dynamic to "preserve the value of the existing capital and promote its self-expansion to the highest limit." This compulsion has different consequences in different stages of capitalism.

In pre-monopoly capitalism, maximization of value cannot be achieved by all capitals at once: some expand and others are destroyed. Maximizing individual capitals detracts from maximizing the total capital because of this periodic destruction, but the system as a whole benefits from the wiping out of its weakest members. For an individual capital, maximizing its value does not conflict with maximizing its rate of profit.

In the imperialist stage, a monopoly's goal of maximizing its total value may prevent it from maximizing the profit rates of its branches or even of the whole firm. For example, introducing modern techniques in one branch may mean deadly competition for other branches and therefore devaluation of the overall capital. In such cases modernization will be avoided. Imperialists will even allow their national economy to run down for the sake of foreign investments and overall profits; Britain today shows the result of this policy, and the United States is moving in the same direction. Thus capital accumulation in the present epoch does not follow the same rules as in the progressive epoch of capitalism: centralized ownership often appears to contradict the motive of maximizing profit.

The Stalinist model follows this pattern but with its own peculiarities. Under Stalinism the primary social aim of production is *to preserve and maximize the value of the national capital as a whole* - that is, the state-

owned capital within the national boundaries. This is a modification and extension of the overall capitalist motive: maintaining and expanding the value of the existing capital.

The Stalinist goal is reflected in the system's dedication to autarky: "socialism in one country." It is a natural choice for nationalist rulers in formerly colonized or economically backward countries since it helps them keep surplus value at home; it perpetuates the nation where traditional capitalism can no longer do so. In the case of the USSR, the nationalist goal means that the society motivated for over half a century by Stalin's slogan has been really operating under a program of "capitalism in one country."

As we saw in Chapter 2, centralization and monopolization of capital do not eliminate competition, contrary to the theories of Bukharin and Kautsky; not even statification does so. It therefore is no surprise that under Stalinism the primary goal of national capital accumulation has to operate in conjunction - and often at variance — with the narrower goals of local and sectoral bureaucrats: maximizing the value of the firm or sector they are responsible for. At both national and local levels the means of production are state property, so the goals are expressed as the maximization of the value of the state property controlled at each level. A significant feature of the Stalinist economy is its subdivision into separate ministries acting in many ways like the giant corporations of the West: they compete among each other for shares of the system's overall resources, but cannot completely suppress internal competitive tendencies.

It is no accident that Stalinism styles itself socialist. That is a necessary appearance, not a conspiratorial plot. Stalinist "socialism" mirrors the workers' state they overthrew but whose vestiges it could not entirely erase. From a different angle, it reflects the socializing forms that decaying capitalism adopts to stave off the advance of the proletariat. While capital in its progressive epoch disguised its exploitative essence under the cloak of equality, in this epoch its garb is lawfully "socialism." Therefore the Stalinist system is most accurately named **pseudo-socialist capitalism**. "Pseudo-socialist" indicates both the system's pretensions and the fact that its peculiarities derive largely from its proletarian heritage.

The term **statified capitalism** is also accurate. The more common "state capitalism" is not wrong but can be misleading. For one thing, it often refers to the state-owned sector in traditional capitalist economies. Lenin also used it for one sector of the workers' state economy in the NEP period, not the economy as a whole (Chapter 3). Cliff and others use "state capitalism" for a single-factory model of capitalism in which the law of value does not operate internally. Finally, the Cliffites and James/Dunayev-skaya use "state capitalism" as a label for modern capitalism of both East

2. Andropov, in Dusko Doder, *Shadows and Whispers* (1986), p. 122

and West, the end result of capital's laws of motion. That too is wrong. To understand this system requires analysis of the laws of motion of capitalism in their Stalinist mode. We will first describe several features of the Stalinist economy, showing how they fit the laws of motion. We take most of our illustrations from the Soviet Union in the pre-Gorbachev period. But our general interpretation applies to the other Stalinist states and to today's USSR as well, even where countries have abandoned some key Stalinist features. Indeed, these changes often illuminate the true nature of the classical Stalinist patterns, for only through change can we understand a mystified world. As well, to paraphrase Marx, the changes show the more conservative Stalinists the mirror of their own future.

PSEUDO-PLANNING

The Soviet bureaucracy employs a panoply of plans to direct its economy: the Five-Year Plans which summarize overall goals, and the more or less operational yearly and quarterly plans. The word "plan" is deceptive. It indicates the underlying socializing trend of capitalism that Engels and Lenin spoke of, not the conscious organization of production by the associated producers characteristic of socialism. It is bureaucratic management from the top, a mechanism of exploitation.

The "plan" refers above all to what and how much a firm will produce, and in some cases which enterprises it will buy from and sell to. The plans are bargained over by firms and ministries before adoption and constantly modified afterward, according to the power relations among them and what works out during production. As a result, the Five-Year Plans always postdate the period of their applicability (sometimes the short-term plans do too); they are hardly determined in advance of production by scientific methods. An extreme case is China during the Cultural Revolution, when the statistical bureaus needed for any pretense of central planning or administration were reduced to less than a handful of people. Not only has no Stalinist plan ever genuinely planned or predicted the economy, but the failures have diverged from the plans in foreseeable directions.

These days horror stories about Stalinist planning are commonplace. We take two descriptions that reveal the underlying reality. First a leading Soviet theorist of Gorbachev's "restructuring" policy (perestroika), Tatyana Zaslavskaya, makes a direct comparison between Western monopolies and Soviet firms:

"One of the most important consequences [of the rising organic composition of capital] is the emergence and gradual intensification of 'monopoly effects' in production and research and development. Lacking competitors, industrial giants dictate to customers their own terms of delivery, going so far as to foist on the latter the output they find easiest to produce. Research institutes in a given ministry can keep

valuable inventions by 'outside' researchers from gaining entry to 'their' branches for years."³ Second, Prime Minister Nikolai Ryzhkov condemns the anarchic results of the Soviet planning process:

"First and foremost, we must clamp down on the fragmentation of financial resources. More than 300,000 large and small construction projects are currently under way. It is an impermissible number, even taking the enormous size of our country into account. Projects are usually put into operation later than scheduled as a consequence of fragmentation."⁴

In one case the problem is monopoly; in the other, economic anarchy. But as Lenin pointed out, these seemingly opposite conditions are characteristic of capitalism in its imperialist epoch. Both are illustrative of Stalinist pseudo-planning.

Another telling example is competitive hoarding by enterprises which cannot otherwise guarantee that they will obtain the materials for meeting their official targets. For their part, the central planners assign targets beyond each firm's known capacities, hoping to force it to use its secret illegal reserves. This game ensures that supplies continue to be dispersed and wasted. Gaps have to be filled outside of the plan, either through a black market or private production. Firms typically employ semi-official "expeditors" to obtain needed, even planned-for, materials when they cannot be obtained through official channels. Or even worse, factories have to adapt themselves to producing their own supplies.⁵ This is a centralization phenomenon, but not one that adds to the efficiency of accumulation. Soviet enterprises often acquire advanced technology from foreign sources. But even though such purchases have been handled (until recently) by the central state organs of foreign trade, the imported techniques normally do not spread within the USSR from one firm to another. Competitive secrecy prevents such dispersion, and technological conservatism frequently prevents spin-offs from the new technology. This situation is the opposite of an advancing capitalist power like Japan, where foreign tech-

3. Zaslavskaya, "The Human Factor in Economic Development and Social Justice," *Current Digest of the Soviet Press*, Vol. 38, No. 41 (1986).

4. Ryzhkov, speech at the 27th Congress of the Soviet Communist Party (March 1986), *Soviet Life*, May 1986.

5. One survey showed that 71% of machinery plants in the USSR produce their own cast iron, 27% their steel, 57% their non-ferrous casting, 84% their forgings, 76% their stampings, 99% their pinions, 61% their industrial clamps - all outside the plan. (Gertrude Schroeder, "The Soviet Economy on a Treadmill of Reforms," Joint Economic Committee of the U.S. Congress, *Soviet Economy in a Time of Change*, 1979, p. 336.)

niques were traditionally first imported, then improved on and finally exported back to the original innovators.

Another way in which planning habitually fails is through unplanned price increases. Enterprises forbidden to raise prices on their products will make slight alterations and distribute their output as new products with higher prices. Since Soviet managers operate in a "sellers' market," and since they are rewarded by increasing their sales, there is an absolute incentive to inflate prices. As Trotsky pointed out, "Money regulated by administrative prices fixed for goods loses the ability to regulate such prices and consequently the ability to regulate plans." It is in this context that he concluded that "The Soviet economy is neither a monetary nor a planned one." Of course, raising prices produces inflation, another capitalist disease. The total breakdown of planning is most evident in the skyrocketing inflation that wracked Yugoslavia and Poland in the late 1980's. The fact that the system does not work according to plan is tacitly recognized by Ernest Mandel:

"Within the Soviet economy, given the bureaucracy's material interests in getting the maximum possible resources for the minimum possible goals for the plan, not only is open information between the enterprises and the higher bodies not assured, it is practically excluded. It is even limited within one enterprise. The bureaucratic management system works largely on the basis of wrong information, as is recognized by all those concerned."⁷

If genuine planning is excluded by the material interests of society's rulers then some cause other than "the planning principle" must explain how the economy works. The entire black and grey market phenomenon throughout the Stalinist countries, including factory expeditors, self-supplying, and all, confirms Marx's warning that the law of value is an objective law that "forcibly asserts itself like an overriding law of nature. The law of gravity thus asserts itself when a house falls about our ears."⁸

CONSUMER GOODS

In late 1988 the Soviet authorities admitted for the first time that budget deficits had become a habitual and serious problem. That is, the state spends more revenue than it takes in, resulting in a circulation of rubles in excess of the supply of commodities available for consumers. This inevitably leads either to inflation, as above, or the well-known shortages

of consumer goods, the result of suppressed inflation. But this shortage is also a consequence of the bureaucracy's notorious inability to produce enough consumer goods to meet demand - not to speak of need.

In response to mass discontent the Soviet officials have at times announced their intention to increase the production of consumer goods. But even when these announcements are included in the plans, they end up not being carried out. A typical account:

"The preceding five-year plan (for 1981-85) had explicitly targeted an increase in the share of the consumption fund, at the expense of investment. But when anticipated revitalization and increased effectiveness in the investment sphere did not materialize, it proved necessary to increase investments and make cutbacks in consumption."⁹

This tendency too is accounted for by our national capital approach. The reason for systematic violation of "planning priorities" is that the role of production goods is to increase the value of the state-owned capital, while the use of consumption goods does not do so; if workers get to eat too much of what they produce, accumulation suffers. So when a choice has to be made between priorities, production goods inevitably win out. That's why investment increases "prove necessary."

Likewise, private consumer goods production (the so-called second economy), even though often far more efficient economically, does not add to the *state's* capital. So these markets were officially only tolerated (until recently), although they are a systemic necessity that fills gaps in state production. Marx's law that production grows faster in Department 1 (production goods) than in Department 2 (consumption goods) holds in state-fied capitalism just as in the traditional case. It is a law of capital operating behind the planners' backs.

An exception that proves the rule is vodka, a consumer good produced under state monopoly that has brought in great profits. That is why it was one of the few consumer products encouraged by the Soviet rulers, despite its harmful effects, and had always been plentifully available. When Gorbachev took over as leader, alcohol consumption was drastically discouraged. Soviet economists had calculated that the cost to the state from industrial and traffic accidents, worker absenteeism, disease, etc. was about 40 billion rubles annually, more than the revenue from vodka. A capitalistic cost-benefit calculation, not concern for workers' health and safety, caused the policy shift.¹⁰

The priority of production over consumption led to the Stalinist prac-

6. Trotsky, "The Degeneration of Theory ...," *Writings (1932-33)*, p. 224.

7. Mandel, "The Significance of Gorbachev," *International Marxist Review*, Winter 1987, p. 12.

8. Marx, *Capital*, Vol. I, Chapter 1, Section 4 (p. 75)

9. Boris Rumer, "Realities of Gorbachev's Economic Program," *Problems of Communism*, May-June 1986.

10. *Detente* No. 6, Spring 1986; *Labour Focus on Eastern Europe*, May 1986, p. 9.

tice of placing responsibility for urban public services not in the hands of public officials (local Soviets, as the ruling bodies are called) but with the industrial ministries which have plants in the region. As a result, matters like housing, transportation, schools, sewage disposal, water supply and telephones have operated under decentralized chaos. Not only in the tumultuous Stalin years but also recently, new factories have habitually been thrown up without regard for the availability of schools and shops for their workers. An official decree in 1970 condemned such abuses, and the 1977 Constitution assigned local Soviets the right to "direct state, economic, social and cultural development within their territory" - but the problem remains. One reason is that enterprises that control their own housing and schools can better compete for workers and thereby fulfill their profit and production goals. In this respect the anarchic independence of Soviet enterprises is greater than that of firms in the West.

This last example illustrates the aura of indifference that pervades the economy: the newly built buildings that fall apart, the poor quality of goods at all levels, the disorganization of transport (most obvious in the apparent impossibility of obtaining agricultural produce from one region in another). The overall feeling is that no one is responsible.

Since Stalin's death, there have been several working-class rebellions in the USSR against price increases and the unavailability of consumer goods. Unlike similar revolts in Eastern Europe, only sketchy reports reached the Western press. Even so, it is clear that the workers' struggles have won them gains. For example, following the strikes and demonstrations in Novocherkassk in 1962, the Soviet grain traders increased wheat imports from abroad. Despite the limited information, there is no doubt that the Marxist laws of class struggle impelling the workers to defend their livelihoods apply in the Soviet Union, just as it is plainly evident that they hold in Poland and Hungary. The mass coal miners' strikes that broke out in the summer of 1989, stimulated by local living conditions even worse than described here, should have come as no surprise.

DECLINING ACCUMULATION

Another law of capital clearly visible in the Soviet economy is the declining rate of accumulation. Growth rates in the USSR have steadily fallen from the 1930's on, with the exception of the postwar recovery years. In the other Stalinist states, after the initial spurts when the economies were nationalized, growth has stayed within the (declining) range typical of the traditional capitalist countries.

11. For a vivid catalog of examples, see Gregory D. Andrusz, *Housing and Urban Development in the USSR* (1984), especially Chapter 3

The political significance of collapsing growth rates is enormous, all the more so since Gorbachev himself announced that the growth rates for the last four Five-Year Plans were artificially boosted and should be effectively counted as zero.

"As you know, the economic development rates were declining in our country and hit a critical point. But even those rates, as has become clear now, were achieved in a considerable measure on an unhealthy basis, due to momentary factors. I am referring to trade in oil on the world market at the high prices which had formed then, and the totally unjustified intensification of the sale of alcoholic beverages. If we look at the economic indicators of growth separately from these factors, we will see that over four five-year plan periods we knew no increase in the absolute growth of the national income, and it even began declining in the early eighties. This is the real picture, comrades."¹²

This picture contrasts sharply with the inflated enthusiasm of Soviet sycophants in the West as well as the East. A supposed virtue of the Stalinist system is its ability to accumulate capital faster than capitalism, without destructive periodic crises. The achievements of the Soviet state in the 1930's are the basis for this belief, but matters have turned out differently since the counterrevolution. In the postwar period as a whole Japan and several lesser capitalist states outperformed the Soviets, and in recent years many have done so.

It would be wrong to conclude from these failures that the Soviet economy is technologically inept. The USSR's overall labor productivity lags behind the West's, but in spheres of the highest priority like the military, it reaches the highest world levels. In part this is because priority spheres employ naked competitive bidding in order to get quality production. In comparison, military procurement in the United States notoriously suffers from diseases of bureaucratic self-preservation and profiteering corruption. The distortions of value that characterize most of the Stalinist system and hold back the progress of productivity can be understood in the West by anyone familiar with governmental or other large bureaucratic operations.

The conflicting goals of maximizing the state and local capitals have a distorting effect on the drive for capital expansion. The pressure to accumulate and modernize capital is focused on the central economic authorities, who are obliged to take into account class relations within the whole country and foreign competition. The urgent calls for higher productivity by top bureaucrats like Gorbachev and Ryzhkov express this. The pressure is transmitted to enterprise managers through the plans, which

12. Gorbachev, cited in *Moscow News*, March 6, 1988.

typically (and unscientifically) instruct each enterprise to produce a certain percentage above its previous target.

But from the local manager's point of view the planned targets can best be met without shutting down his plant for retooling. There is no economic compulsion for the managers to modernize since they have no fear of being forced out of business and no need to lay off excess workers. In fact, they need to keep excess workers on hand because of the periodic last-minute drives to meet production goals ("storming"), made necessary by the absence of planned supplies. As a result, accumulation in existing plants is almost always accomplished by expanding production under old techniques: hence the proliferation of obsolescence. If the central authorities want modernization they have to build new plants.

This explains the fact that Soviet economic growth has been largely *extensive*, in the sense that existing techniques are extended through the labor of newly industrialized workers - as opposed to *intensive*, which requires the advance of productivity through the displacement of living labor by capital. A recent economic survey of the 1928-1985 period noted:

"During the entire period, but more so with time, Soviet growth is generated by high rises in inputs and declining growth of overall input productivity. ... The relative contribution of inputs to growth grew to 80 percent in the postwar period and became its sole component from 1970 on, when productivity completely stagnated or even retreated."¹³

That is, declining overall growth has been accompanied by *increases* in the proportion of resources given to industrial investment. The predominance of extensive accumulation not only hurts the Stalinist system in its rivalry with the West. It also has its own limits to expansion, the availability of raw materials and labor - and the Soviet authorities are running out of both. But the fundamental reason for declining growth lies deeper.

THE FRP AND FICTITIOUS CAPITAL

Declining economic growth rates are characteristic of the long-term development of capitalist society in general: they reflect the falling rate of profit tendency (FRP). As in the West, the FRP is most visibly expressed as a falling rate of capital accumulation: since investment funds for increased growth come out of surplus value (profit), when the rate of profit falls the rate of accumulation necessarily falls with it.

It might be argued that the FRP cannot apply under Stalinism because it derives from the capitalist drive for accumulation through increased productivity, a tendency which is so severely distorted in the Soviet system.

13. Gur Ofer, "Soviet Economic Growth: 1928-1985," *Journal of Economic Literature*, December 1987, p. 1782

But this is a misunderstanding. As we showed in Chapter 1, the FRP does not operate across the board by lowering the profit rates of all capitals uniformly. It lowers the *average* profit rate by bringing down the profits of the *backward* firms. On the world scale, since Soviet techniques normally lag well behind international standards, the Soviet economy is a prime exhibit of the FRP in operation.

The main countertendency to the FRP, the devaluation of fixed capital, is inhibited because Soviet firms have rarely been forced to liquidate. This shows again how the FRP dominates in this epoch even more forcefully than under classical capitalism. Statification inhibits the transmission of capitalism's laws but it does not abolish them. Since protected obsolete firms are overvalued, the falling rate of profit tendency is carried out through the medium of fictitious capital. The Soviet example reinforces our interpretation in Chapter 2 that fictitious capital is central to the operation of the FRP in the epoch of capitalist decay. It strikingly illustrates Marx's comment that if accumulation were left to giant capitals, "the vital flame of production would die out."

Abel Aganbegyan, the Soviet economist who was a leading adviser to Gorbachev, in effect observed the FRP in action during the "stagnation" period (the label given by Gorbachev's followers to the Brezhnev years): "The rate of growth of all indicators of efficiency in social production slowed down: in effect the productivity of labor did not increase *and return on capital investment fell*"¹⁴

Another Soviet economist illustrates fictitious capital this way: "The present financial system is based, in many respects, on inflation methods of financing. State incomes and expenditure are mere fiction, thin air, presenting an illusion of money with no material security behind it. The most obvious manifestation of such a situation is the levying of taxes from enterprises to the budget, *well before* their output is sold and irrespective of whether it will be sold. A similar role is played by the crediting of industrial and agricultural enterprises, which has more or less turned into pure irrevocable financing (the pumping of empty money into the economy). The debts of agricultural enterprises alone amount to around 140,000 rubles. One of the gravest consequences of such 'inflated' financing is the number of launched construction projects in the country, which is nearly three times the amount we can afford."¹⁵ Naturally, if so much capital is invested in projects which cannot pro-

14. Aganbegyan, *The Economic Challenge of Perestroika* (1988), p. 3 (emphasis added).

15. Nikolai Shmelev, *Moscow News*, No. 6, 1988.

duce useful output, then the overall rate of profit is bound to be forced downward. While the books can be cooked so that a fictitious profit is reported, the declining rate of accumulation has a material reality that cannot be suppressed forever. Fictitious capital, in the East as in the West, is a device for upgrading the profitability of certain sectors of capital at the expense of others or of capital as a whole. It indicates that the failure to shut down obsolete enterprises is not a progressive but a reactionary aspect of the system.

Fictitious capital flourishes in the Soviet system. If the Soviet ruble were suddenly made convertible with the currencies of the West, most Soviet goods would plunge in value; the economy would be in chaos. The state monopoly of foreign trade, introduced after the revolution to defend the backward Soviet workers' state from imperialism, is still necessary in the present-day Soviet system but for a different reason: to defend the nationalist and sectoralist interests of the bureaucracy. As a result, over-protected Soviet enterprises cannot compete internationally.

Why are Stalinist enterprises allowed to operate unprofitably? This too is made clear by our "capitalism in one country" approach. Closing down a factory that still functions, even if inefficiently, would reduce the state capital's total value (and would also displace the local managers). So it is preferable for such a firm to stay in production and be subsidized with state funds - that is, through surplus value supplied by other firms. Accumulation of new dead labor is sacrificed to preserve the value of the old. And raising the overall rate of profit is sacrificed in the attempt to preserve the value of the national capital as a whole.

OVERPRODUCTION AND CRISES

Despite the enormous apparatus devoted to bureaucratic planning and the elimination of most direct competition for markets, there is still intense competition among ministries and enterprises for materials and labor. The results are surprisingly often parallel.

For example, under traditional capitalism the unplanned nature of the system (independent capitals producing for an imprecisely known market under uncertain conditions of supply and demand) leads to periodic overproduction. Under Stalinism, there is uncoordinated planning by competing firms and ministries producing for an imprecisely known market and anarchic conditions of supply. Both phenomena derive ultimately from the capitalist drive to expand production beyond all bounds.

One result of Stalinist "planning" is the continuous overproduction of capital goods, since every ministry seeks a growing share of the state budget to expand its own domain. Such a situation was exposed to view during the 1980-81 crisis in Poland, when the regime was forced to cut back on borrowing from the West and had to leave its overambitious con-

struction projects half-finished. Overproduction is most visible on the international scale in the Comecon economic bloc, which makes few pretensions to coordinated planning. Each country "needs" its own steel mill, for example, making overproduction of equipment and the consequent shortage of supplies inevitable. Comecon is living proof of the competitive national capital character of Stalinism. As much as traditional capitalism, the Stalinist economies are driven, as Marx observed, by the motto, "Accumulate, accumulate! That is Moses and the prophets!"

Stalinist overproduction is hidden by the fact that there are tangible shortages of consumer goods, for reasons already discussed. Many consumer goods, however, are overproduced in unwanted forms or of poor quality and therefore languish on the shelves or never reach them. Reports of warehouses full of unusable goods are plentiful. That market forces do not prevent this does not mean that overproduction is not at work.

There is a reason for the difference between the two variants of capitalism. In traditional capitalism, overproduction is periodic; it is brought to a halt by the systemic crises that eventually wipe out the excess capitalization of unprofitable firms. Under Stalinism where unprofitable firms are not thrown out of business, the overvaluation continues and the crisis is not resolved. That obsolescent enterprises survive shows that the Stalinist system suffers from a continual pressure toward crisis. But if the law of value is not allowed to force the system to restructure, that task is thereby left to inescapable material factors like the availability of raw materials. These finally force the bureaucrats to cut back investment and call a halt to excessive construction and production projects.¹⁶

Then the cycle begins again, but without having accomplished the cathartic benefits for the bosses that it ought to provide - disciplining inefficient firms and generating unemployment to induce workers to capitulate. Marx wrote that "permanent crises do not exist" because crises normally lead to the destruction and devaluation of a part of the existing capital. Crises are the solution, a temporary bloodletting, not the problem. But under Stalinism the crises are never fully resolved, so they continue with the effect of permanence.

Since crisis is an essential component of a Marxist analysis of capitalism, those who say the Soviet system is not capitalist have over and over again argued that crises are not a problem there. A typical objection comes from an academic Marxist who claims that, whereas "capitalism has a tendency to chronic under-investment" because of its millions of unem-

16. The "raw materials barrier" was first analyzed in 1965 by Kuron and Modzelewski in their "Open Letter to the Party."

17. Marx, *Theories of Surplus Value*, Vol. 2, p. 497.

ployed, "socialism" generates "chronic over-investment." However, capitalist underinvestment in times of crisis is a result of overproduction (and therefore also of overinvestment) during its cyclical booms. The author also recognizes the "very broad margins of unutilized capital equipment in many industries" in the East - a situation parallel to Western capitalism in crisis periods and an indication of the underinvestment that results from overproduction.

Mandel has been making similar arguments for decades. In 1968 he wrote that the Soviet economy "escapes completely" from the laws of capitalism and "is exempt from the fluctuations in the conjuncture of world economy."¹⁹ He repeated in 1980:

"The countries with planned and socialized economies *have not* been hit by the same phenomena that have, without exception, marked all the industrialized capitalist countries: a recurring absolute decline in industrial production during the phases of recession; massive unemployment; the shutdown of numerous enterprises and the collapse of whole branches of industry; the accumulation of huge quantities of unsalable commodities."²⁰

Two years later, as the reality of crisis in the Stalinist states became apparent, Mandel admitted "the exception of Poland" but quickly added that it "has been hit by a crisis of underproduction and not overproduction" - in order to distinguish the Soviet system from capitalism.²¹ Even if this interpretation were true, it would hardly reflect a progressive mode of production: underproduction is a plague of pre-capitalist, pre-industrial societies, not industrialized "post-capitalist" countries like Poland.

Mandel makes even more contradictory arguments about China. He insists that China is still progressive because of the fact "that labor power is no longer a commodity, that there is no longer a labor market in China, that workers have job security and a guaranteed minimum wage." But he also writes of "the enormous extent of rural unemployment and urban unemployment," "the rise of youth unemployment," the ten percent of Chinese peasants "who do not eat enough to still their hunger" and inflation rates of 15 to 20 percent. In a postscript he adds, "As a result of retrenchment, thousands of factories have been idled or shut down" so that urban

18. D.M. Nuti, "The Contradictions of Socialist Economies: A Marxian Interpretation," *Socialist Register*, 1979; p. 249.

19. Mandel, *Marxist Economic Theory*, Vol. 2, pp. 561-2.

20. Mandel, "The Impact of the World Capitalist Recession on Eastern Europe," *Intercontinental Press*, July 14, 1980.

21. Mandel, "The Second Postwar World Recession," *Intercontinental Press*, June 28, 1982

unemployment doubled from early 1980 to late 1981; in addition, "the threat of dismissal now hangs over the heads of 100 million wage earners in China."²² So much for job security and guaranteed minimum wages.

Whenever he admits the existence of the Stalinist crises, Mandel denies their lawfulness; he blames them on the world capitalist crisis or mismanagement by the ruling bureaucracies rather than on internal laws of the system. It is true that the economy of a small country like Poland or one long victimized by imperialism like China will be inevitably buffeted by its more powerful neighbors. And there is no doubt that the bureaucrats mismanage. Nevertheless, Mandel's claim that "post-capitalist" societies are not subject to capitalist consequences collapses in the face of reality.

UNEMPLOYMENT

The preservation of obsolete capital is officially called a socialist principle because it maintains full employment. The policy of jobs for all, although distorted by the vast waste of labor, is indeed one of the few gains which came as a consequence of the workers' revolution that the Soviet workers did not lose in the counterrevolution. But it is no accident that this surviving revolutionary achievement turns out to be the one that fits the bureaucracy's nationalist and localist goals - or did fit them before its toll on the statified capitalist economy became clear.

In this respect the Soviet system functions in exactly the opposite way from a genuine workers' state, which would aim to close outmoded plants as quickly as possible. New techniques would be introduced and generalized; full employment would be maintained by the progressive diminution of working hours as labor productivity improves — not by keeping productivity backward. A workers' state has as its goal the self-elimination of the working class, not its preservation for exploitation.

Soviet planners and managers openly complain about their dissatisfaction with full employment: they cannot use mass layoffs to discipline the work force. Their comments are reminiscent of a Swedish businessman's complaints about *West* European employment policies:

"In the U.S. you can still fire people if you don't need them. In Europe you can't reduce your work force through dismissals unless a business is hopeless However, well-managed European firms have learned more about working with their employees because you can't dispose of them."²³

Sweden is untypical with its small, specialized economy; moreover, Northern European firms do manage to fire "guest workers" from south-

22. Mandel, "China: the Economic Crisis," *Socialist Register*, 1982.

23. Pehr Gyllenhammar of Volvo, *New York Times*, February 3, 1987.

ern Europe and the third world when they need to. Nevertheless, there is considerable similarity over job security between the market-oriented East and the social-democratic countries of the West. The Soviet managers, whose economy is not as prosperous as Sweden's or Austria's, would much prefer unemployment policies like those of the more socially backward countries of the South and the West (including the U.S.) to what they have now, and they are taking steps to get it.

It is indeed a weakness of Stalinist capitalism not to be able to deploy the reserve army of unemployed workers as a brake on proletarian combat-ivity; the consequences were seen in Poland in 1980-81. The Stalinists, of course, rely heavily on police measures to restrain the workers — as did Nazi Germany, which also achieved full employment. But a police state is an inefficient economic tool; a stick without a carrot, it offers workers no incentive to work harder. Maintaining full employment is a policy that goes hand in hand with enterprises that are typically overmanned and labor productivity that is notoriously low. Labor intensification, including slave labor, was usable as a substitute for capital only at a primitive stage of industrial development.

Not every "socialist" state maintains a full employment policy. Yugoslavia suffers one of the highest unemployment rates in all Europe, East or West. China too, in the aftermath of Mao's death, was revealed to have a permanent reserve army of unemployed, despite the voluminous testimony by Western sycophants about masses of ever-so-contented people. In both countries the Stalinist model of national accumulation is strongly modified by provincial independence and inequality. When workers from one province find jobs in a richer one or outside the country, the rulers still gain from wages sent back home or straightforward labor contracts signed with foreign firms.

Even the USSR has revealed some startling figures under the climate of Gorbachev's glasnost (openness) policy. Unemployment is now admitted to exist, at least in some regions and among some categories of workers. According to Soviet sources in 1987, there were 200,000 unemployed in Tadzhikistan, over a million in Uzbekistan (for an unemployment rate of over 10 percent), and 250,000 in Azerbaijan (again at a 10 percent rate). In Baku, the oil-producing capital of Azerbaijan, the adult unemployment rate is 12 percent.²⁴

Confirmation comes from Igor Zaslavsky, head of the employment sector at the Research Institute of Labor in Moscow. "We've been brought up on Stalin's 'full employment'," he said:

"But we plugged our ears and turned a blind eye to reality. Un-

employment existed and still exists: concealed, structural, seasonal, temporary. It is only now that we have learned about the massive unemployment in Central Asia."²⁵

The same paper reports that, as a result of new layoffs under perestroika, in the republic of Moldavia the number of unemployed workers is estimated at 150,000, approximately seven percent of the work force. But the figure cannot be checked, because according to the government newspaper *Izvestia*, "Officially, there is no unemployment in this country. The status of the unemployed has not been defined and there are no figures."

In addition to the misery bred by unemployment itself, the fact that it is still officially concealed means that labor force planning is all the more fictional. If the employment statisticians don't have reliable information, plans based on labor allocation have no scientific basis.

WOMEN WORKERS

The comparative situation of men and women workers is one of the most pivotal indicators of social relations. In the USSR, more women work outside the home than in the West; nevertheless women earn on the average 60 to 70 percent of what men earn, a similar ratio to that in the United States and Britain.²⁶ Women tend to work in distinct industries and job categories, especially those requiring less training - despite the fact that their average level of education is higher.²⁷ That results from outright discrimination in hiring as well as from the often explicit assumption that women must carry out the great bulk (if not all) of domestic labor and child rearing. It is another lawful tendency of traditional capitalist society reflected in the Stalinist system.

Some of the most oppressive measures against women's gains taken during the counterrevolutionary period were reversed after Stalin's death, including those restricting divorce and abortion. But discriminatory conditions remain. Gorbachev cites Marx's observation that the degree of women's emancipation reflects a society's social and political level and boasts of Soviet achievements in granting women equality and security. He goes on to show what Stalinism's reformers have in mind, which has nothing in common with Marx:

"But over the years of our difficult and heroic history, we failed to pay attention to women's specific rights and needs arising from their role as mother and home-maker ... Women no longer have enough time to perform their everyday duties at home - housework, the upbringing

24. Cited by Alexander Amerisov, *In These Times*, September 9, 1987

25. Zaslavsky, interviewed in *Moscow News*, September 10, 1989.

26. Alastair McAuley, *Women's Work and Wages in the Soviet Union* (1981), p. 21.

27. David Lane, *Soviet Economy and Society* (1985), pp. 173-7.

of children and the creation of a good family atmosphere. We have discovered that many of our problems - in children's and young people's behavior, in our morals, culture and in production - are partially caused by the weakening of family ties and slack attitude to family responsibilities. This is a paradoxical result of our sincere and politically justified desire to make women equal with men in everything. Now, in the course of perestroika, we have begun to overcome this shortcoming. That is why we are now holding heated debates in the press, in public organizations, at work and at home, about the question of what we should do to make it possible for women to return to their purely womanly mission."²⁸

Equality is a fine thing in moderation, apparently, but it has gone too far! Outrageously, Gorbachev say that women's hard-won gains are responsible for declines in Soviet morals, culture and production. So they had better get back to their "womanly mission" and domestic duties. There are similar campaigns in the West to restore traditional family values and thereby re-enslave women. Gorbachev's admirers abroad ought to recognize that their hero has views on women's liberation as advanced as those of Jerry Falwell and Jesse Helms.

For someone who claims the heritage of Marx, it is significant that Gorbachev does not mention the traditional Marxist solution for women's double burden (domestic plus wage labor): the deeper socialization of domestic labor. (The USSR has better maternity provisions and a more extensive network of child care facilities than, for example, the U.S., but they are still inadequate.) Gorbachev's remarks point in the opposite direction. He is setting the stage for threatening working women with unemployment, supplying a conservative ideological rationale for driving up the intensity of labor - one of the major tasks of perestroika (Chapter 8). As in the West, a ruling-class retreat on the condition of women accompanies a projected assault on the gains of the working class.

2. THE LAW OF VALUE UNDER STALINISM

Having seen the consequences of the law of value under Stalinism, we turn to the law itself. As we showed in Chapters 3 and 4, the law of value was inherited by the Soviet workers' state and could not be quickly overcome, given the revolution's isolation and backwardness. The counterrevolution enforced the exploitation of the working class, thereby bringing the law and its consequences into full play. But the continuation of national-

28. Gorbachev, *Perestroika* (1987), pp. 102-3

ized property conceals the operation and even the existence of value.

Of course, the law of value is impeded under both Stalinism and a genuine workers' state. But that doesn't make the two equivalent. A workers' state attenuates the operation of value in the interest of the workers, in the direction of communism. Stalinism distorts value to help exploitation survive. Whereas a workers' state opposes the law of value consciously, Stalinism interferes with it blindly but lawfully. Statified capitalism only intensifies the system's laws of decay.

We focus on the various forms of denial of value by Marxists. Several are variations on one theme: the law of value is not an objective law that governs production "behind the backs" of the producers and planners, but a technique that planners can use to decide what and how to produce. Sometimes they use it well, often badly, but it is theirs to use or not. The rulers and their theorists believe that they plan according to use-value needs - and only employ value, or allow it to operate, to organize use-value production. This theme is the practical application of the notion that the law of value is the rational way to run an economy.

CAPITAL FLOWS

The law of the equalizing tendency of the rate of profit under capitalism is often invoked to prove that Stalinism is not governed by the law of value. Stalin, to begin with, took profit equalization as the defining law of capitalist economy and argued that it represented a significant difference between capitalism and the USSR:

"Totally incorrect... is the assertion that under our present economic system, in the first phase of development of communist society, the law of value regulates the 'proportions' of labor distributed among the various branches of production. If this were true, it would be incomprehensible why our light industries, which are the most profitable, are not being developed to the utmost, and why preference is given to our heavy industries, which are often less profitable, and sometimes altogether unprofitable."²⁹

Totally idiotic, however, is any assertion about Marxism that doesn't recognize that capitalism's law of value did not prevent it from developing heavy industry "to the utmost." As we have seen, the Soviet economy today is dominated by heavy industry and continues to favor it whatever the plans decree; that is the capitalist norm. In asserting that Soviet planning controls the flow of investment capital and concentrates it in heavy industry, Stalin, contrary to his intention, is illustrating the Marxist law of the accumulation and concentration of capital reflected in the

29. Stalin, *Economic Problems of Socialism in the USSR* (1952), Chapter 3.

domination of Department 1 over Department 2.

As well, in claiming that light industries are "most profitable," Stalin is recalling Marx's point that industries of low organic composition produce proportionately more surplus value. But he forgets the law of profit equalization: the surplus value produced by a given enterprise is not the same as the profit it obtains on the market. For Marx there was nothing incomprehensible about surplus value flowing to heavy industry: capitalism cannot accumulate otherwise.

Stalin's intervention into theoretical disputes has been echoed by analysts who ought to know better. For example, Max Shachtman cited the above passage from Stalin and gave his opinion: "This is very well put, and no Marxist could reasonably quarrel with it. The academic expert Alec Nove agrees: "Stalin in his last work made the point clearly enough: in a situation in which resources could be much more profitably devoted to light industry than to heavy industry, resources none the less go to the latter."³¹ Nove notes that Soviet factory prices are set by the planners to yield higher profits for production goods than for consumer goods and blames "politically determined plan-priorities" - but he cannot see that there is lawfulness to such political determination. Then there is Ernest Mandel:

"Capitalist economy, subject to the tyranny of profit, develops in accordance with quite precise laws - tendency of the rate of profit to fall; flow of capital into sectors with rates of profit higher than average; concentration and centralization of capital leading to the seeking of monopoly super-profit, etc. - from which result the particular features of its present-day phase. Soviet economy escapes completely from these laws and particular features. ... Despite the huge accumulation of 'capital' in heavy industry, investments continue to go primarily into this sector, instead of spilling over more and more into the marginal sectors, as happens in capitalist economy in its declining phase."³²

Mandel echoes the fallacy that high profit rates and therefore capital in a capitalist economy are attracted to industries with low organic compositions of capital. He adds an argument about the prominence of marginal — i.e., wasteful and unproductive - sectors, in the declining phase of capitalism. But it is ludicrous to imply that Soviet investment avoids waste -or that in this epoch, with investment dominated by giant enterprises and

the state, the laws of capital concentration and centralization have been cancelled. The Soviet economy, far from "escaping completely" from capitalism's laws, instead fulfills them in a form suitable to the epoch.

It is remarkable that the masters of state property, even though they are told by theorists that they have the power to escape capitalism's laws, nevertheless seem condemned by some mysterious force to obey them. Just as "capitalist communism," the equalization of profit rates in the pre-monopoly epoch, appears to violate the law of value but only does so on the basis of the law of value itself, the same is true of the Stalinist system. And just as the proportionate sharing of surplus value by the capitalists creates the illusion that capital itself - not labor power — is productive, so does the statification of capital produce the illusion that state property is independent of economic restraint. The illusion is strongest in the minds of middle-class Marxists who see the state as the agency for the benevolent allocation of society's resources.

THE TWO-SECTOR THEORY

Another favorite argument is that in the Soviet system the means of production are not commodities — unlike consumer goods which are still exchanged for money. That is, the law of value is said to apply only in the consumer goods sector. This distinction between the laws of state and private production was originated by Preobrazhensky and, after the turns and twists of the 1930's were over, was adopted by Stalin himself: "As a matter of fact, consumer goods, which are needed to compensate the labor power expended in the process of production, are produced and realized in our country as commodities coming under the operation of the law of value. It is precisely here that the law of value exercises its influence on production."³³ For Stalin the law of value governs only consumer goods because they are produced for a market. Mandel also holds that an economy can be disconnected into public and private sectors. In a revealing discussion, he develops the difference between state and private distribution to an absurd conclusion:

"In distinction to the distribution of capital goods among the state enterprises, distribution of consumer goods among individuals is not regulated by the plan. Thus, work performed in the enterprises producing consumer goods is not automatically social labor recognized as such. A portion of these products may prove unsalable. Their use-value cannot be realized if their exchange-value is not realized. "The Soviet workers cannot use a suit if it is too expensive ... And,

30. Shachtman, "Stalin on Socialism," *The New International* (1952), pp. 291-2.

31. Nove, *The Soviet Economic System* (1977), p. 186.

32. Mandel, *Marxist Economic Theory*, Volume 2, Chapter 15, pp. 561-2. Mandel's arguments that the USSR cannot be imperialist are omitted from this passage; the question is covered in the next chapter

33. Stalin, *Economic Problems of Socialism in the USSR* (1952).

if the garment remains unsold, the labor extended for its production is pure loss. In contrast, nothing prevents the state from making use of machinery even if its prime cost was extremely excessive. In the first case the use-value is wasted. In the second case it is realized. That is a difference which no mountain of more or less scholastic arguments can dispose of either in theory or in practice."³⁴

Mandel is absolutely right about the Soviet suit, a typical example of overproduction in any capitalist economy. If it is too expensive for anyone to buy, its use value is wasted and its exchange value is lost. However, to test Mandel's opposite conclusion about Soviet machinery, consider the equipment that was used in the production of that suit. Suppose, with Mandel, that such machinery were excessively costly. These excess costs would inevitably lead to overly expensive suits, for the value of constant capital is transferred to the commodities that it is used to produce. Thus expensive production goods produce expensive consumption goods.

Mandel insists that nothing prevents the state from making use of its excessively expensive machinery. This is true only in a formal sense, not in reality: the machinery would be used to produce piles of unused, unsold goods. But *if the value that a machine produces is wasted, so is the value of the machine itself*. The luxurious machine's value may have been "realized" by the enterprise that produced it when it was sold, but then the purchasing firm and the state as a whole have been swindled: they have not realized the value paid for the machine. To blithely call the labor wasted on the machine "social labor recognized as such" clashes with reality.

Soviet economists know better. One report says: "The population had enough money to buy, they just refused to buy goods of bad quality. At the same time producers' goods also remained unmarketed, or kept accumulating in some parts of the economy when they were badly needed in some other."³⁵ And so does the Soviet bureaucracy. In a speech to auto workers in Togliatti, the "Soviet Detroit," Gorbachev warned that "Vast labor and material inputs may turn out to have been wasted if the articles and goods made do not meet modern requirements."³⁶

Further, consider Mandel's argument that the distribution of capital goods, like the machinery making unsuitable suits, is "regulated by the plan." That doesn't make the goods any less commodities. They are produced by one firm to be sold (for money, even if the sale is assigned in advance) to another, which uses them to produce consumer goods for a third, and so on. Despite the plan, the result is not consciously controlled.

34. Mandel, "The Soviet Economy Today," *International Socialist Review*, June 1972.

35. Cited in Moshe Lewin, *Political Undercurrents in Soviet Economic Debates*, p. 143.

36. Gorbachev, *Soviet Life*, July 1986

The value expended can be altered, diminished or as in Mandel's example, destroyed. This is precisely the after-the-fact valuation characteristic of commodity production. It has nothing to do with socialism or social labor. Despite Mandel, the two departments of production are intimately connected, integral parts of the same economic structure. You cannot have value production of consumer goods without having it for producer goods; one sphere cannot be socialist if the other is capitalist. Mandel's "socialism in half an economy" is even more unrealizable than Stalin's slogan.

PRODUCTION FOR USE

There is another common argument similar to Mandel's: Soviet enterprises are said to produce use values but not values because they are planned according to physical criteria ("material balances"); the monetary forms that exist are simply leftovers from capitalist days, or possibly the NEP period. Soviet material balances and indicators are intended to govern the narrow relations between firms, ministries and enterprises, etc. But they have nothing to do with use values. They are devices used by the planners to make the producing firms conform to the planners' intentions. They specify one or a few aspects of production - gross output, net output, weight, etc. - which have to be maximized.

There is a popular Soviet joke about a hardware factory which, when directed to maximize the weight of its output, produced one gigantic nail. This exaggeration reflects unexaggerated reality.

"Let us take an example. It is well known that the compilation of optimal schemes of freight shipment can yield a quite substantial saving. This is not a complicated task. Many articles and books have been written and not a few dissertations defended on the subject. Still, hardly any freight is shipped according to optimal schemes. Why not? Simply because the transport organizations, contrary to the dictates of common sense, are given plans based on ton-kilometers, while optimal schemes minimize ton-kilometers. One can establish computer centers, and conceive superb algorithms, but nothing will come of it as long as transport organizations reckon plan fulfillment in ton-kilometers."³⁷

For example, if truckers are told to maximize the tonnage carried and the distances traveled (and are compensated accordingly), they can do this without maximizing socially useful labor - they can, for example, take long detours, carry excess weight back and forth, etc. Such a system, far from being based on the production of use values, is precisely the opposite. It is production of values *which need not be use values* at all. Mandel's suits

37. Cited from a 1964 article in *Izvestia* by two Soviet economists, in David Dyker, *The Soviet Economy* (1976), p. 34.

and the related suit-making machinery are additional illustrations.

This also happens, of course, under the law of value in traditional capitalism when goods are overproduced; eventually a crisis ensues. In the Soviet system, where one enterprise can often pass on its futile expenses to another without suffering any consequences, it takes longer for the true value (or lack of it) of a commodity to be learned. Hence the production of non-use values in value form is even more prevalent than in traditional capitalism. A vivid description of how the Stalinist economy can produce for waste was given by a local Solidarity spokesman in Poland in 1981:

"The government gives the workers directives, 'You must produce this much; you must work this long. This factory must produce this type of shoes, this style, this amount.' There is no concern about use value. The workers produce. The stores must stock the items. The people, however, refuse to buy. Then we end up wasting everything: money, material, human energy. For what? It doesn't serve any purpose."³⁸

It serves no useful purpose to produce useless goods, of course. But it can serve the purposes of sectors of capital to gain value - if necessary, fictitious value. Stock market swindles and other forms of speculation are a growth industry in the United States, "wasting everything" and producing nothing. They survive because the economy turns not on use value but on value, a category easily and often distorted - lawfully. It is necessary to recall that for Marx the law of value becomes a restraint on production; it is not the rational distributor of resources it is taken for.

The necessity of "storming" at the end of each planning period in order to fulfill assigned quotas on time also destroys the usefulness of use values. A British reporter cited this example:

" 'We never use a screwdriver in the last week,' one production line worker at a Lithuanian television factory told me. 'We hammer the screws in. We slam solder on the connections, cannibalize parts from other TVs if we have run out of the right ones, use glue or hammers to fix switches that were never meant for that model. And all the time management is pressing us to work faster, to make the target so that we all get our bonuses.' "³⁹

Workers in factories of the indisputably capitalist West know well that quality and safety are often sacrificed in the interest of profitability. That the same occurs in the East, and as a result of the drive of the managerial bureaucracy to maximize its earnings, is further proof of the anti-social (and therefore non-socialist) nature of Stalinist production.

Despite all the additional indicators, the primary one in the Soviet

Union was gross output, measured in rubles. This naturally encouraged the production of capital-intensive goods and discouraged attention to labor productivity or economies in material and equipment. Under Brezhnev it was shifted to "normative net output," meaning newly produced value as opposed to total value. This shifted the bias to wasting labor instead of capital - but it still allowed value determinations, however biased, to overcome use-value needs of society.

USE-VALUE THEORIES

Our formula that the Stalinist economy aims to preserve and maximize the value of the state-owned capital as a whole is superficially similar to other analyses. A prominent neo-Marxist theorist, Gyorgy Markus, says that the goal of production under Stalinism is "the maximization of the material means (as 'use-values') under the global disposition of the apparatus of power as a unified whole."⁴⁰ However, the bureaucrats do not care primarily whether the output of their enterprises is actually useful; they are rewarded by quantitative indicators, not use value. Markus and others who reason like him are deceived by the deviation of the Soviet indicators from genuine value, but *distortion* of value is not the same thing as *use* value.

Moreover, on the theoretical level, the unbounded increase of use values, unlike the maximization of value, is not an internally contradictory goal; if the system were accumulating use values by leaps and bounds (even those of the bosses and not the workers) it would be a success. Thus such a theory cannot account for the chronic failure of the system to actually produce the goods its rulers need.⁴¹ The implication of use-value theories is that no revolution is needed under Stalinism: it is only necessary to incorporate reforms and democracy into the system so that use-value production can expand without contradiction.

Kuron and Modzelewski argued that the "class goal of production" in Stalinism is production for the sake of production, "to obtain the maximum surplus product."⁴² But they stressed that they meant "the surplus product in its physical form," not value. Although their theory analyzed the Stalinist law of motion in sufficient depth for them to predict the contin-

40. Markus, "Planning the Crisis: Remarks on the Economic System of Soviet-Type Societies," *Praxis International*, Vol. 1, No. 3; also in *Dictatorship Over Needs*, with F. Feher and A. Heller.

41. Aside from this, the *maximization* of use values is a mistaken conception. As Marx pointed out, whereas value is a quantitative property of commodities, use value is qualitative; without value, use values are not quantitatively comparable. (*Capital*, Vol. I, Chapter 1, Section 2, p. 45).

42. Kuron and Modzelewski, "An Open Letter to the Party" (Merit Publishers edition, p. 32).

38. *Intercontinental Press*, May 25, 1981.

39. Martin Walker, *The Waking Giant* (1986), p. 22

ued decline of accumulation rates, this misconception prevented them from foreseeing the tendency toward devolution of the Stalinist economies towards traditional capitalism, a tendency driven by the need to enforce value more accurately in order to discipline bosses and workers (see below). Because they excluded value from their theory they overlooked its very real determination of production in the system.

This error was bolstered by their argument that the managers form a separate class, the "technocracy," distinct from the "central political bureaucracy," the ruling class proper. (The technocrats were even said to be the ruling class in Yugoslavia.) Since it is the technocrats whose specific class aim is to expand value, and since they are only the bureaucracy's hired overseers, Kuron and Modzelewski argued that the ruling bureaucratic class is under no compulsion to use value as a criterion of planning.

The kernel of truth in the use-value theory is that in this epoch of state economic intervention, the central authorities of every state, East and West, strive to introduce use-value goals instead of mere value accumulation. But the attempt to bypass value inevitably falls victim to the reality that capitalism is based on exploitation; value, and the class struggle that accompanies it, distorts every effort at conscious planning. And so even the Stalinist rulers, as we will see, now know they have to strengthen value accounting in order to boost the production of the goods they want, even if they do not know why.

VALUE WITHOUT WAGE LABOR

Whereas Mandel, Markus and Kuron/Modzelewski hold that value is inapplicable to the Soviet system, Cliff argues that the law of value is brought into the system from outside. Labor power there, he says, is not a commodity because the state is the only legal employer. He identifies the division of labor under Stalin with that under the slave society of the ancient Egyptian Pharaohs - it is "different in degree but not in essence." That is because the Soviet worker is not free in Marx's double sense. Workers are "free" of the means of production - they do not own the tools they work with. But they are not free to change employers for better wages or working conditions, since every factory is owned by the same boss, the state. Cliff writes in his book on the USSR:

"Hence if one examines the relations within the Russian economy, one is bound to conclude that the source of the law of value, as the motor and regulator of production, is not to be found in it. In essence, the law prevailing in the relations between the enterprises and between the laborers and the employer-state would be no different if Russia were one big factory managed directly from one center, and if all the laborers received the goods they consumed directly, in kind. "The Stalinist state is in the same position vis-a-vis the total labor

time of Russian society as a factory owner vis-a-vis the labor of his employees. In other words, the division of labor is planned. But what is it that determines the actual division of the total labor time of Russian society? If Russia had not to compete with other countries, this division would be absolutely arbitrary. But as it is Stalinist decisions are based on factors outside its control, namely the world economy, world competition. From this point of view the Russian state is in a similar position to the owner of a single capitalist enterprise competing with other enterprises."⁴³

As for Cliff's monolith theory of a whole country as one big factory, we have already seen the independence and rivalry that exists within the Stalinist bureaucracy. This notion ignores the material reality of decentralization, competition and the labor market - and it also accepts the Stalinist planners' notions that the only restrictions on what they can do are imposed from outside. Dialectical materialism dictates that every phenomenon must fundamentally be understood through its *internal* dynamic, which conditions the result of external influences as well. We will say more on the monolith theory in discussing Sweezy below.

But Cliff has a worse problem. If his interpretation were right then Soviet workers would not be proletarians. If they do not live by exchanging their labor for wages, then labor power is not a commodity — so genuine wages, and workers, cannot exist. Cliff doesn't draw this conclusion: it is too obviously false. In fact he speaks of the Soviet workers as proletarians; he cites their wages, rate of exploitation, etc. But he never explains how this can be.

Elsewhere, in an article against Shachtman's bureaucratic collectivism, he criticizes this theory for suggesting that the Soviet workers are not proletarian. "If Shachtman is right and there is no proletariat in the Stalinist regime, Marxism as a method, as a guide for the proletariat as the subject of historical change, becomes, superfluous, meaningless."⁴⁴ This precise refutation of Shachtman also refutes himself.

Under any form of capitalism the second "freedom" of the workers is illusory. "The period of time for which he is free to sell his labor power is the period of time for which he is forced to sell it," Marx said aptly.⁴⁵ Under capitalism a worker is free if he or she chooses - to starve. Soviet

43. Cliff, *Russia, a Marxist Analysis*, pp. 157-9; *State Capitalism in Russia*, pp. 220-21.

44. Cliff, *International Socialism*, No. 32. Oddly, this article was added to the 1988 edition of Cliff's book. We now can read on one page that Soviet workers are tantamount to slaves, and on another that Shachtman's idea that slave labor is fundamental to Stalinism is "absolutely wrong."

45. *Capital*, Vol. I, Chapter 10, Section 7.

workers have about as much freedom to sell their own labor power as any others: they can switch employers within the USSR, and they are often persuaded by competitive wages and benefits to do so. Cliff himself provided documentation for the immediate post-Stalin period:

"Even prior to the decree of 25 April 1956, which allowed workers to change their jobs after giving a fortnight's notice, labor turnover took place on a large scale. Thus, according to Bulganin, 2.8 million workers (out of some 12 million) left their jobs in ... industrial enterprises ... in 1954, and 1.45 million left building sites; 90 percent of building workers have been in the trade continuously for less than 5 years, and 60 percent for less than 2 years."⁴⁶

More recently, according to one Western summary, 20 percent of industrial workers and 28 percent of construction workers leave their jobs each year on average, and the figures are much higher - 50 to 65 percent - for those in the 20 to 25-year age bracket.⁴⁷ Another: "There are ... ample statistics showing that millions of people change their jobs annually of their own volition, as they have the formal right to do, and migrate from area to area in total disregard of the planners' intentions."

True, and individual enterprises - also in disregard of the best-laid plans — often bid for labor, in effect recognizing that the lure of value is the only effective way to distribute labor according to need. For example, the state pays much higher wages to lure labor to Siberia. Workers accept such offers not because they are flighty and irresponsible, as the bureaucrats and their academic mouthpieces charge, but because they are selling the one commodity they have for the best deal they can get. Any worker recognizes this universal proletarian condition.

The right of Soviet workers to change their jobs at will was restricted severely during the fascism-like apex of Stalin's rule just after the triumph of the counterrevolution. In Victor Zaslavsky's words, "It took only a little over twenty years to devolve from the October Revolution, which declared factories to be the property of the workers, to Stalin's decree, which reduced workers to property of the factories." The restoration of the workers' right to change jobs after the anti-Stalin revolts in the early 1950's was a major victory. But it also serves the interests of the central bureaucracy in that it intensifies competition for labor and thereby compels enterprise managers to deal with labor productivity.

The Shachtman position sometimes shared by Cliff was dissected effec-

tively by another IS leader, Duncan Hallas (here the "exceptionalist case" means third-system theories of Stalinism):

"What is at issue here is nothing less than whether there is a proletariat (in Marx's sense) in the USSR or whether there is not. To concede that there is not is to accept the substance of the 'exceptionalist' case and to undermine the fundamental basis of the bureaucratic state capitalist analysis. If labor power is not a commodity in the USSR, then there is no proletariat. Moreover, if labor power is not a commodity then there can be no wage labor/capital relationship and therefore no capital either. Therefore there can be no capitalism in any shape or form."⁵⁰

Exactly. But Hallas could not admit that the problem permeates the entire IS theory. His point was elaborated in a subsequent article by Alex Callinicos, who correctly concluded 1) that wage labor is necessary in capitalism, and 2) that wage labor genuinely exists in the Soviet Union -that is, the payment of wages for labor power is not just an accidental form masking a really non-proletarian content.⁵¹ But Callinicos stopped short, too. He did not draw the conclusion that if the producers are proletarians then they exchange their labor power for wages and in turn transfer value and add surplus value to the goods they produce for the capitalists. Nor did he notice that these goods are in fact commodities, since they contain the value the workers have given them and are produced for exchange among the different enterprises and ministries that make up the Soviet national economy (Callinicos does observe that these institutions compete for labor power). To do so would undermine Cliffs claim that the law of value is not generated internally in Russia.

In their halfway critique, Hallas and Callinicos are hardly original. Granting the existence of wage labor but not generalized commodity production is an old idea, as we have seen, originating with Stalin and given theoretical weight by Mandel. The bourgeois empirical perspective simply notes that the existence of wages is a "fact." But for Marxists wage labor is more than just payment for labor; it is the sale of labor power as a special commodity whose specific function (use value) is to transfer and add value to other commodities. That is why Marx insists that "capital presupposes wage-labor." (In exceptional cases like the U.S. South before the Civil War of the mid-19th century, capital could even exploit slave labor - as long as the relation remained fundamentally capitalist; that is, as long as the task of the slave was to add value to commodities.)

50. Hallas, *International Socialism* No. 9 (1980).

51. Callinicos, "Wage Labour and State Capitalism," *International Socialism* No. 12 (1981).

46. Cliff, *Russia: A Marxist Analysis*, p. 307; he cites Soviet sources.

47. Jacques Sapir, *Travail et Travailleurs en URSS* (1984), p. 60.

48. Nove, *The Soviet Economic System*, 2nd edition (1980), p. 205.

49. Zaslavsky, *The Neo-Stalinist State* (1982), p. 47

Callinicos's attempt to repair Cliffs theory by inserting wage labor as the mode of exploitation while changing nothing else is only cosmetic. To get to the roots of the problem it is necessary to refute Cliffs theory that the law of value does not arise from internal forces in the Stalinist system. Callinicos instead notes politely that Cliffs "framework" is still the basis for analyzing state capitalism. In fact, Callinicos's adjustment makes Cliffs framework collapse.

A telling answer to the denial of wage labor is the account by the Hungarian poet and factory worker, Miklos Haraszti, originally titled *Piecework*. He describes the effects on workers of the "norms" set by the bosses' timekeepers:

"He who sells his time, his strength, his abilities for wages, whether bit by bit or for piece-rates or in a more transparent total form, knows that he does not work for himself. He knows that he has sold everything, including his right to determine how much he will produce. The norm is nothing other than the quintessence of those connections between men that the social scientists call the relations of production in wage labor. Under favorable circumstances the wage can be adequate, even generous: the norm, never. The norm is the thinly veiled constraint within the apparently voluntary framework of wage labor. Incessantly it reminds those who dream of a fair wage of the true nature of wage labor, so that as a result of the constant threat to our conditions of life, we 'freely' pave the way to ever-growing output."⁵²

What Marx and Engels did for factory work of the 19th century, Haraszti does for the 20th: he describes not only the surface attributes of labor but also the meaning underneath. And that is the same for 20th-century "socialism" as for 19th-century capitalism. Wage labor exists to yield surplus value.

Mandel's formula that the Stalinist system combines "post-capitalist relations of production" with "basically bourgeois" relations of distribution (Chapter 3) is almost precisely backwards. The relations of production are most clearly capitalist, based on the exploitation of wage labor. The distribution relations diverge from bourgeois norms, but they too stay within the "infinite variations and gradations" that capitalist relations allow.

NON-CAPITALIST COMPETITION

Another critique of a capitalist analysis of the Stalinist system comes from Sweezy. In reply to Bettelheim's assertion that a competitive struggle for accumulation of value occurs "through the demands for investment credits and allocations of means of production which continuously emanate

from the various enterprises and 'Soviet' trusts," Sweezy replies:

"It is indisputable that under capitalism the separate capitals struggle 'for the appropriating and accumulation of the largest possible fraction of surplus value.' In an economic sense this is a life-and-death struggle: the victorious capital thrives and absorbs smaller and less successful ones; the vanquished capital suffers bankruptcy and disappears. Bettelheim equates this process with the efforts of Soviet enterprises to get larger credits and allocations of means of production from the state bank and planning commission. ... If this comparison were indeed a valid one, Bettelheim's argument would make a very strong case for the real (as distinct from the formal) similarity of the competitive processes in classical capitalist and Soviet societies.

"But in fact the comparison is totally inappropriate. Managements of Soviet enterprises are not independent entities struggling to survive and get ahead in the jungle of the capitalist marketplace; they are appointees in a political bureaucratic structure, which is something entirely different. If one wants a valid comparison with capitalism, it would be between the Soviet managers and the managers of subordinate units of large capitalist corporations like Exxon or General Motors. Both groups of course do compete among themselves, and individuals can win advancement or be fired. But this has nothing whatever to do with the survival and/or growth of the larger units on which they are dependent. By claiming that these larger units are governed by the same 'laws' in the capitalist and Soviet systems, Bettelheim is actually foreclosing investigation of what are precisely the most fundamental differences between the two systems."⁵³

Sweezy insists there is nothing comparable about Soviet and Western societies - and yet himself chooses to compare Soviet managements with Western corporate executives. His claims that the internal bureaucratic rivalries on both sides are parallel but that there is no competition between capitals in the East. But Sweezy's analogy shows the opposite of what he intends. The chief job of Western managers is not to compete but to exploit proletarian labor, and in that role they are entirely comparable with their Eastern counterparts.

As well, the law of value *does* operate within giant Western firms. Monopolies stimulate competition between plants they own in order to pressure managers and workers to boost profits; in U.S. auto firms it is called whipsawing. Of course, the conscious pushing of competition does

52. Haraszti, *A Worker in a Worker's State* (1977), p. 131

53. Sweezy, "After Capitalism - What?," *Monthly Review*, July-August 1985. Note that Sweezy sneaks surplus *value* back into his description of capitalism - as "indisputable," to boot. In *Monopoly Capital* he had "preferred" a different "concept."

not mean introducing the law of value; it simply reflects the demands of a law already there.

Recall that for Marx competition is not the driving force of capitalism but the mechanism for carrying out the underlying laws of exploitation and accumulation. In Stalinism the mechanism of direct competition has been replaced by pseudo-planning, but the drive for accumulation still dominates the economy. That economic units do not live and die according to their competitive success is an intervention into the "pure" operation of the law of value, but it is on the basis of that law itself; it extends the "violations" of value that apply in capitalism's monopoly epoch.

Sweezy's comparison of Stalinist bosses with Western sub-managers illustrates this point: corporate units *do* get lopped off or shut down for reasons of profit, even if they are sometimes propped up by the parent firm when their immediate profits are poor. The propping up is characteristic of the Soviet system, and the shutting down has also begun to occur under the new reforms. Not only is there a deformed competition between capitals in the East but there is a similar phenomenon between subordinate units of capitals in the West. Both occur because even the largest capital can only wage the class struggle successfully through competitive methods. They can hide the law of value, but they can't hide from it for long.

THE BUREAUCRATS' LAW OF VALUE

In contrast to Mandel, Cliff and Sweezy, Soviet theoreticians after Stalin's death determined that value operates throughout the economy. We will discuss shortly what they mean, but first it is necessary - given the widespread impression that Stalinist economy is independent of the law of value — to prove that Soviet economists indeed invoke it. We cite three Western authorities.

"In the period 1956-8 there began a series of discussions on economic theory and practice which culminated in recognition of the fact that prices would have to be based on the law of value as outlined by Marx."⁵⁴

"The economics profession debated the scope and relevance of the 'law of value' in the Soviet economic system. A large majority came to assert that it operates throughout the economy, including transactions within the state sector, and that Stalin's contrary ideas were wrong."⁵⁵

"Eventually, enough proof accumulated to show that value categories still existed. Against the still very vigorous 'antimarketters,' the majority

of Soviet economists yielded to evidence and accepted that, in all its sectors, the Soviet economy was and is a commodity producer. This meant that on the whole the products were exchanged and not just directly appropriated and distributed. Producers could not appropriate products without selling their own in exchange. Pricing and money were indispensable economic categories, and the existence of the market, albeit a 'socialist market,' could no longer be denied. Rather, all the necessary consequences of this compelling reality should be drawn, and practices based on negating such realities of Soviet economic should stop."⁵⁶

A pioneer theorist of such "use" of value was Oskar Lange, a top Stalinist economic official in postwar Poland. He wrote:

"Marx considered the 'law of value' as a guiding principle which will regulate the allocation of resources in the socialist economy. There is, of course, a difference in the mode of operation of the 'law of value' under capitalism and under socialism. Under capitalism it asserts itself through the impersonal automatism of the market; in a socialist society it serves as a normative principle for the allocation of resources by the planning authorities."⁵⁷

Marx considered the law of value to be nothing of the sort, as we saw in Chapter 3. Lange's rationalist approach is ideally designed for planning bureaucrats who prefer to ignore the consequences of exploitation and class struggle - until they find that, law of value or no, they too cannot avoid the crises and decay of capitalism.

How is the law of value "used"? So-called "value balances," openly expressed in monetary terms, are adopted to align the broad sectors of the Soviet economy.

"Value balances ... determine the ratios of the main elements of the economy in money terms. Value balances of the national economy are used as a basis for establishing the most general socioeconomic proportions, for example, the ratio between consumption and accumulation in the national income, between the output of means of production and consumer goods, between the real incomes of the population and their provision with goods."⁵⁸

The Soviet economy's monetary record-keeping is so essential that it is inscribed in the new 1977 Constitution. We read in Article 16:

56. Lewin, *Political Undercurrents in Soviet Economic Debates*, p. 171.

57. Lange, "Marxian Economics in the Soviet Union," *American Economic Review* (1945).

58. Gosplan (the Soviet state planning commission), *Soviet Planning: Principles and Techniques* (1972), pp. 85-6.

54. Marie Lavigne, *The Socialist Economies*, pp. 225-6.

55. Nove, *The Soviet Economic System*, 2nd edition, p. 340

"The economy is managed on the basis of state plans for economic and social development ... and by combining centralized direction with the managerial independence and initiative of individual and amalgamated enterprises and other organizations, for which active use is made of management accounting, profit, cost and other economic levers and incentives." Not even the arch-capitalist United States so blatantly embraces the profit motive in its Constitution; this bourgeois document hides it under the nostrum of the "pursuit of happiness."

Anti-value theorists are always eager to point out that "profit" in Stalinist countries is not the same as in the West: it is a planner's category, they say, not the result of true competition. True, Stalinist profit is a device used as a substitute for competition to carry out the inner laws of capitalism. But it too is driven by the law of value and limited by the total amount of surplus value extracted from workers. Just as capitalists think that their profits arise not from exploitation but rather from competitive success, so too the middle-class Marxists believe that the planners' profit is independent of value, that is, of exploitation.

The planners hope by "taking market realities into account" to run their economy better with more accurate measurement of the values of commodities. They cannot measure labor time scientifically, given the competing separate interests that bring about hoarding, suppressing information from the center, etc. Nor do they have an even approximately adequate method to determine value after production, as under traditional capitalism. In one sphere they have an easy solution: trade between "socialist" countries is conducted according to world (capitalist) market prices, so each country can be sure that it is not getting cheated. This method cannot be so easily adopted internally, lest the bureaucrats give up all semblance of control over their economy. But all they can do when they try to use the law of value for setting prices is to shift their problem - from arbitrary pricing to inaccurate pricing.

Marx's theory, after all, was not designed to determine precise prices but to show the course of development of *capitalism* - above all its class contradictions and impermanence. It was not designed to be "used" - least of all by those who would more rationally exploit the proletariat. Hence there was nothing in the Marxist books about what to do. The Stalinist theorists have had to wrestle over questions Marx would never have thought to ask. Do we apply the original value of commodities or prices of production? Do we take into account interest? Rent? Supply and demand? All these problems are fundamentally unanswerable: they might just as well debate how to "use" the law of gravity in learning to fly by jumping off buildings and flapping their arms.

What the price-setting bureaucrats can do is look at the monetary cost

of each commodity, assuming (falsely) that this measures the underlying labor time with some approximation of reality. But they apparently also ignore the problem of *socially necessary* labor and take into account only what a commodity has actually cost, necessary or not. (That is another result of insisting that value is a rational, not an objective, category.) Thus they arrive at the formula "the higher the expenditures, the greater the price"⁵⁹ - a procedure guaranteed to make prices increase across the board. This often forces them to offset price increases with massive subsidies, which becomes less and less possible as the crisis deepens.

The measurement of value according to cost led a perceptive scholar to come to a highly realistic overall conclusion:

"Because of the unique character of many investment projects it is in practice very difficult to value design and construction work except in terms of the *actual* costs involved. Thus crude output maximization can easily turn into crude cost maximization. ... Thus the area of the Soviet economy which most badly needs to get altogether away from the cult of the gross is the one still most at its mercy. While one can place the crudity of early Soviet industrial planning into historical perspective, and see a certain hesitant logic in the course of planning reform since 1965, we must now really raise the question of *whether Soviet investment is, or ever has been, planned in any way whatsoever.*"⁶⁰

The inability to plan according to value has led some Soviet (as well as Western) economists to reject the labor theory of value as having no relevance to modern society.⁶¹ Interestingly, when Soviet planners turn away from the law of value because it doesn't serve their purposes, they then look to the bourgeois theory of marginal utility. But this too is an attempt to describe a law of *capitalist* society. However they flounder, they seem unable to use any tools except those derived from theories of capitalism to run their economy. Appropriately, it is the true laws of capitalism that rebound against them and destroy all their tools.

Marxist theorists who deny the existence of value in the Stalinist system have a major problem. If the law of value does not regulate the economy, then the "planning principle" or some other manifestation of human consciousness must do so. If so, whose consciousness? Obviously not the workers', who have little to say about how the system runs. It can only be the consciousness of the bureaucrats: the planners, economists, etc. But

59. From a 1985 editorial in *Pravda*, cited by Rumer, "The System - at What Price?", *Problems of Communism*, May-June 1986.

60. David Dyker, *The Future of the Soviet Economic Planning System* (1985), p. 116.

61. See Rumer, *Problems of Communism*, May-June 1986, p. 30, for both Eastern and Western viewpoints.

their understanding is that they operate under the law of value. Thus denying the law of value leads right back to it.

Of course, when the planners' ideas prove inadequate and the economy does not develop according to "plan," it is because it follows capitalism's laws behind their backs. There is no escape: value rules the bureaucratic economy, whether the bureaucrats deny it or try fruitlessly to use it to strengthen their system.

EVADING THE LAW OF VALUE

The law of value was belatedly recognized by Stalinist theorists, well after they had learned to wield it in practice against the working class. Thus ended an old debate. Bukharin had advocated that the law could be *utilized* by the plan, since value and plan were non-antagonistic. Preobrazhensky had countered that the two were antagonistic but that the law (in the spheres we he admitted its operation) could be *limited* by the plan. However, the governing conception during the period of breakneck industrialization was that the law of value had been *eliminated* by planning. No change in this dogma was permitted for some time.

Voznesensky wrote in 1940 that "The law of value has been abolished in the USSR, although the quantity and quality of labor are the measure of production, consumption and exchange." In its place, "In the Soviet economic system the plan as a directive of economic policy has obtained the force of law."⁶² This was an echo of the Stalinist "teleological" theory of the late 1920's, according to which nothing prevented Bolsheviks from carrying out what they wished.

But in the early 1940's the question was in effect reopened. Preobrazhensky's conception was a subtler cover (and therefore is reflected in current pseudo-Marxist theories), but Bukharin's better described the reality of Stalinist capitalism. So a new official line revised the dogma that the law of value could be ignored:

"There took root in our teaching practice and textbook literature the false idea that in socialist economics there is no place for *the law of value*. This idea is in plain contradiction to numerous statements in the classics of Marxism and to the whole experience of socialist construction. ... The idea that under socialism the law of value plays no part of any kind is in its essence contradictory to the whole spirit of Marxist-Leninist political economy. ... On the contrary, it functions under socialism but it functions in a transformed manner."⁶³

62. Voznesensky, cited by Mark Harrison, *Soviet Planning in Peace and War 1938-1945* (1985), p. 224.

63. "Teaching of Economics in the Soviet Union," *American Economic Review* (1944). Voznesensky expressed similar views: *The Soviet Economy during the Second World War* (1949), pp. 119-23

On the contrary, Marx and Engels stated repeatedly that value was inimical to socialism (while it would only gradually be eliminated under the transitional workers' state). In addition to our discussion in Chapter 3, we can cite Engels' pithiest statement:

"To seek to abolish the capitalist form of production by establishing 'true value' is therefore equivalent to attempting to abolish Catholicism by establishing the 'true' Pope, or to set up a society in which at last the producers control their products by the logical application of an economic category which is the most comprehensive expression of the subjection of the producers by their own product."⁶⁴

The idea of suppressing the law of value contradicted the whole experience of *Stalinist* construction; the point of the transformation of the mid-1930's was to enforce it. Readopting the law in theory was a tacit recognition that capitalist discipline was required, for the work force first of all, but also for the bureaucrats. It meant that production was in the hands of separate, autonomous units which had no alternative but to relate to one another through the exchange of value-embodied products, i.e., commodities. The shift in Stalinist theory was an acknowledgment that the system operates under an alternative form of competition, which in any form executes the inner laws of capital to maintain and deepen the exploitation of the proletariat.

The timing of the theoretical switch was no accident. When a capitalist state gears up against a foreign enemy it has to lock together all classes in support of the rulers - all the more so when the existence of the nation was at stake, as with the USSR in World War II. Maximization of the national capital is the goal, so value was approved. But circumstances changed. The liberated law of value was too much of a restriction when the Soviet Union had to be built up again after wartime devastation and the onset of the Cold War. That is when Stalin codified the two-sector theory. He told the planners that in heavy industry, the sphere central to the needs of the ruling class, no arbitrary "laws" should dictate to the bureaucracy what it can or cannot produce. Whereas for consumer goods granted to the masses, the planners needed the law of value to "exercise its influence" — i.e., keep consumer production as low as wages, but allow the consumers "free choice" within that constraint.

Middle-class Marxists whose objection to Stalinism is its bad planning have in all essentials the same goals. They too wish to "use" the law of value rationally - of course, for good ends, not evil. Putting aside its theo-

64. Engels, *Anti-Duhring*, p. 347

retical absurdities, this means if taken seriously that Stalinism is a reformable system, one in which good planners can substitute for bad within the structure as it is. The proper program therefore is democracy. We will see the consequences of such reasoning in Chapter 8.

3. THE STALINIST RULING CLASS

Even though the underlying laws that govern Stalinism are the same as those of traditional capitalism, many of their manifestations differ. As we have seen, the chief divergences lie in the contradictions induced by the remnants of the revolutionary workers' state - the "socialist" trappings of Stalinist society. These are key to why statified capitalism is proving so unstable and indicate the direction in which the Stalinist countries are moving. Another important difference lies in the nature of the Stalinist ruling class, whose origins we traced in the previous chapter.

It is sometimes argued that a capitalist theory of Stalinism is preposterous because the bureaucrats have no awareness that they are capitalist. For example, Ernest Mandel mocks "those who [contend] that capitalism still rules in Russia, China, Eastern Europe, Cuba and Vietnam. Suffice it to say that they can hardly find any capitalist, whether Russian, Chinese, East European, or Vietnamese, to share their bizarre conviction."

True, the bourgeoisie does not see the world with Marxist insight. But Western economists report that some Soviet professional colleagues privately refer to the Soviet economy as state capitalist. And no less an authority than Fidel Castro reassured Mexican investors that "We are capitalists, but state capitalists. We are not private capitalists."⁶⁵

Of course, neither the Stalinist rulers nor their Western counterparts admit to being a ruling class. But those they rule over know better. Workers in the Stalinist countries habitually distinguish between "us" and "them." In Poland in 1980, workers mobilized in one of the most class-conscious movements to arise since World War II labeled their bosses the "red bourgeoisie." In 1988 Yugoslav workers demonstrated against high-living Communist officials with posters reading, "Down with the socialist bourgeoisie!" In the same year a group of Soviet workers from the Urals wrote to a leader of the suppressed Novocherkassk strike in 1962: "We would like to know your advice on the methods of struggle against the enemies of the working class - the bureaucratic bourgeoisie, or, as Lenin

called them, the 'sovbours'."⁶⁷

Such terms may not be chosen for analytical purposes, but they are deeply felt conclusions on the essence of the matter and therefore are far more realistic than the evasions of the rulers' apologists. Understanding forged in struggle is always the best test of theoretical formulas.

BUREAUCRACY AS RULING CLASS

The Stalinist ruling class is properly called capitalist since it embodies the capitalist relation in opposition to the proletariat: it is the exploiter of labor power, "personified capital" in Marx's phrase. Since it did not evolve historically like the classical bourgeoisie that grew up under feudalism and does not operate in the same way, we do not call it a bourgeoisie. Like Trotsky we label it a bureaucracy. "We cannot deny that it is something more than a bureaucracy. It is in the full sense of the word the sole privileged and commanding stratum in Soviet society."

It is argued that the Stalinist bureaucracy cannot be a ruling class because bureaucracies in general are not classes - only servants of ruling classes, as in the despotisms described by Marx. We reply first that bureaucracy is not an abstract suprahistorical phenomenon. The Stalinist rulers dominate a society vastly different from pre-capitalist ones of any form. Theirs is a system driven by accumulation and its contradictions, whereas the bureaucracies of old lived for the privileges of consumption. The despotic bureaucracies squashed all attempts at primitive accumulation (by merchants and incipient bourgeois elements); Stalinists depend on such accumulation by the state. Chattel slavery was vastly different from ancient slavery. So too modern bureaucracy is historically specific to capitalism.

Under capitalism, bureaucracy is a method of social organization that qualitatively expanded at the dawn of the imperialist epoch when entrepreneurial ownership gave way to socialized forms. It is capitalism's answer to conscious planning, substituting hierarchical organization and "networks" for the interplay of a conscious working class carrying out the productive process. Capitalist bureaucracy attempts to overcome the divisions imposed by the law of value; it regards itself as the soul of pragmatic rationalism. Top bureaucrats and managers understand that their job is profit maximization; however, given their social penchant to believe that they stand above narrow class interests, they sometimes justify this goal as a means for achieving human welfare. Of course, the lower layers interpenetrated

65. Mandel, *Long Waves of Capitalist Development* (1980), p. 64.

66. Translated from *Proceso* (December 4, 1988) by Sam Farber. For further excerpts from this interview, see *Proletarian Revolution* No. 34

67. Cited by David Mandel in *The Socialist Register 1989*, p. 126; we will see more of this letter in Chapter 8. Trotsky had also recalled that Soviet workers called privileged dignitaries by the name sovbour (*The Revolution Betrayed*, p. 100).

68. Trotsky, *The Revolution Betrayed*, p. 249.

with the new professional and white-collar layers often see themselves as devoted only to the national (or even social) good. They regard their role as an alternative to the greed of the bourgeoisie and proletariat.

Bureaucracy is one of capitalism's objectively generated forms that cover and carry out its real power relations. It grows out of the relations of production, in enterprises and the state. The degeneration of the USSR also produced such a bureaucratic layer. When it became conscious of its distinct status and its need to exploit the workers, it violently broke its ideological and human links with the proletariat and transformed itself into a ruling class. As a result of its counterrevolutionary civil war, it no longer balanced between layers of society but stood clearly and consciously for its own distinct interests. (It identified those interests with those of "the whole people," but any capitalist class does that.) When it achieved dominance as a class in the workers' state, it became the embodiment of capitalist relations, not just officiousness and corruption.

As Trotsky implied, a sociological term like "bureaucracy" is inadequate. The Stalinist ruling class is not just an organizational form, not even as specific a form as the *nomenklatura* (the list of a half million or so official posts and people qualified to fill them by Party appointment). In Marxism classes are defined by relationships reflecting the social organization of production; a capitalist ruling class is determined by its direct or indirect appropriation of surplus value through the exploitation of the proletariat. Of course, sociologically the Stalinist ruling class is headed by the *nomenklaturists*, but there are millions of lower echelon administrators in the bureaucratic class. And especially in recent years, the exploiters of surplus value have included a peripheral layer of private capitalists separate from but increasingly interpenetrated with the bureaucracy.

To define the Stalinist rulers as an identifiable layer of individuals is make the same error as the Stalinists and sociologists who characterize Western ruling classes as "ruling circles," "power elites" or the "military-industrial complex." Aside from the inaccuracy of such terms, they suggest that the ruling class can be transformed by ousting the specific people or layer. Likewise, replacing the bureaucratic *nomenklatura* with a democratically selected cadre of officials would not alter the exploitative production relations as such. The middle-class (including middle-class Marxist) view of classes as sums of individuals leads easily to reformist conclusions.

Since World War II and especially since 1960 there has also emerged, as in the West, a vast layer of intelligentsia or "specialists" situated between the *nomenklatura* and the working class. Since these millions of people mostly hold state posts (as is inevitable in a statified economy), they might be thought of as part of the bureaucracy. But it is necessary to distinguish between the ruling bureaucracy and the intermediate layers, or middle class. Like the Western bourgeoisies, the ruling class recruits new

members largely from the middle class; it also guarantees that its children become part of the middle class if not the ruling class itself. Not since the counterrevolution has it recruited significant numbers from the proletariat. The recent upheavals in East Europe show that middle-class elements, as in the West, can hold state office without being part of the ruling class.

In Trotsky's day it sufficed to describe the class structure of the USSR as composed of a politically dominant bureaucratic caste with a small professional intelligentsia on top of the workers and peasants. Today's structure is more complex, even though Trotsky's self-described followers use the same terms.

Not only has the middle class grown under Stalinism because the rulers need its technical functions and its political support as a buffer between bureaucracy and proletariat. The ruling bureaucracy itself has become much more articulated. For comparison, in the West the ruling class is highly variegated, with widely different spheres (finance, industry, merchandising) maintaining a semi-independence despite their interconnections. While the big bourgeoisie has always been the heart of the ruling class, there have always been local owners of medium-sized capitals who are not corporate giants but are also not in the petty bourgeoisie or intermediate middle class. This category still exists but has diminished. Its social, political and economic functions have been superceded by the middle-level manager-owners who serve in the intermediate rungs of the monopoly corporations.

In the East there is a different but comparable layering within the bureaucracy. Local and ministerial officials do not share the same interests as the central state and party bureaucrats who make up the heart of the ruling class. They too are not the same as the middle class professionals below them; they are part of the ruling class and articulate its interests as they see them. The constant disputes over perestroika between Gorbachev and the "conservatives" reflects this division. And as in the West, the middle-class professionals can be counted on to act for the ruling class and even hold power for it, when the beleaguered system needs the aid of populists and reformists.

The variegated ruling-class structure no longer conforms to the notion of a "caste." The complexity of the rulers' inner relations, their longevity at the peak of state power - as well as their control over surplus value — all demonstrate that they constitute a full-fledged class, not a simple privileged stratum risen above the aristocracy of the working class.

BOURGEOISIE AND BUREAUCRACY

The bureaucracy that rules in the name of socialism is a peculiar capitalist class. Its members have no legal title to the property they dispose of, which belongs to the "state of the whole people." Members of the

nomenklatura can be transferred from one post to another; they are therefore seemingly independent of any single segment of the national capital, although they do develop ownership-like attachments.

As a ruling class, the bureaucracy reflects the split between ownership of capital and its managerial function. As we saw in Chapter 2, Marx already observed that "the capitalist exists in a dual form - juridically and economically" when the receiver of interest or dividends becomes functionally separate from the manager, who may get only a salary for his labor. The Western manager or bureaucrat is removed from ownership but remains part of the capitalist class. Likewise the Eastern bureaucrat, except that it is the bureaucracy as a whole that owns the state property.

Even when separate, the two functional spheres are always interlinked, socially and practically. The Western manager may well own shares himself, linking him to specific capitals. Still, capitalists are relatively independent of the specific location or use-values they have invested in; they can pack up and move their industries from time to time, or invest their capital elsewhere. The latter "freedom" is symbolized by the stock market, through which capitalists take out shares of each others' capitals. It also illustrates Marx's observation that the bourgeoisie as a whole exploits the proletariat as a whole.

In the East the capital belonging to the various enterprises is tied to specific plants and machinery (although there are now small beginnings of bond and stock markets). Fixed capital appears to be fixed not only in the technical sense that it doesn't circulate, but also in the sense that one bureaucrat cannot transfer "his share" to another. But although a Stalinist official cannot move his assets to another sphere, he can himself be transferred, normally in the course of moving upward in the hierarchy. (In Mao's China transfers were made deliberately to prevent special interests from taking root.) This characteristic of the bureaucracy also reflects the capitalist exploitation of the workers as a relation between classes, not just between individuals.

In the West, each capital seeks the greatest possible mobility between different means of production, in order to maximize its value independently and at the expense of all others. Hence the permanent anarchy, periodic crises, imperialism and unemployment that characterize traditional capitalist life. In the East the capitals are tied down physically, but they also seek to maximize their own value and are content to let the others go to the devil. Hence the sense that no one is in charge: the unconcern for quality, the disdain for consumer needs and the apparent permanent crisis. The ultimate absurdity is the international competition and even wars that have broken out between rival statified capitals.

What the Eastern and Western variants have in common is that they extract surplus value by exploiting proletarian labor, and bosses are

rewarded by how well they do this according to the prevailing standards. For this purpose the economy is divided into separate capitals. Bosses' interests are always sectoral: they are tied to a specific capital in the West, or to a local enterprise, ministry or region in the East. Both systems have a central state apparatus which normally develops its own particular interests; a current confirmation of this in the East is the resistance of powerful wings of the bureaucracy against the Gorbachev reforms that threaten to reduce their strength. Although the state in the East plays a wider and more varied role than in the West, the picture of a super-organized economy in which all economic events are dictated from Moscow and carried out accordingly is, as we have seen repeatedly, a myth.

There are parallels in the juridical sphere as well. Monopoly capital in the United States has acquired full legal rights: the U.S. Constitution was interpreted in the 19th century to say that corporations are "persons" under the law. Although the predominant form of capitalism has changed drastically, bourgeois legal theory understands that underlying class relations remain the same; the legal fiction that speaks of monopolies as individuals incorporates the new reality and masks the change in form. Likewise in the USSR, the legal form of one national capital (through the Constitutional specification of profit, etc.) reflects both the country's past history as a proletarian state as well as the nationalist needs of the rulers. It too both masks and reflects reality.

The aim of the system created by Stalin in the 1930's was to build up the national capital by tying each bureaucrat to some specific capital, either locally or further up the hierarchy. It was a necessary step in separating the bureaucracy from its original base in the working class, and therefore in ultimately wresting state power from the proletariat. There have always been conflicts between locally and nationally oriented bureaucrats. The Gorbachev reform campaign can be interpreted as the assertion of national interests over local and parochial ones - despite superficial evidence that the reforms mean decentralization of power.

FROM FASCISM TO SENILITY

There are striking parallels between the Stalinist economy and that of a bourgeois state during or just before a war. We cite a description of a typical firm in a "centrally administered economic order":

"Our leather factory produces on the orders of the Leather Control Office,... [which] allocates raw hides and auxiliary materials. It gives the firm its instructions to produce, and disposes of the leather it produces. For knowledge as to how the plans are formed by which the economy is guided in a centrally administered system, we must go to these control offices. ... First, there was the collection of statistical material. ...

They formed the foundation for the planning itself which was the second stage of the process. This consisted of drawing up the programs for requirements and supplies, and for the means by which the two were to be balanced. It is an essential point that the figures planned for requirements had their source only partially in the demands of the higher authorities Another part originated with other users, that is, mostly other control offices. ... After the centrally administered economy had been working some time, the planning offices often used the figures for earlier planning periods. ... The third stage was the issuing of production orders to individual firms. The production of the firms was fixed in terms of quantities for particular periods of time, and with regard to varieties and qualities."

This picture could be of Stalinist Russia, but it was written about Nazi Germany.⁶⁹ The writer notes that such an economy inefficiently measures the value of goods produced, but is very capable of handling the mobilization of labor and materials that is necessary for major projects in wartime. "Where an economy is under the direction of a central administration, it is usual for an exceptionally large amount of investment to be undertaken." Moreover, the traditional role of the banking system is bypassed.

"The amortization period and the rate of interest were not taken into account. Neither acted as a brake. So huge investment projects were undertaken, stretching ahead for very long periods into the future. ... Of necessity, the banks will have an insignificant place in a centrally administered economy."

Further, the programs drawn up by the sectional control offices were highly competitive. "Each control was out to produce as much as possible, for each held its own line of production to be specially important. ... The resulting struggle between the controls for the factors of production, and particularly for labor supplies, had ... to be decided by orders from the center." As a result of this competition and central decision-making, the economy took an unbalanced appearance in comparison with traditional profit-based capitalist firms.

"Side by side with investment in some fields went a disinvestment or capital consumption in others. This capital consumption was an essential aid to investment in other branches. ... On the one side there were firms with stocks falling and machinery deteriorating, and on the other new construction and the expansion of equipment."

In the Nazi case this central administration was handled mainly without nationalizing property but rather by imposing governmental controls

69. Walter Eucken, "On the Theory of the Centrally Administered Economy: An Analysis of the German Experiment," *Economica*, 1948

over privately owned firms. Indeed, most of the arguments that the Soviet system is non-capitalist would apply equally well to the "private" economy of Hitler's Germany.⁷⁰

The parallelism with fascism can be looked at from a different angle. When Trotsky described Stalin's rule in the 1930's as "symmetrical" to fascism, he meant that the methods of rule were similar, even though the state power rested on a different class. Following up the implications of his position, Trotsky concluded that if the process of counterrevolution were to continue, it would mean that "the state regime will in that case inevitably become fascist."⁷¹ And so it happened.

In his analysis of German fascism, however, Trotsky had pointed out that fascism cannot maintain forever the iron-fisted movement that brings it to power, the counterrevolutionary mobilization that smashes the proletariat and forges a monolithic unity out of the ruling class. Before long the class struggle must re-emerge, and different sectors of capital will reassert their competing claims. He applied parallel reasoning to Stalinism:

"A totalitarian regime, whether of Stalinist or fascist type, by its very essence can be only a temporary transitional regime. Naked dictatorship in history has generally been the product and the symptom of an especially severe social crisis, and not at all of a stable regime. Severe crisis cannot be a permanent condition of society. A totalitarian state is capable of suppressing social contradictions during a certain period, but it is incapable of perpetuating itself."⁷²

Even under Stalin's dictatorial regime, the Soviet economy showed signs of anarchy. Ruthless attacks on the workers were accompanied by selective concessions, and Stalin could never erase completely the gains workers had made in the Bolshevik revolution. Nevertheless, during the first period of the restored capitalist state, especially from the end of the war until Stalin's death, control was tightening. Just as war prolongs the life of ordinary fascism by allowing it to lock together the disparate forces it straddles, so too did war extend Stalinism's fascist period.

The fascist-like regime came to an end after Stalin died. Soviet rulers enjoyed a period of imperial stability; they crushed revolts but generally adhered to a policy of granting concessions as needed. Given the history

70. For example, Hillel Ticktin's remark that "The fact that no genuine union can exist in those societies and no form of collective action of any kind, without immediate repression, raises the question of the meaning of class in that context." (*Critique* No. 20-21, 1987.)

71. Trotsky, "Does the Soviet Government Still Follow the Principles Adopted Twenty Years Ago?", *Writings 1937-38*, p. 128.

72. Trotsky, "The USSR in War," *In Defense of Marxism*, p. 13.

of Bolshevism, they understood how dangerous it can be to push the workers too hard. Thus consumer goods production increased, although never as much as promised or even planned. Likewise, after the Hungarian revolution of 1956, a reform regime under Janos Kadar was established, not a fascist garrison state. The fact that Hungary was one of the first Soviet-model countries to introduce consumer-oriented reforms was an unacknowledged gain of the workers' armed struggle.

Khrushchev's "revelations" of Stalin's crimes (Trotsky had exposed them decades beforehand) assured the ruling class that it could now relax and enjoy the spoils of power - no more early-morning knocks at the door from the secret police. The USSR was no longer totalitarian but rather, under Brezhnev especially, a senile semi-totalitarian regime. Nor is it Bonapartist: certainly not in Trotsky's sense of a regime carrying out the counterrevolution in a workers' state, nor in the traditional sense of a popular leader governing in place of the owners by balancing between classes. The Gorbachev reforms expose a badly divided ruling class debating, among other things, whether a new form of Bonapartism should be attempted in order to enforce the needs of perestroika on a working class unwilling to sacrifice its living standards further.

NATIONALIZED PROPERTY AND ITS DEVOLUTION

The triumphant period of the Stalinist counterrevolution lasted for less than a decade after World War II. Dedicated to "socialism in one country," the ruling party attempted to constitute itself as the ideal accumulator of capital operating through the state. But as Marx had foreseen, when capital "seeks refuge in forms which, by restricting free competition, seem to make the rule of capital more perfect," it only succeeds in adopting forms which are "the heralds of its dissolution and of the dissolution of the mode of production resting on it." Indeed, not only could it not create an isolated socialism - even "capitalism in one country" proved chimerical.

The nationalized property that defines the Stalinist regimes enabled them to mobilize resources in times of acute stress (war, postwar recovery). But it has not proved an unmixed blessing. On the one hand, state property is the end result of capitalism's inherent tendencies of centralization and concentration. Today in Western economies, nationalized industries serve to shore up the national economy as a whole, its monopoly profit-making sectors in particular; they help absorb the brunt of crises and are to this end allowed to deteriorate under government control. Of course, they are still subject to the limitations and laws of capital.

On the other hand, nationalized property is a proletarian form of property; it was cited by Engels as part of the "invading socialistic society." It is proletarian since it is a necessary component of working-class rule: it permits the workers to centralize economic control and establish conscious

planning. As Lenin pointed out in his writings on the new epoch, capitalism borrows this tool of the proletarian revolution to prolong its own class rule; in the hands of alien class rulers it becomes a weapon wielded *against* the workers. Stalinism is the extreme version.

Even so, nationalized property is a two-edged sword. Designed to free the productive forces from their capitalist fetters, it typically fails this purpose because it mirrors the underlying decay of the system. The great advance of the productive forces in the USSR took place in the 1930's when it was still a workers' state and could mobilize cadres and workers dedicated to building socialism even at great sacrifice.

But now that the ruling class with its established and parochial interests has long been in power, the barriers of capitalist relations that Marx spoke of all come into play. Defense of large concentrations of capital conflicts with the growth of the system as a whole. Thus the expansion of the 1930's contrasts sharply with the Stalinist decay of today. The concessions to the working class embodied in Stalinist state property — guaranteed employment, overmanning in the factories, leeway to slack off at work -reflect both the strength of the proletariat even after its defeat and the inherent weakness of a ruling class that hides behind socialist pretensions and cannot own property in its own name.

A statified capitalist economy is inherently fragile. The working class faces one boss, a thin layer of state bureaucrats, from whom all economic decisions emerge. The bureaucracy naturally gets the blame for all the workers' misery; the state cannot pretend to be neutral between bosses and workers, as in the West. To hold onto power in a situation of naked exploitation, the rulers need a huge apparatus of repression as well as a vast layer of middle and petty bureaucrats to shield them from the workers. Both are evident drains on production and hindrances to the accumulation of capital, the basis of their rule.

The bureaucracy can be thought of as a regent class for the traditional bourgeoisie. This applies in two senses: 1) The weakness of statified capitalism makes its rulers dependent on world imperialism for capital and technology and therefore opens the system to foreign exploitation. 2) As its weakness becomes obvious, the system tends to devolve back in the direction of traditional capitalism by adopting openly bourgeois economic measures. Devolution means that the bureaucracy is laying the groundwork for deeper bourgeois characteristics to develop within itself, and even for a future bourgeoisie from both inside and outside its own ranks to replace it. However, the regency analogy should not suggest that the bureaucracy *as it is* is not the embodiment of the national capital.

The theory of permanent revolution teaches that capitalism in its epoch of decay is unable to complete the fundamental tasks of the bourgeois

revolution. Were it not for the working-class revolution usurped by the bureaucracy, no statified capitalism would ever have been possible. The achievement of a "single capital" on the verge of its annulment as capital is only possible by a genuine workers' state.

As if to prove this, as the Stalinist economies grind to a halt today, many of their unique characteristics are being called into question by their own creators. Stalinist rulers are committed to the defense of state property only to the extent that it supports continued exploitation. As East European states threaten to destroy nationalized property through privatization, it is the proletariat that defends it.

If the Stalinists retain state power, the devolution towards traditional capitalism does not mean that the economy will tend to become less centralized. It too is subject to the law of increasing concentration and centralization. As greater economic authority devolves from the center, the strongest enterprises and combinations will tend to grow disproportionately, while the smaller, less economically efficient and less politically influential will be shut down or swallowed up.

The "orthodox Trotskyist" view that China, East Europe, etc. became deformed workers' states after World War II (Chapter 7) is linked with the mechanistic belief that the proletarian form of nationalized property necessarily implies a dominant proletarian content. (If this were true, Marx and Lenin's description of joint-stock companies and monopolies as socialized forms of property would mean that they were socialist.) A symmetric counterposition is the denial of any proletarian content in the nationalized property form; this is the view of Shachtman and Cliff. Against both, Marxists must recognize that form reflects content but does not determine it. Form and content continually come into contradiction — which is temporarily resolved at a new level as the content, itself changing, exercises its dominance. In the Stalinist states, the socialized forms are remnants of the proletarian past, with the capitalist content now clearly dominant.⁷³

The full development of capitalist rights to property has not yet taken place, but every day brings new reports of reforms that open the door wider. The fall of each pillar of Stalinist orthodoxy, the eagerness of wide sectors of the bureaucracy to slide over into being truly bourgeois, proves that the state form readily conceals capitalist relations. Thus the Marxist understanding of form and content is increasingly confirmed.

73. Leftists who defend the Stalinist *state* as progressive risk defending it when it dismantles the property form that embodies its alleged progressiveness. In parallel, those who see no proletarian character in state property risk denying support to workers defending past gains

Chapter 6

Stalinism and the Postwar World

1. THE DEFEAT OF THE WORKING CLASS

The destruction of the Soviet workers' state led to the defeat of the proletariat's revolutionary challenge to world capitalism at the end of World War II. Postwar workers' movements were crushed or diverted into class collaboration, and third-world revolutions were led down the path of bourgeois nationalism. As a result imperialism gained a new lease on life. Trotsky's warning (cited in Chapter 2) proved correct: equilibrium was erected over the prostrate form of the defeated working class, leading to an unprecedented period of prosperity. The epoch of capitalist decay was significantly prolonged.

On the surface it may not look like we still live in the epoch of decay. The first half of the century - two devastating world wars, the Great Depression of the 1930's, the simultaneous triumph of fascism and Stalinism - amply confirmed the epochal picture drawn by Marxists. But history after World War II, with its expansive boom in the imperial countries and four decades without inter-imperialist war, looks different. Even though the postwar boom has come to an end and the possibility of severe crisis is now openly discussed within the Western bourgeoisie, the predominant view - among the conservatized intelligentsia and proletariat as well as the bourgeoisie - is that capitalism is successful. The collapse of the Eastern "socialist" regimes provides confirmation.

In this chapter we analyze the post-World War II world, with special attention to the impact of Stalinism on it. We will see that Stalinism played the key role in keeping imperialism strong. We take up in turn the origins of the postwar world, an assessment of modern imperialism as a whole, and finally the rise and decline of the Stalinist form of imperialism.

IMPERIALISM BETWEEN THE WARS

We begin with a brief look at imperialism after World War I. In addition to the isolation of the USSR and the defeat of workers' revolutions elsewhere, the result of that war was the suppression of the losing imperialists and their confinement within national boundaries. The United States

was the chief victor in that it became, for the first time, a net creditor on the world financial market and an exporter of industrial goods; that is, it joined the first rank of the imperialist powers. Yet this result was not enough to alleviate the epochal crisis that had brought about the world war. None of the great powers was strong enough to dominate the world alone; none had been eliminated as an imperialist contender (except Soviet Russia). The system flourished for a short time on the spoils of war and the reconstruction from it, but then disaster struck again.

Largely because of the Great Depression, the decade of the 1930's was characterized throughout the imperialist world by increasing fusion between capital and its state. In addition to its customary and growing functions of coercing the working class and supervising capitalist competition, the state took on the role of central organ for the organization of the economy as a whole. This was most extreme for the late-starting imperialists and those weakened by World War I, who had the least opportunity for imperial expansion. The trend prominent in Nazi Germany, militaristic Japan and fascist Italy was also expressed in the New Deal in the United States.

The Great Depression could not be resolved by a new imperialist expansion, since the globe was already imperialist property and could only be redivided. The resulting tensions led to intensified rivalries, division of the world into currency blocs and a precipitous collapse of trade, factors which led inevitably to the new world war. The national limits of capital concentration had been reached and now had to be breached.

War was the only bourgeois solution to mass unemployment and poverty. In the depths of the Depression in the United States, for example, at least a quarter of the work force was unemployed and the rate of profit fell below zero. There were ups and downs within the decade, but the normal processes of capitalist recovery never took hold; not even the government-sponsored pump-priming of Roosevelt's New Deal cured the crisis. Depression, usually capitalism's cure for its periodic crises at the proletariat's expense, was no longer an effective solution.

In Germany the crisis of the early 1930's was even greater and the bourgeoisie's methods correspondingly more drastic. Nazism was wielded against the workers to smash their powerful independent organizations, drive down their standard of living, discipline them through a police state — all to obtain a maximum extraction of surplus value. The crisis also led inexorably to rearmament and a policy of military conquest of new territories to exploit.

STALINISM AND WORLD WAR II

But whatever the Nazis' expansionist ambitions, the Second World War could not have occurred without Stalinism's victory in the USSR. War can break out under the pressure of economic and political laws beyond the

control of the ruling classes; but their wishes are nevertheless a factor, and in the light of the revolutionary events that followed World War I, they feared to risk another conflict that could provoke the workers to do away with capitalism once and for all. By 1939 the rulers saw they had less to fear from the proletariat: the German workers had been crushed (with the help of the Stalinists), the Comintern had proved its loyalty by restraining the Spanish revolution and guaranteeing its defeat - and then the counterrevolution was completed in the USSR itself.

The Hitler-Stalin pact under which the war began shocked Soviet supporters everywhere even though it was predictable: the Soviet rulers had abandoned all methods of defense other than the military and diplomatic. The pact was not a qualitative break; it signified only the momentary failure of the alliances with the "democratic" imperialists that had been tried and would be turned to again. It did not end class collaboration; it simply switched partners. In the West the CPs changed from petty-bourgeois chauvinists to petty-bourgeois pacifists; in Germany, they unsuccessfully approached the Nazis for a working relationship.

The pact was signed because the U.S., France and Britain still distrusted the land of the Bolshevik revolution - even though they accepted the benefits of Stalinist policy in keeping their own workers in line. They had reason: radical workers everywhere still looked to the USSR as the embodiment of proletarian revolution. And although Western diplomats loudly objected to Stalin's bloc with Hitler, it proved something to them: that Moscow was now capable of *any* iniquity - just like a normal nationalist power. In this ironic sense the pact laid the basis for the later victorious alliance in World War II.

The Nazi-Soviet alliance was highly unstable. On the diplomatic level, its secret codicils bore witness to Soviet imperialist aims in Eastern Europe and Western Asia, but they also showed that Russian territorial interests were predominantly regional. Moreover, Soviet industrial growth required importing Western technology and reducing the burden of armaments production; thus Stalinism was conservative, looking to establish international stability.

Hitler, on the other hand, ruled a cooped-up imperialist powerhouse that had to pry open the stranglehold on the world market held by the colonial powers (Britain, France, etc.) and the United States. Nazi Germany was therefore a destabilizing and radical player on the world stage. And even though Germany divided Poland with the USSR at the start of the war, its drive to exploit East Europe and, inevitably, Russia precluded any long-term toleration of the deal with Stalin.

Moreover, in countries where both Stalinist and fascist parties existed they could not seriously collaborate over domestic policy. Nazism's appeal

to capital was based on its ability to crush independent organizations of the working class, while the Stalinists outside of Russia were still tied to layers and institutions of that class. For these reasons the alliance was necessarily short-lived.

The alternate alliance of the "democrats" with Stalin was therefore necessary, and during the war it was established on the basis of Soviet nationalism as well as overall imperialist interests. Stalin expressed his imperial desires to his Western allies as he had done to Hitler, and the USSR was guaranteed its own sphere of interest alongside those of the Western powers. The Soviet wartime resistance against the German offensive was conducted under the banner not of socialism but of the Motherland, and the Comintern was officially disbanded in order to calm remaining bourgeois fears of revolution. Even the "Internationale" was readily dispensed with and replaced by a nationalist anthem.

The Communist Parties internationally defended the Soviet state *and* deepened their own domestic nationalist orientation, especially in the Nazi-occupied countries after the invasion of Russia. The CPs played leading roles in resistance movements, pressing the workers to subordinate their independent and revolutionary interests to national bourgeois restoration. In the West they became the most disciplined advocates of war production, using their influence to quell even non-war-related strikes. The magnitude of the Stalinists' counterrevolutionary role is illuminated by comparing it to the expectations of a well known fellow-traveler at the time: "There is strong evidence that the existence of the Soviet Union, and its consistently anti-imperialist policy, exercised a strong disintegrating effect on the cohesiveness of the total structure of imperialism ... it appears not unlikely that the disintegrating effects on imperialism of a further growth of socialism will outweigh the consolidating effects [of the wartime alliance]. ...

"We start with the assumption of a military defeat of German fascism. This happy event, it may be postulated, would be followed by the collapse of capitalist rule and the victory of socialism over substantially the entire European continent, not merely in Germany and the occupied countries but also in France, Italy, and Spain. Anglo-American attempts at intervention are not excluded, but it seems hardly likely that they would meet with success Socialism would now have an impregnable base extending from the Atlantic to the Pacific A firm alliance with the colonial and semi-colonial countries of Asia would follow The evolution of the entire Far East, including India, China and Japan, in a socialist direction would now be assured"¹

1. Paul Sweezy, *The Theory of Capitalist Development* (1942), pp. 358-9

Such dreams in the spread of socialism under Stalinist guidance could only be held by people with no conception of what transformations had been wreaked on the "land of socialism." Fascism was smashed by the Soviet armies, but the result was not even the victory of Stalinism in Europe; imperialist deals led to the division of Europe and Asia, with the United States getting the predominant share. Stalinism proved to be the key ingredient in imperialism's survival, not its demise.

The degree of corruption of the Stalinist parties in the working classes can be seen from the case of the U.S. Communist Party. During the course of World War II, this party supported the government's imprisonment of thousands of Japanese-Americans solely on the grounds of race; it enthusiastically endorsed the prosecution of Trotskyist leaders under the anti-communist Smith Act (a law predictably turned against the CP itself after the war); it opposed the anti-racist protests of the American black movement as a disruption of wartime unity; it fought against workers' strikes as sabotaging war production; and it approved the mass murder of civilians through the atomic bombing of Japanese cities.

STALINISM AFTER THE WAR

Stalinism emerged strongly from the war. The basis for its resilience was the counterrevolution in the USSR, which gave the bureaucracy class power and its own national capital, enabling it to serve as a shareholder and bulwark of imperialism as a whole. The Communists had also gained a dominating position within the world proletariat through the authority of the Bolshevik revolution together with the Soviet victory over fascism. In Eastern Europe the CPs and the Soviet Army suppressed workers' uprisings to consolidate Stalinist control. In France and Italy the CPs used their power and prestige to break the back of potential revolutions. In Vietnam, North Africa and other colonies they paved the way for imperialism to regain its hold.

It is rarely remembered that the end of the war saw working-class upsurges throughout Europe. Under conditions of misery and starvation in the war-ravaged territories, capitalism was everywhere discredited. Workers rose up to oust the bourgeois officials from factories and local administrations, and took steps to re-establish functioning economies; they had no need for bosses and stood openly for socialism. To illustrate both the mood of the mass proletarian movement and the CPs' role, we cite a vivid historical account of events in German-occupied Italy in 1944-45 at the time of the Anglo-American invasion:

"To the Allied soldiers reaching the Rome region the experience was strange indeed. Armed Italians, often in red shirts, waving revolutionary banners, greeted them, frequently after they had set up their own local

administrations. The Allied armies pushed some Partisans aside, and even threatened them with the tiring squad; they arrested many and threw them into prisons. ...

"Despite the Anglo-American policies and German repression, by the beginning of the spring of 1945 the Resistance numbered perhaps 150,000 men, supplying themselves with growing stocks of deserted or captured fascist and German weapons. Success was imminent, and men joined.

"The workers of Milan, some 60,000 of them, revolted ... with slight bloodshed, assigning control of the factories to workers' councils and meting out justice to the fascists. Then in Turin, against heavy German opposition, they swiftly took the city. Throughout northern Italy the Resistance was in control everywhere, and quickly shot approximately 20,000 fascists or alleged collaborators. The Resistance was triumphant and in power. Was Italy on the verge of revolution?

"The Allied military wasted no time in finding out. They knew it was necessary to disarm the Partisans and take over local governments. Disarmament, as the files of the military government reveal, the Anglo-Americans executed with astonishing success.' ...

"With red banners and power in hand 150,000 men disappeared in a moment, and the almost morbid fears of the English and Americans proved entirely chimerical. Why?

"... there is no question that the Communists saved the Old Order in Italy. As if by reluctant necessity the Americans gradually acknowledged the conservative role of the CP when it was useful to do so, and ignored it when it violated more convenient preconceptions. When disarming the Resistance the Anglo-Americans made the decision 'to secure the confidence of the Partisan commanders and conduct disarmament through them....'... In both cases the leaders were willing to cooperate, primarily because the majority were Communists."²

In countries where the old bourgeoisie collapsed after the war, the CPs moved cautiously to take power themselves. The new regimes as a rule were based on a Stalinist alliance with bourgeois collaborators, based on the workers' defeat. In the light of the belief in the revolutionary possibilities of Stalinism held by so many present-day Trotskyists, we present the example of Poland, since events in that country were well summarized by Ernest Mandel at the time:

"When the Red Army approached Poland, this country was caught up

2. Gabriel Kolko, *The Politics of War* (1968), pp. 61, 436-8. This book and its sequel (Joyce and Gabriel Kolko, *The Limits of Power*, 1972) contain a wealth of valuable information

in the whirlwind of a revolutionary upsurge. The workers occupied the factories, established workers' control over production, set up factory committees, etc. At that moment, it could be said: the proletarian revolution in Poland had begun. But the *political* intervention of the Soviet bureaucracy was primarily *counter-revolutionary*. The Soviet Army was used to 'restore order,' 're-establish the authority of employers' and rapidly rebuild a *bourgeois* Polish state apparatus."³

In other countries of East Europe circumstances differed but the overall results were similar. Workers were still not prepared to go back to living under capitalism. So the Stalinists declared that "democratic," not socialist, revolutions were on the agenda and, after the workers' upsurges were crushed, used their control of armed forces to set up popular front governments with the old bourgeois parties. Only several years later did the CPs oust their bourgeois partners, complete the nationalization of industry and establish the Stalinized regimes that lasted until today.

An essential element of the Stalinist counterrevolution was the elimination of the revolutionary proletarian leadership. Mainly Trotskyist, they were consciously murdered before the war in Spain and Russia and afterwards wherever the Stalinists held power. The slaughter of the Soviet Trotskyists in particular meant eliminating the most advanced and experienced layer of revolutionary leaders in the world. Elsewhere Trotskyists were influential in only a few countries, where they sought to lead the colonial workers and peasants against both imperialist war blocs. In Vietnam, the Stalinists, with guns supplied by Chiang Kaishek's China and the West, wiped them out at the end of the war and handed the country back to French imperialism.

Despite political mistakes made by the Trotskyists during the war, they played an often heroic role. They fought both for socialism and against national chauvinism; they were practically alone in combatting anti-German racism in the West (above all in sections of the anti-fascist resistance movements influenced by the CPs); at enormous risk they published a German-language paper distributed to soldiers of the Nazi army in occupied France. The beheading of the working class on top of all other counterrevolutionary events not only prevented revolution after the war but derailed the workers' movement for a long time to come.

FROM ALLIANCE TO COLD WAR

The Stalinists' eagerness to act as full members of the imperial club was summed up in one of history's classic imperialist deals. Here is Winston Churchill's own description of negotiations for the Yalta treaty

3. Mandel, *Fourth International*, November 1946.

that shaped the postwar world:

"The moment was apt for business, so I said, 'Let us settle about our affairs in the Balkans. Your armies are in Romania and Bulgaria. We have interests, missions and agents there. Don't let us get at cross-purposes in small ways. So far as Britain and Russia are concerned, how would it do for you to have 90 percent predominance in Romania, for us to have 90 percent of the say in Greece, and go 50-50 about Yugoslavia?' While this was being translated I wrote out on a half-sheet of paper:

Romania	
Russia	90%
The others	10%
Greece	
Great Britain.....	90%
(in accord with the U.S.A.)	
Russia	10%
Yugoslavia.....	50-50%
Hungary.....	50-50%
Bulgaria	
Russia	75%
The others	25%

"I pushed this across to Stalin, who had by then heard the translation. There was a slight pause. Then he took his blue pencil and made a large tick upon it, and passed it back to us. It was all settled in no more time than it takes to set down. ...

"After this there was a long silence. The penciled paper lay in the center of the table. At length I said, 'Might it not be thought rather cynical if it seemed we had disposed of these issues, so fateful to millions of people, in such an offhand manner? Let us burn the paper.' 'No, you keep it,' said Stalin."⁴

And dispose they did. The outstanding example of East-West collaboration along the lines Churchill indicated occurred in Greece, which had been consigned to the Western sphere of influence. Stalin was holding back the Greek guerrillas and had already cut off aid to them by closing the borders of his Balkan satellites. (The dissident Stalinist Tito did his bit for imperialism by sealing the Yugoslav border to the rebels in 1949.) In the course of the British-American "pacification" of Greece, thousands of victims were executed and 14,000 were deported without trial to island concentration camps to overcome "Communist indoctrination."

4. Churchill, *Triumph and Tragedy* (1953); cited in "Behind Yalta: The Truth About the War," in Hal Draper, ed., *Independent Socialism and War* (1966), p. 44

But that was not all. In France, for example, the CP joined DeGaulle's postwar government, in which it voted to send troops to reconquer Vietnam and helped crush uprisings in North Africa and Madagascar.

The shared domination suggested by Churchill's memoir was not held to for very long by either side, given the moves made by the West in the latter part of the war to hem the Soviets in. Stalin's fears of "democratic" imperialist presence on his doorstep made him more wary but did not affect his attempt at building a grand alliance.

American military aid to the anti-communist forces (including fascist collaborators) was sent under the Truman Doctrine that brought the wartime alliance to an end. Then U.S. Undersecretary of State, Dean Acheson, described how he convinced Congress of the need for such a measure:

"In the past eighteen months, I said, Soviet pressure on the Straits, on Iran, and on northern Greece had brought the Balkans to the point where a highly possible Soviet breakthrough might open three continents to Soviet penetration. Like apples in a barrel infected by one rotten one, the corruption of Greece would infect Iran and all to the east. It would also carry infection to Africa through Asia Minor and Egypt, and to Europe through Italy and France, already threatened by the strongest domestic Communist parties in Western Europe."⁵

Acheson refrained from pointing out that the Western CPs were openly dedicated to the reconstruction of capitalism, not socialist revolution. The kernel of truth in the notion of Communist bogeymen was the desire of masses on every continent for freedom from foreign domination and for a better life, summed up as socialism. *That* is the infection that had to be quarantined in the interests of imperialism and U.S. domination, not any desire on the part either of Stalin or the allegedly indoctrinated masses for the spread of Soviet territorial power beyond the USSR's East European satellites and Asian perimeter.

By the late 1940's, the Stalinists had done the job of crushing the revolutionary potential of the workers' movements effectively enough so that the West no longer needed them. But to retain its grip Stalinism had to display a level of militancy, so it still appeared dangerous in a volatile world. The Maoist victory in China, which Stalin had not wanted, could not be recognized as part of a worldwide anti-colonial movement and so had to be painted as a conspiracy directed from Moscow.

Under these conditions the U.S. was able to depict the "Communist threat" as an alien force in order to cement the new alliance. There was still widespread radical militancy in the working classes, so trade unions

5. Acheson, *Present at the Creation* (1969), cited in Noam Chomsky, *Towards a New Cold War* (1982).

were purged of radicals and rival labor bodies were created. The CPs were ostracized and driven from governments in Western Europe, McCarthyism in the U.S. served to roll back the liberal and leftist trends prominent since the Depression, and the Soviets were excluded from the imperial alliance by means of the Cold War.

A new balance of power was struck between what appeared to be two distinct and hostile worlds. Even though excluded from partnership, the Soviets continued to prop up the overall imperialist system. While Europe and Japan held their rivalries with the U.S. and each other in check, the USSR used its still-potent influence to keep third-world revolutions within bounds. The new nations of the third world which had won independence after the war became formally neutralist and often "socialist." The initial nationalist victories, India's above all, seemed to point to a way out of the imperial grip and inspired anti-imperialist movements everywhere. But while remaining politically friendly to the Soviets, the ex-colonies were effectively reintegrated into the Western-run imperialist world market. The whole balance, including Russia's alleged role as external threat, was aimed at preserving stability - above all preventing upheavals by the growing working classes.

Throughout the postwar period, the Soviet Union has tried to play an influential political role that would enhance its economic opportunities. This does not mean necessarily intensifying its rivalry with Western imperialism but rather doing whatever is required to increase overall stability. It is impossible to understand the Soviets' policies by assuming either that they fundamentally defend progressive interests, or that they are the most dangerous evil on the planet - the most common "Marxist-Leninist" positions. The only realistic analysis is that they are defenders of the national capital everywhere, conditioned by the particular mode of operation developed in Soviet Russia.

THE STALINIST PARTIES

No one who had followed Trotsky's analyses of the Comintern's degeneration could be surprised at the Stalinists' will to carry out such betrayals. What was unexpected was their capacity to do so. Trotsky saw the Stalinist parties traveling the same road as the chauvinist social democrats; only transitory bureaucratic rivalries inhibited their incorporation into traditional reformism. Here is his assessment of these "ex"-Communists, once he had determined that Stalinism was a counterrevolutionary force:

"As regards the ex-Comintern, its social basis, properly speaking, is of a twofold nature. On the one hand, it lives on the subsidies of the Kremlin, submits to the latter's commands, and, in this respect, every ex-Communist bureaucrat is the younger brother and subordinate of the Soviet bureaucrat. On the other hand, the various machines of the ex-

Comintern feed from the same sources as the Social Democracy, that is, the superprofits of imperialism. The growth of the Communist parties in recent years, their infiltration into the ranks of the petty bourgeoisie, their installation in the state machinery, the trade unions, parliaments, municipalities, etc., have strengthened in the extreme their dependence on national imperialism at the expense of their traditional dependence on the Kremlin."⁶

This analysis was true but incomplete. During the war the CPs did not disintegrate or dissolve into the social democracy, despite the dissolution of the Comintern. They were indeed reformist: unlike centrists, they didn't vacillate in the least in support of capitalism. But theirs was a reformism of a qualitatively different kind from that of the pluralist social democrats. The CPs' essential nature was to be champions of the national capital and advocates of the statification of capital to the highest possible degree. Their goal was "socialism" as they understood it: a society based on the Soviet model, with industry controlled by the state and the working class out of power. But they championed the "national interest" everywhere.

In countries where the old bourgeoisie was too weak to rule, the CPs took over and carried out bureaucratic nationalizations. But they sought at first to lead a coalition of shadow bourgeois parties in office to legitimize their own participation in the defense of the national capital. (We will discuss the Stalinist takeovers through our analysis of Trotskyism in Chapter 7.)

Where the bourgeoisie remained strong, as in the imperialist Western powers, the CPs consistently stood for an increased role for the state nevertheless. They pursued reformist policies since the mid-1930's through bourgeois popular-front alliances, because every measure taken to strengthen the economic role of even a bourgeois state is regarded as a step towards "socialism." As Trotsky observed, in the bourgeois democracies the CPs flourished on posts funded by the state and rested on sections of the labor aristocracy and the middle class. After the war the state expanded everywhere, because of the laws of capital accumulation in general and the need to both incorporate and suppress the working class in particular. The CPs expanded as the vanguard of the overall trends toward statification and nationalism.

The inspiration and direct role of Stalinism was particularly important in third-world countries. The Russian revolution had originally aroused not only workers and intellectuals dedicated to the communist cause but also members of the intelligentsia attracted by the dream of an independent nation-state that could stand up to imperialism and overcome centuries of

6. Trotsky, "A Fresh Lesson," *Writings 1938-39*, pp. 70-71.

humiliation. The Stalinists found a social base among government employees, a sector that expanded greatly both in the imperial past and the nationalist present. More generally, since wartime imperialism depended on winning mass support, it had to encourage nationalist sentiments not only at home but also in the colonies; here mobilizing the masses under the slogan of "democracy" required using the rhetoric of national self-determination in to counter pro-Axis propaganda. This enhanced the appeal of the CPs and other petty-bourgeois nationalist currents.

PERMANENT REVOLUTION EXTENDED

The bourgeois nationalists of the oppressed countries looked to the Soviet Union for support against imperialism and as a model for their own countries. A new nation state in this epoch emerges into a world of immense repressive force and economic interdependence. To fend off the imperialists it must be capable of highly concentrated control of both capital and political power. The nation needs to mobilize and retain the bulk of its own internally produced surplus value, so that the fruits of exploitation can be put to use at home rather than abroad. It also has to repress internal capitalists with interests tied to imperialism more directly - as well as to keep down the producing classes, whose aspirations for a better life are whetted by the anti-imperialist struggle. These conditions require a centralized state apparatus, and the Soviet model provided it.

Political independence for the new states and at least a temporary measure of economic leverage was the price imperialism had to pay to reestablish international stability under U.S. hegemony. Facing a tide of mass rebellions, the wiser imperialists chose to accommodate to it, thereby maintaining economic influence of not political control. In most of the former colonial countries, separation from imperialism was won by non-Stalinist petty-bourgeois forces who neither could decapitate their proletariats as effectively as the Stalinists nor wished to centralize property to the same extent. But they too took power only because of the defeat of the world proletariat. The victory of Stalinism is the key that locked the revolution of the oppressed colonial masses into the nationalist prison and kept them under imperial domination.

Whether Stalinist or not, the new nationalist rulers saw their goal as defending and expanding the nation-state and the national capital. To this end some chose to welcome imperialist investment; others preferred to build up local industries with state aid to produce needed goods at home rather than import them. Almost all used some form of socialist or populist rhetoric to justify strengthening the state and capital. As noted in Chapter 2, imperialism creates a reciprocal nationalism in the imperialized countries. And this nationalism, like the imperialism that engenders it, is heavily reliant on the national state.

In this light, the theory of permanent revolution has to be extended. A central point of Trotsky's theory was that the bourgeoisie feared to challenge *any* form of property, given the potential threat of the proletariat. Therefore throughout this century it has been unable to carry out the democratic and national tasks of the bourgeois revolution; the internationalist workers' revolution is objectively necessary. But under specific conditions — where the proletariat has been defeated or decapitated and its threat to property thereby temporarily removed, and where the traditional bourgeoisie is too feeble to pose even a temporary break from imperialism — elements from the bureaucratic middle classes can seize the reins of power. Such nationalists can even resort to the dangerous step of statifying property, if the workers have been effectively excluded from independent activity.

This corollary to permanent revolution is critical for understanding postwar international politics. The workers' defeat accounts for the creation of so many Stalinist states in the war's aftermath, as well as for the particular sequence of events in which the proletariat was shoved aside *before* property could be nationalized. The theory also illuminates the initial success and later collapse of third-world nationalism, the subsequent dependence of these countries on assistance from the Western capitalist powers. All forms of private property were becoming interpenetrated in Russia when Trotsky first developed the theory, and it is all the more true today — when there is not only interpenetrated ownership but an inescapably international economy.

Trotsky wrote a brilliantly perceptive critique of Stalin's policy of "national socialism" which applies with equal force to the postwar third-world countries:

"Marxism proceeds from world economy, not as a sum of national parts but as a mighty, independent reality, which is created by the international division of labor and the world market, and, in the present epoch, predominates over the national markets. The productive forces of capitalist society have long ago grown beyond the national frontier. The imperialist war was an expression of this fact. In the productive-technical respect, socialist society must represent a higher stage compared to capitalism. To aim at the construction of a *nationally isolated* socialist society means, in spite of all temporary successes, to pull the productive forces backward even as compared to capitalism. To attempt, regardless of the geographic, cultural and historical conditions of the country's development, which constitutes a part of the world whole, to realize a fenced-in proportionality of all the branches of

economy within national limits, means to pursue a reactionary Utopia."⁷ Indeed, national economic independence for the ex-colonial countries could only be temporary during the period of relative prosperity after the war based on the working-class defeat. This was the time when the bureaucratic middle strata grew rapidly in all countries, economically advanced and semi-colonial. The illusions of viable third systems and in third-world nationalism reflected the self-inflation of these layers. Their statist national capital solutions, reflecting the Stalinist model, were posed as an alternative to the real choices in society: the bourgeoisie and capitalism on the one hand, and the proletariat and socialism on the other. The new nationalist rulers eventually had to break from the fantasy that they were not tied to international capitalism.⁸

The removal of the working class from the political stage, however, could be only temporary. The proletarian struggle cannot be eliminated by capital, however repressive its state; the defeated workers eventually recover, and the laws of motion of the system continually drive them to oppose their bosses. That is the reality that has deceived all observers of the "end of the working class" school, even those on the left. It means in addition (as we will show later) that permanent revolution applies in the Stalinist bloc as well as in the countries of traditional capitalism.

2. POSTWAR IMPERIALISM

Despite the great proletarian defeats and the unprecedented economic boom in the dominant countries of Western capitalism, the end of World War II was not the start of a new or higher epoch of capitalism. The proof that the epoch of decay persists is the world economy of the 1970's and 1980's, when the partially suppressed crisis cycle reappeared and bourgeois theorists again panicked aloud over the threat of a new great depression. The immense international debts owed by third-world, East European and even some leading imperialist countries confirm the fictitious nature of much of the postwar profitability. Lenin's theory of imperialism as the final epoch of capitalism remains central for understanding the system's operation in our own day.

7. Trotsky, "Preface" to the American edition of *Permanent Revolution* (1930).

8. The ideas of this section were first worked out and are more fully elaborated in "What Are the Communist Parties?", *Socialist Voice* No. 3 (1977), and "Permanent Revolution after World War II," in the LRP pamphlet *Permanent Revolution and Postwar Stalinism* (1987)

THE UNEXPECTED BOOM

The Cold War balance of power would not have been possible without the postwar boom that brought considerable prosperity to the imperialist countries and opportunities for development even to some of the former colonized and semi-colonized nations.

The boom was based in the United States and on its victory in the war. In contrast to all the economic efforts of the U.S. government in the 1930's that failed to get the economy back on its feet, the war itself was the only "public works" project that the bourgeoisie would endorse and was also large enough to end mass unemployment and restore profits. The astronomical state budget was financed through debt, as were those of its enemies and allies. At first, with about one-fifth of the labor force unemployed and one-quarter of industrial capacity unused, war production created a boom without cutting back civilian production. In the words of the famous pro-New Deal economist John Kenneth Galbraith, "The Great Depression of the thirties never came to an end. It merely disappeared in the great mobilization of the forties."⁹

The American victory in the war was also an economic victory. It made good the U.S. debt, but the other powers, even those on the winning side, were weakened economically and ended up greatly indebted to America. Japan and Germany were subjected to U.S. domination for years, and Britain and France saw their empires dissolved and their ex-colonies pried open to American penetration - most significantly, the oil producers of the Middle East. Rescued from economic collapse (and its political consequences) by U.S. loans, Europe and Japan were likewise subordinated to the American-dominated international order.

The Marshall Plan, which was instrumental in spreading the boom to the European capitalist powers, was not the rescue plan for downtrodden Europeans as it was advertised. The "rescue" came three years after wartime devastation had left people under miserably oppressive conditions. Indeed, it was only after the proletarian movements had been decisively set back under their Stalinist and social-democratic leaders that the U.S. then stepped in to bolster the European economies.

The boom had been anticipated by neither Marxists nor bourgeois analysts. Joseph Schumpeter wrote: "Everybody is afraid of a postwar slump, threatening from a drastic reduction of military expenditure financed by inflationary methods as well as from mere reorientation of production. The all but general opinion seems to be that capitalist methods will be unequal to the task of reconstruction."¹⁰ Trotskyist

9. John K. Galbraith, *American Capitalism* (1952), p. 78.

10. Schumpeter, "Capitalism in the Postwar World," in S. Harris, ed., *Postwar Economic Problems* (1943), p. 120

theorists reasoned similarly, as we will see in the next chapter.

What all overlooked was the opportunity to extract surplus value from advanced working classes which had been subjected to major defeats. As a leading business magazine wrote of the French worker after the war: "His standard of living today is marginal in the statistics and all but insupportable in the reality."¹¹

Also important was the international industrial dominance by U.S. industry, which produced two-thirds of world output. This was the ingredient missing from the economic scene after the First World War. Now American military and economic hegemony permitted a greater concentration of resources than ever before in capitalism's history; control over surplus value was centralized on an international scale. The combination of high rates of exploitation and an unparalleled level of international centralization of capital gave birth to the boom.

The techniques of government intervention learned in the 1930's were continued after the war in all the advanced countries. They included subsidies to industry through the arms budget and other state spending, together with unemployment insurance and other mechanisms to prevent working-class incomes from sinking as low as before the war. These Keynesian methods succeeded in dampening the swings of the business cycle and sustain the prosperity bubble once it got started; they could not create the masses of surplus value that powered the boom. That was the achievement of imperialist hegemony and the proletariat's defeat.

A factor already mentioned was also important: the isolation of radicalism within the workers' movements through the Cold War. One consequence was that industrial speedup and increased productivity were won by the capitalists — in return for wage increases that would ultimately be eaten away through inflation (another deliberate Keynesian policy).¹²

These wage gains had nevertheless to be fought for through militant struggles, which the accommodationist union bureaucracy successfully kept divorced from political aims threatening to capital. Depoliticized or narrowly focused struggles replaced the more radical battles workers were bursting to engage in by the end of the war. A reactionary labor aristocracy was strengthened in the advanced industrial countries. Thus for two decades after the world war, wages of the majority of workers in the

imperialist countries advanced with unexpected regularity; but capital succeeded in preventing a return of the proletarian consciousness that had been crushed in the 1930's.

The availability of surplus value in the West contributed to a buildup of the white-collar middle classes, a vast layer of unproductive labor and a modern-day adjunct of the labor aristocracy. As already noted, World War II and the need to contain the proletariat led to a big expansion of the state apparatus in the imperialist heartlands; in particular, military and corporate bureaucracies grew inordinately, along with the concentration of power at the level of the state characteristic of the epoch.

Paradoxically, the boom based so heavily on the workers' defeat ended up creating the illusion of permanent working-class prosperity and rising living standards. In the United States especially, the early 1960's were heady days. The future appeared luminous for almost everyone entering adulthood; at one point in the decade college attendance exceeded 50 percent of all high school graduates, indicating that masses of working-class youth thought they had a good chance to rise in society. The black revolts of the period, initiated by college students, reflected the bitter realization that with so much prosperity at hand black people were still subject to intolerable conditions.

The optimism characteristic of the postwar boom period was felt in Soviet Russia too. Khrushchev predicted the surpassing of American production levels; he also boasted at the 22nd Party Congress in 1961 that "socialism had triumphed fully and finally in our country and we have entered the period of the full-scale building of communism." Moreover, "everyone will be assured of material sufficiency; by the end of the second decade [1980] there will be assured an abundance of material and cultural benefits for the entire population." Contrast this with Gorbachev's sober assessments today.

FICTITIOUS CAPITAL

The boom engendered the buildup of a massive balloon of fictitious capital. The standard source of fictitious capital, the overvaluation of investments (Chapter 1), was inflated by expanding waste production and speculation. In the classical business cycles such balloons were periodically burst by the periodic crises; in contrast, the postwar balloon has been continually inflated. The danger of a cataclysmic collapse as a result of each upcoming cyclical crisis compels governments to try to postpone such crises by puffing up the debt balloon - thereby making the potential consequences of an explosion even greater. In this sense the fictitious capital boom is a reflection of the latent power of the working class and its permanent threat to capital.

11. *Fortune*, December 1948.

12. Keynes himself justified inflation with delicacy: "Whilst workers will usually resist a reduction of money-wages, it is not their practice to withdraw their labor whenever there is a rise in the price of wage-goods." (*The General Theory of Employment, Interest and Money*, 1935; p. 9.)

State spending on arms, social benefits won by workers and subsidies of inefficient capitals created large public debts from World War II on, and the consequent tax drain on profits meant that a growing portion of business investment had to come from borrowed funds as well. Beyond a certain point debts are not simply one firm's expense balancing another's income; they are claims on surplus value that require repeated postponement to the future. The accelerating debt buildup reached the point where by 1981, more capitalist income in the U.S. came from interest than from corporate profits - the first time this had happened since the years of subzero profits in the 1930's.¹³

Capitalism's creation of fictitious value threatening to choke the system is an illuminating reflection of the inherent contradiction between the drive to accumulate and the need to preserve the value of existing capital. The absolute dedication of capital to the maximization of value leads it to generate value forms without the backing of material goods; then the dedication of much surplus value to the proliferation of paper value disrupts the growth of real production. An economic journalist reported the views of a prominent bourgeois theorist:

"Peter F. Drucker ... contends that there has been a basic change in the world economy. The 'real' economy of goods and services and the 'symbolic' economy of money, credit and capital are no longer bound tightly to each other, he says, and 'are moving further and further apart.' Striking evidence to support this thesis is provided by the widening disparity between the sluggish growth of the real economies of the United States and other industrial countries and the exuberance of their financial markets. Yesterday the Dow Jones industrial average [for the New York stock market] closed above 2000 for the first time, a gain of 31 percent in the past year. But this nation's economy grew only 2.6 percent last year Likewise, ... the Morgan Stanley Capital International Perspective World Index, a measure of global stock market performance, rose 39 percent, adjusted for the dollar's decline. But the real world economy was in the doldrums."¹⁴

Bourgeois analysts fear, of course, that the balloon can be punctured and billions of dollars of fictitious capital, together with its owners, wiped out. After all, when crises destroy values, the fictitious values are the first to go. A foretaste of what is in store was provided by the October 1987 stock market crash, which deflated the balloon but by no means enough to prevent a later explosion.¹⁵ Contrary to Cliff and other theorists who

see use values replacing value as the goal of capitalist production (Chapter 1), the opposite is in fact taking place: as balloons of fictitious value build up, use is more and more separated from value. In the decadent epoch of capitalism, fictitious capital becomes a brake on the system that can be overcome, revolution aside, only by volcanic purges in the form of great depressions and world wars.

The situation is analogous to the condition of "permanent crisis" in the Soviet variant of capitalism. Just as the Stalinist rulers cannot allow enterprises to go out of business without endangering their system, so too Western capitalism cannot afford to allow major corporations or banks to collapse. Because all the giant firms are interpenetrated, the collapse of one would bring down many others. For this reason the Chrysler Corporation was bailed out by the U.S. Congress in the late 1970's. Even under the "free-market" Reagan Administration, the government has intervened to prop up failing firms and banks if they are big enough. When the Continental Illinois bank, one of the country's largest, collapsed, it was taken over and for practical purposes nationalized. Similar solutions have been used in Western Europe and Canada.

The build-up of fictitious capital means that a large quantity of paper capital is chasing after a comparatively small pool of surplus value. This means a falling rate of profit, a reflection of the law Marx analyzed and which applies especially in the epoch of decay. Empirical evidence on the FRP for the postwar period shows that, for U.S. capital, the overall rate of profit held even at an average of 10 percent (with rises and falls of about 2 percent) in the 1947-67 period, but then fell sharply to an average below 6 percent from then through 1985.¹⁶

The excess claims on surplus value that arise from the fictitious capital boom contribute to another Western analogue to Stalinism: shoddy maintenance of the "infrastructure" of industry, transport and the natural environment. When massive debts have to be paid, firms and governments have to throw all available cash into the pot - not only their profits but also their constant capital renewal and repair funds. (A portion of constant capital can easily be credited as surplus value, thereby exaggerating the real rate of profit.) The world has faced industrial disasters not only at Chernobyl but also at Three Mile Island, Windscale and Bhopal; not only is Lake Baikal polluted and the Aral Sea evaporating, but Lake Erie is dying and the Rhine River a chemical sewer. Both forms of capitalism find that maximizing the national capital means preserving obsolescence and permitting environmental decay regardless of human cost; neither form has

13. *Economic Report of the President*, U.S. Government, 1982.

14. Leonard Silk, *New York Times*, January 9, 1987.

15. See "After the Crash," *Proletarian Revolution* No. 31

16. Anwar Shaikh, "The Falling Rate of Profit and the Economic Crisis in the U.S.," in URPE, *The Imperiled Economy* (1987).

resources sufficient to solve the crises brought about by the system's mad disregard for the future.

As under Stalinism, postponing a decisive crisis (and the restructuring of capital that would accompany it) has meant that the underlying basis for profits is weakened and that the collapse, when it does arrive, will be all the worse. The postwar period has exhibited so far no all-out collapse but rather a series of mini-crises that succeed in destroying only smaller capitals and strengthening the hand of the dominant monopolies. But the untouchability of the giants is not a permanent condition.

THE END OF THE BOOM

The conditions that created the boom eventually turned. The Cold War and the international instability it engendered had led to a tremendous arms buildup. The vast military budgets of both imperialist and non-imperialist countries formed the major part of state spending globally, a considerable drain on productive investment and therefore on economic renewal and expansion. This and other Keynesian techniques for dampening the business cycle left crises unresolved: old capital was not sufficiently devalued and backward industries continued to operate. Recessions became less profound but more frequent; the postwar cycles averaged less than five years rather than the nearly ten of classical times.

Two decades without a major downturn led to overproduction on a world scale, especially when Japan and West Europe recovered from wartime destruction and reached first rank in manufacturing. The combination of overproduction and fictitious capital left fewer outlets for productive investment; from this followed the plague of speculative corporate takeovers and a new expansion of fictitious claims to value. By the early 1970's a serious crisis cycle had re-emerged, and unemployment levels moved out of the realm of "prosperity." The U.S. and Britain became conspicuous examples of gross extremes of wealth and poverty existing side by side.

Declining imperial fortunes were accelerated by the tremendous costs of the Vietnam war, the West's primary attempt to stifle nationalist struggles against imperialism. The U.S. defeat was a blow to imperialist prestige and a signal that its unchallenged hegemony was at an end. It is no accident that the end of the postwar boom led to rising working-class struggles East and West. In the 1960's workers in the U.S. demanded their share of the diminishing prosperity through widespread wildcat strikes and the black ghetto uprisings; workers in France (1968) and Italy (1969) broke their chains through massive strike struggles. So did workers in Czechoslovakia and Poland, countries whose economic fortunes had risen and fallen in parallel with the West.

The upshot is that world capitalism is now experiencing an intensifying crisis: not just periodic downturns but, underneath the ruling-class glitter,

the resumption of depression conditions for many. In the United States, still the locomotive of the world economy, the working-class standard of living has not increased since the late 1960's. One revealing comparison is that average income for working-class men aged 40 in 1973 declined over the next decade by about 1.5 percent per year; in the 1950's and 1960's it had grown by about 2.5 percent yearly. The decline is greatest among industrial workers whose high pay has been replaced by the miserable wages available in unskilled blue-collar service jobs, and especially among black and Latino workers.¹⁷

The fact that the expansion of the postwar years had ended was hidden by rising paper profits and stock-market values. But other omens of a long-term depression are strong. In 1987 in the United States, with over 7 million workers unemployed by government figures, another 6 million "discouraged" and not officially in the category of those seeking jobs, plus an immense 18 million working less than half time for an annual income of under \$10,000, the effective unemployment rate was well above 25 percent - a level comparable to the 1930's. This situation has not yet penetrated the consciousness of most American workers. One commentator summed up the problem for the ruling class:

"Sooner or later, a falling living standard will be political dynamite, too. When it dawns on enough Americans that they can no longer expect to do better economically than their parents, or even as well, their reaction is likely to be outraged, even dangerous."¹⁸

That is correct. The bourgeoisie understands that the working class is more powerful than it appears under its reformist leadership. The unpopular Vietnam war, for example, was fought under the "guns *and* butter" recipe - wages were kept relatively high to prevent a social explosion. A decade and a half later, when declining profits led to a united capitalist attack on workers' wages, President Reagan took the lead by crushing the air traffic controllers' union (PATCO). But the bourgeoisie did not dare follow up with an all-out war on the unions. And in the face of today's desperate need for higher productivity and profits, when bosses are turning to incorporative devices like "quality-of-life circles" to grind workers down, austerity is real but its pace remains slow. The bourgeoisie recoils from a head-on conflict.

Internationally, U.S. economic hegemony could not last forever. Industry in Japan and continental West Europe expanded and modernized more rapidly, unencumbered by the arms burden. The resulting competition (in-

17. Frank Levy, "Changes in the Distribution of American Family Incomes, 1947 to 1984," *Science*, May 22, 1987.

18. Tom Wicker, *New York Times*, August 17, 1987.

cluding that from industries, many imperialist-owned, in the "developing" countries) has led to American obsolescence in specific industries like steel, textiles and shipbuilding. But when the U.S. economy weakens, its centrality and size means that world capitalism as a whole suffers. Another factor is the enormous third-world debt: its consequences have inflicted misery on millions; default would threaten ruin for major U.S. banks.

The economic situation that capital has faced since the early 1970's is tenuous. Profits are insufficient for the thoroughgoing restructuring of capital necessary for a new boom. The U.S. even hesitates to commit itself to the new opportunities (in 1990) for major investment in East Europe. There is also fear of a deep depression that could wipe out the most backward and obsolete firms and devastate the working classes once again.

The "Reagan revolution" in economic policy increased U.S. government debt by years of borrowing in lieu of taxation and amassed a record foreign debt through enormous trade deficits. The gain was a spurt of prosperity for the middle classes at the cost of massive decay of the country's productive industrial plant, not to mention the infrastructure of transport and the environment already cited. Reagan's "voodoo economics" (George Bush's jibe in the 1980 presidential campaign) seems, oddly enough, to have mimicked the Gierek strategy of postponing Poland's crisis in the 1970's. In any case, the result will be much the same: the crisis will come to a head through a financial collapse and the working class will be told to shoulder the burden for excesses it never shared. The U.S. has the potential for the greatest working-class eruption in its history. The Eastern European crisis (Chapter 8) reflects the future not only for the Soviet rulers but for America as well.

LENIN'S THEORY REVISITED

The end of the postwar boom plus the revival of working-class struggle laid the basis for a renewal of left-wing movements and Marxism. There was also a return to Lenin's analysis of imperialism - and a corresponding attack by liberal and social-democratic theorists against the relevance of Leninist theory.

Some obvious updating has to be done to Lenin's "five point" definition of imperialist economics (Chapter 2). Monopoly, the merger of bank and industrial capitals, and international cartelization are still prominent — more so, with the rise of "multinational" corporations, the increased stratification of capital (up to an including the Stalinist form), and even state cartels along the lines of "common markets." On the other hand, the outright colonialism of the early 20th century is comparatively limited today. A handful of powers still exploit the world, not primarily through direct political rule but rather through economic power - backed up, as always, by overwhelming military force.

But this was not the main line of attack. The American social democrat Michael Harrington argued that central features of imperialism were no longer decisive for world politics:

"Lenin's theory of the essential and inevitable role of imperialism in Asia, Africa and Latin America no longer holds. The Third World is less important to the advanced capitalist powers than at any time in their history; and their prosperity is much more dependent on the maintenance of high mass consumption within their own borders — and within other wealthy countries - than upon the exploitation of the world's hungry."¹⁹

Harrington concluded that imperialist war was now a matter of policy, not compulsion: the system, he said, "is no longer fated to do evil." This could only have been written during the boom, when illusions in the eternal prosperity of the West extended to the conclusion that imperialism would be happy to live in peace with its victims. Theories like Harrington's were devised less to probe the reality of the modern world than to defend the reformist thesis that continuing imperialist outrages (notably the U.S. war on Vietnam) were unfortunate choices to be corrected by electing greater numbers of liberal bourgeois politicians.

Since Harrington wrote his rationalization, the experience of Thatcher-ism in Britain and Reaganism in the U.S. has again falsified the underconsumptionist view that capital becomes unprofitable if mass living standards decline. Profit, after all, not consumption, is what keeps the system going. As for the economic significance of the third world, "deindustrialization" has shifted many jobs there in search of lower wages. The capitalists are constantly proving that they depend on exploiting the workers, both abroad and at home, far more than on satisfying consumption needs.

Harrington was also wrong to suggest that Lenin's theory of imperialism applied exclusively to exploitation of third-world peoples: Lenin specified capital export in general, to advanced countries as well. But much of this is linked to exploitation of the third world; U.S. oil companies' investment in the Europe in the postwar period, for example, enabled them to increase their profits from the Middle East and Algeria. Moreover, even if Harrington were right to imply that direct investment in third-world industry is relatively declining, there remains the indirect method of loans to third-world capitalists and governments - which have increased enormously in the past fifteen years. Finally, the fact that the capitalist powers are vitally interested in preserving their domination of the third world is proved by their constant wars to guard the system's outposts and halt militant nationalist movements. They are imperialist as ever.

19. Harrington, *Socialism* (1970), p. 389.

The social-democratic theories depend in part on the fact that several "developing countries" (a euphemism for the victims of imperialism) have in fact developed. In the 1970's bourgeois apologists were hailing Brazil, Mexico, Taiwan, South Korea, and other countries whose economies expanded rapidly. They grew not only because of the investments of imperialist capital, but also through the prospering of local bourgeoisies from the combination of slave wages (typically enforced by military repression) and the growth of world markets during the boom.

This is no refutation of Lenin. A key element in Lenin's theory is commonly overlooked: since capitalist decay would mean parasitism of the richest countries through the siphoning of profits from the poor ones, Lenin foresaw economic expansion in the colonies accompanied by decline in the imperialist center. During the postwar boom, Lenin's prediction seemed wrong: the imperialist powers expanded and *did* "raise the standard of living of the masses [at home], who are everywhere half-starved and poverty-stricken, in spite of the amazing technical progress"²¹ - something Lenin thought impossible except for the narrow labor aristocracy.

The development of the "newly industrialized countries," however, especially when compared with recession in the West in the aftermath of the postwar boom, appears to fulfil Lenin's prognosis: as boom turns to bust, more and more industrial jobs are moving to low-wage labor in the poor countries. Even so, the economic growth in these countries has been limited (as Lenin expected). None of them has been able to approach the economic level of the advanced, and their impressive statistics of increasing Gross National Product per capita in reality mask grossly uneven incomes and grinding mass poverty. As one bourgeois expert summed up (with a degree of euphemism that few besides practiced academics can muster): "Not only have most developing countries experienced a decrease in the share of income accruing to the poorest 60 percent, but in many, the relative decrease has been sufficiently pronounced to result in declines in the absolute levels of the poor. At the same time, in the political arena, the process of interaction between the social forces of modernization and the existing power structure has led to varying degrees of instability and internal violence, as well as to a general tendency towards less participatory forms of political structure; the latter has

20. Lenin, *Imperialism, the Highest Stage of Capitalism*, Chapter 8. In expecting capitalist progress in the colonies Lenin echoed Marx, who wrote of Britain dragging India forward but "through blood and dirt, through misery and degradation" at the expense of the masses. ("The Future Results of British Rule in India," 1853; in *Karl Marx on Colonialism and Modernization*, S. Avineri, ed.)

21. *Imperialism ...*, Chapter 4

meant that, at least temporarily, political power, as well as economic welfare, have become less equally distributed. It has thus become clear that the economic development processes of the fifties and sixties have not led to the intended result - massive improvements in the welfare of the poor - but have, if anything, increased inequity."²²

The international debt crisis has sharply called into question the economic stability of the third-world countries. Because of the obligations to the banks - which third-world rulers consider sacred and only postpone paying when they literally don't have the cash - starvation and disease are becoming even more rampant. The crisis also exposed the third world's dependence on the imperialist powers. Statistically, an expert noted that the industrialized countries "have absorbed the resources of the rest of the world, and principally those of the developing countries." Likewise, the head of the World Bank, hardly an opponent of imperialist exploitation, observed that "The developing countries are transferring to the industrialized world more money than they receive in new financing."²³

Figures compiled since the outbreak of the debt crisis explode the theory that imperialist exploitation is not profitable. Here is what the combination of debt repayments plus capital flight from the imperialized countries has meant:

"Since 1979 the most important debtors have devoted from 70 to 80 percent of the total of their new borrowings to the payment of interest on their previous debts. This gigantic transfer of resources from the periphery to the principle metropolitan capitalist countries has had a spectacular effect: in 1981, for the first time in postwar history, the third-world countries have become net exporters of capital. From 1981 to 1985, this flow has multiplied on the average by a factor of 10, passing from 7 billion to 74 billion dollars."²⁴

However developed the third-world countries may be, their surplus value is still appropriated in large measure by the imperialist powers. This results from the siphoning away of profits as well as from unequal trade (Chapter 2). There is also the ominous trend of imperialists demanding

22. I. Adelman, *Journal of Development Studies*, 1974. "Less participatory forms of political structure" indeed! Liberals seem incapable of believing ill of ruling classes. Isn't it apparent by now that the "intended result" of imperialist investment and "aid" is precisely what Adelman describes rather than what is piously preached?

23. U.N. Economic Commission for Europe, *Economic Survey of Europe in 1987-1988*; Barber Conable, *World Bank News*, April 24, 1988. Both cited by F. Clairmonte, *Le Monde Diplomatique*, July 1988.

24. F. Clairmonte and J. Cavanagh, *Le Monde Diplomatique*, September 1986.

and getting property rights when cash repayments are not forthcoming. Lenin's overall outlook has proved correct: the rich countries get richer (with their masses benefiting in part), while the poor remain poor and dependent.

One reason for the error in Lenin's specific expectation that the masses at home would remain "half-starved and poverty-stricken" is that the most modern production techniques require an already developed economic and social environment and therefore have to locate in the advanced countries. Another is the success of the revolution Lenin led: when the Soviet workers seized power and expropriated capital, much of it foreign owned, the imperialists learned about the risk of investing in potentially volatile areas. Only in the profits crisis after the postwar boom has imperialism turned broadly toward industrial expansion in the third world.

THIRD WORLDISM

While social democrats hold that capitalism is no longer imperialist, the "third-worldist" school believes that imperialism has totally transformed capitalism and its laws of motion. In the 1960's this current was heavily influenced by the Chinese Communist Party's conception of an revolutionary struggle by the world's "countryside," the semi-colonial countries, against the "city," the advanced imperial powers. This was a more revolutionary line than the pro-Moscow Stalinists', who tried to limit every struggle to reforms. But it ignored the class struggle not only within the capitalist centers but also within the semi-colonies. The theory's roots lay in bourgeois nationalism, not Marxism.

In the West third-worldism became the predominant view among a whole generation of leftists in the 1960's. Their mentor, Paul Sweezy, denounced the Communist Parties and the European proletariat for having succumbed to imperialist bribery:

"During the long period of capitalist expansion after the Second World War, those Communist parties which had been relatively most successful — the so-called Eurocommunist parties - grew gradually more reformist. Today, a hundred years after Marx's death, it is impossible to make out a reasonable case for the view which had been for so long at the very heart of Marxism, i.e., that the proletariat in the advanced capitalist countries is destined to be the agent of revolutionary change."²⁵

Sweezy ignores history and logic: the CPs became reformist during the not-so-prosperous 1930's. But he is consistent with underconsumption theory: he and Baran credit the transformation of modern capitalism to

excessive surplus, which the system cannot absorb but which nevertheless serves to eliminate periodic crises at the cost of stagnation and various social diseases. Hence the permanent corruption of the workers and the conclusion that "the answer of traditional Marxist orthodoxy - that the industrial proletariat must eventually rise in revolution against its capitalist oppressors - no longer carries conviction."

What really lacks conviction, however, is a theory that displaces the proletariat without discussing the class struggle — and still styles itself Marxist. Baran and Sweezy willingly acknowledge their "almost total neglect of a subject which occupies a central place in Marx's study of capitalism: the labor process." Their excuse is that they uphold the "international class struggle" and believe that the revolutionary initiative has passed to the "impoverished masses in the underdeveloped countries."²⁶ This means, however, not the workers' struggle in these countries but rather the efforts of nationalist leaders to win breathing room from imperialism.

The international class struggle is indeed critical. But in the third-world countries, as elsewhere, the proletariat is central to the socialist cause: only *its* material interests are fundamentally anti-capitalist. Likewise, it is impossible for Marxists to dismiss the struggle in the advanced countries, where the workers have greater economic power. As the permanent revolution analysis shows, revolution in the imperialist countries is necessary, not only to disarm imperial military power but also because without international socialism the ex-colonial countries will never reach the economic level of modern capitalism, much less go beyond it.

It is an evasion of Marxism, not an updating, to overlook the effect that the capitalist crisis has on the working class, forcing it into deeper levels of struggle. From the end of the postwar boom, when the French and Italian workers exploded in nationwide class battles, to the 1980's, which saw mass strikes across Europe from Britain to Poland and the USSR (not to speak of Iran, South Africa, South Korea, the Philippines, Burma and China), the proletariat has signaled that it is dissatisfied with conditions under capitalism. The task of Marxists is to join the struggles of their class in order to show the way forward, not to treat them with "almost total neglect."

Moreover, whole sections of the working class in the advanced world, like American black workers, are vitally interested in and influenced by the struggles of the oppressed and exploited abroad;²⁷ the latter have also closely followed the U.S. black struggle ever since the early 1960's. Baran and Sweezy cite only monopoly capital's effect on the black "masses" in

25. Sweezy, "Marxism and Revolution 100 Years After Marx," *Monthly Review*, 1983

26. Baran and Sweezy, *Monopoly Capital* (1966), pp. 8-9.

27. See "The Black Struggle," *Socialist Voice* No. 7, Fall 1978 xxx

the U.S. without specifying the significance of the black proletariat.

Despite the arguments of both social democrats and third worldists, the essentials of the Marxist theory of the epoch of decay have been amply confirmed. The First World War opened up a period of social revolutions beginning in Russia and spreading to Central Europe. The system survived by relying on the forces of reformism, but it was not long before the world economy collapsed in the Great Depression. And that was accompanied by the horrifying counterrevolutions in Germany and Russia - followed by the renewed devastation and defeats of World War II. The continued existence of capitalism, once the most progressive form of society in human history, was made possible only by the most barbaric period the world has ever seen - the "midnight of the century" of the 1930's and 1940's.

Today, narrowing wealth in the dominant countries coexists with mass misery in the greater part of the globe. The build-up of fictitious capital threatens the imperialists' economic stability as well as the living conditions of the masses. The imperialists are virtually deserting whole areas of the third world; despite the super-cheap labor there is too little infrastructure for profitable exploitation. Even during the Pax Americana, wars and repression victimized the already poverty-stricken countries. And if nuclear warfare has been suspended (not prevented: it was used by the U.S. against Japan), its monstrous capacity for destruction still exists, threatening and constricting all international politics. Nothing in the nature of the imperialist ruling classes will stop them from using nuclear weapons when political and economic conditions leave them desperate. The program of Marx and Lenin remains: only proletarian revolution offers a way out.

3. STALINIST IMPERIALISM

If Stalinism is a form of capitalism in the epoch of decay, then the dominant Stalinist country, the USSR, must be imperialist as well as capitalist. This raises a question for our theory: if the Soviet system is driven only to expand its *national* capital, in contrast to powers which export capital, how then can it be imperialist in the Leninist sense?

As we will see, the standard state capitalist theories fail to deal with the nature of Stalinist imperialism. On the other hand, opponents of state capitalist theories like Mandel and Sweezy have difficulty accounting for the Soviet rulers' years of domination over, and exploitation of, nations within the Russian "prisonhouse" as well as their East European allies.

We will show that, just as internal economic relations within the Stalinist system can be understood through the drive to maximize the national capital, so too can its external relations. The relation between the USSR and its satellites *is* imperialist. Although not a simple copy of the type

described by Lenin, it is a product of the same capitalist tendencies at a later stage in their development. We will also show that Stalinist imperialism has changed significantly, even in the less than half century of its existence. Although its isolation and weakness have dictated an overall strategy of peaceful coexistence with the dominant West, Stalinism's tactics have become markedly less aggressive because of the nature of its economic decline.

THE IMPERIALISM OF BACKWARDNESS

At the height of Stalinism during the postwar years, the Soviet rulers had little compulsion to export capital. Statified capitalism aims to expand the capital within its national boundaries; it is therefore interested in foreign investments only insofar as they help towards this goal. Regional, local and industrial bureaucrats are rewarded according to how they manage their plant or bailiwick; they have had no incentive, and normally no opportunity, to invest abroad. Moreover, they had little need to search for cheap labor abroad: they paid low enough wages at home. Their problem was serious labor shortages due to low productivity, and their nationalist needs led them to *import* even lower-paid workers from satellite countries with excess labor, like Vietnam.

But there is nevertheless an economic motivation for Stalinist expansionism. The bureaucrats are forced to look abroad for *use-values* — new technology, minerals, food, etc. - to fill the inevitable gaps in their domestic economy. This is because the Stalinist goal of national autarky is an impossibility, especially for a country with the USSR's notorious economic inefficiency. The Soviet economy, devoted to the retention of every particle of value, nevertheless wastes and destroys use values. The need to import use values inheres in the USSR's relations of production; it is not just a policy set by the rulers at particular conjunctures.

The USSR searches for use values abroad, in contrast to the values it seeks to build up at home, as it does in the "second economy" of privately produced consumer goods which it depends on internally. All use values have value, but this is not the criterion for choosing them. Financial losses can be tolerated in the effort to obtain the missing use values, as long as the overall result is to maintain the national capital and maximize *its* value. To this end, of course, the acquisition of surplus value abroad will be undertaken if it does not conflict with the primary goal.

Let us look at the history of Soviet imperialism in this light. In the early postwar period the Russian rulers had an additional motive: the restoration of the Soviet economy, even if at the expense of other peoples. They utilized three basic methods of exploiting their satellites (as well as

China, before and after the revolution of 1949):²⁸

1. On the pretext of obtaining war reparations, they stripped Eastern Europe, dismantling factories and machines and shipping them home to the USSR. Even Manchuria, a province of China, a wartime ally and victim of traditional imperialism, was looted in this way. Although the Stalinist economy chewed up imported use values as it did domestic (machinery was destroyed in transit, factories lay rusting by the wayside), and this meant a huge loss for the (Stalinist!) rulers of the looted countries, it came at no cost to the Soviet rulers, and so continued.

2. The Soviets took over large enterprises previously seized by the German occupiers and declared them joint-stock companies, with property rights shared between the USSR and the local ally. Profits were also shared, and a major portion went to the USSR for its efforts of absentee ownership - in reality its rights of conquest.

3. Like any other occupying imperialist power, the Russians enforced unequal trade relations with their satellites; charging high prices for Soviet goods and demanding cheap goods in return — the use values it needed. Such exploitation was specifically cited by both Yugoslavia and China when they broke with the USSR in 1948 and the 1960's, respectively.

The combination of all these methods obviously gained surplus value as well as use values for the USSR. Two of the methods, reparations and joint-stock companies, were abandoned in the 1950's, in response to the conflict with Yugoslavia and the workers' uprisings in East Europe after Stalin's death. As for unequal trade, whether it has continued has been much disputed. The problem is that the Soviet-type economies don't have even an approximate method of measuring the true values of commodities; they end up using comparable Western prices, which may not reflect actual production costs. The upshot appears to be that for many years (after the initial looting) the USSR did accept trade losses with its satellites; in the mounting economic crisis of the 1970's, however, it made sure that trade relations were tilted in its favor so that its losses were lowered or even reversed. A special example is that the Soviets charged their allies far more than the production cost for the vital commodity, oil, justifying their usury by the fact that the world market price was even higher.

In relations with its satellites subsequently, the USSR has insisted on bilateral connections rather than multilateralism - despite the founding of Comecon (the Council for Mutual Economic Assistance). Attempts to establish direct links between sister "socialist" countries - Poland-Czechoslovakia and Yugoslavia-Bulgaria - were blocked by Stalin, while

Comecon encouraged multinational autarky and dependence on the Soviet economy. Applying its use-value interests, the USSR asserted the right to choose who produce what, to take first pick of quality goods, etc.

At times the Russians have subsidized some allies — East Europe in general for a period, Poland after its military regime suppressed Solidarity in 1981 and the Polish economy remained in crisis, and Cuba ever since it was accepted into the Soviet bloc. A clear indication of the USSR's imperialist weakness is its inability to adopt other third-world dependencies, notably Nicaragua, and its pressing need to reduce the aid which is a major prop of the Cuban economy.

The USSR has also gains advantages over the more backward of its allies, as well as other "third world" countries it trades with, by standard capitalist methods. As Marx pointed out, trade between an advanced producer selling capital-intensive goods and a backward one selling labor-intensive goods invariably favors the former, because fewer hours of high-productivity labor will exchange for more hours of low-productivity labor. Equal monetary exchange masks unequal exchange of values, just one of the ways that "equal exchange" under capitalism turns into its opposite under the operation of its laws of motion.²⁹

In the case of the USSR's more industrialized satellites like East Germany and Czechoslovakia, however, the unequal trade relationship is reversed. In order to import necessary production goods embodying advanced technology, Russia has to give up a greater value by exporting minerals and other raw materials. Even though the USSR is militarily and politically dominant in the region, its economic control is hindered by its own limited development. So it uses non-market methods, like requiring payment from its satellites in "hard" (Western) currency. Hungary since 1985 has had to pay in dollars for its oil imports from the USSR. This is a sore point, since not only the Soviets but all the Stalinist partners desperately need convertible currency for imports.

In recent years Soviet economic domination has been aided by "joint investment projects" undertaken with satellite countries to develop resources within the USSR. Unlike the alternative of foreign investment, these projects are on territory controlled directly by the Soviet rulers. They allow the USSR to import industrial use values of a quality superior to what is produced at home. And they extend, by economic rather than purely military means, the USSR's control over its allies.

Joint investment projects began in the 1960's and expanded greatly in the 1970's. According to the Hungarian economist Tibor Kiss, "the less developed countries of the bloc bear with difficulty a 10 to 15% reduction

28. See Y. Gluckstein (Tony Cliff), *Stalin's Satellites in Europe* (1952) and *Mao's China* (1957)

29. Marx, *Capital* Vol. III, Chapter 14.

in the volume of their industrial investments."³⁰ As one academic expert noted about such projects, "The ownership benefits accrue to the USSR, which is repaying the East European countries' investment with a 2% simple interest rate, by delivering to them agreed quantities of gas and pulp ...".³¹ The East European partners also complained about the high manpower costs they have to pay, in view of the low Soviet rates of compensation, and about their burden of compulsory hard currency contributions. The arrangement maintained their dependence on the USSR and expanded the Soviet national capital at their expense.

The USSR has also turned more heavily to the exploitation of the internal colonies inherited from Czarism's prisonhouse of nations. In the two decades after 1958, production and personal income in the non-European republics of the USSR grew proportionately slower than in Russia, a change indicating a drain of surplus value toward the European sections of the country.³² This helps account for the explosion of minority nationalism on the periphery of the USSR.

To sum up, the USSR will use almost any method to get the necessary use values: outright looting as in postwar East Europe, loans for plant construction to be repaid in goods, traditional capital investment, the joint investment projects, etc. Technology is undoubtedly the most important missing use value, so new technology has to be acquired from the countries of traditional capitalism. And much of the USSR's other efforts abroad are aimed at obtaining convertible Western currency with which to buy technology. As with Western imperialism, international exploitation sets up a contradictory logic that inspires nationalist tendencies in the satellites, tendencies that run counter to Soviet domination.

SOVIET IMPERIALISM AND LENIN'S THEORY

None of the methods of Soviet foreign exploitation described here depend on the export of capital. They have a similar result - increasing the surplus value under Soviet control — but their mechanism is different. Of course, there are examples of Soviet capital exported abroad: bank loans to friendly countries (India, Egypt in the past), some investments by Soviet bank branches abroad, and even a few traditionally capitalist investments in partnership with Western firms. But these examples are not

30. G. Graziani, "Dependency Structures in Comecon," *Review of Radical Political Economics*, 1981.

31. P. Marer, "Soviet Economic Policy in Eastern Europe," S.M. Terry, ed., *Soviet Policy in Eastern Europe* (1984).

32. M. Spechler, "Regional Developments in the USSR," p. 147; *Soviet Economy in a Time of Change*, U.S. Congress, Joint Economic Committee (1979)

decisive. Any country has foreign investments, even poor countries that no one would dream of labeling imperialist; it is the nature of capitalism to operate internationally. These are not capital export in Lenin's sense: a fundamental drive requiring exploitation of other countries.

Some Stalinist states, like Yugoslavia (where the rulers' attachment to the *national* capital is rivaled by their *provincial* nationalism), do export capital for profit. The USSR therefore represents one extreme on a spectrum running from Western state monopoly capitalism to the hard Stalinist model. Today we are seeing drastic shifts along this spectrum as the crisis erodes the illusion of "socialism in one country."

Soviet imperialism retains many characteristics of backwardness. The USSR cannot hold on to its dependencies through economic might. When pressed, it has had to resort to military force - reluctantly, because that damages relations with the "democratic" imperialists whose capital and technology the USSR still needs. Unlike traditional imperialists, the Soviets do not invest in their dependencies; they first looted and now *import* capital from them. Soviet imperialism is the reverse of Luxemburg's (fallacious) model of imperialism, in which surplus value can be realized only through the non-capitalist environment. The USSR needs a traditional capitalist environment both inside and outside the country to nourish its nationalist pseudo-socialism.

Does a theory of capitalist imperialism not driven by capital export impermissibly stretch the bounds of Lenin's "definition"? Those who say so ought to consider the example of Czarist Russia, one of the six major colonial-imperialist powers analyzed in Lenin's *Imperialism*. Old Russia, like the USSR, had an imperial history different from the leading powers'. Some of its colonies (e.g., Poland and Finland) had a higher standard of living than Russia proper, as is true of several East European satellites of the USSR today. Lenin described it as a country "where modern capitalist development is enmeshed ... in a particularly close network of precapitalist relations."³³ In particular, Czarism had little capital to export; foreign imperialists sent more capital into Russia than Russia sent out, by far. Lenin's chapter on the export of capital doesn't even include Russia as an exporter but does mention it as the recipient of massive imports of French capital; three-quarters of Russian bank capital in 1913 belonged to branches of foreign banks.³⁴

Yet Czarism was imperialist in its own right and crucial to Western imperialism's domination over East Europe and the Russian empire. For Marx and Lenin, Czarist Russia was the main blockade to progress in

33. Lenin, *Imperialism...*, Chapter 6.

34. *Imperialism ...*, Chapter 3.

Europe and therefore the world. They both pointed out that Russia's atypical features - its autocracy and military foundation - enabled it to play a role in propping up imperialism that even undemocratic capitalist powers had to forego. Soviet Russia also functions to maintain world imperialist hegemony. The USSR today is not the same as the Russia of 1913, but like Czarist Russia it has been an exceptional case within the realm of imperialism — precisely because of its special characteristics. Lenin did not deny the Czar his imperialist crown because his backward economy fell short of matching the famous "five points."

The claim that the USSR cannot be imperialist because it lacks one of the five points is a sterile argument from pure form. After all, the traditional imperialist powers today (the U.S., Britain, France, etc.) no longer territorially divide the world - thereby violating one of Lenin's points. The former colonial powers lost most of their overseas territories after World War II. The U.S. is the world's dominant imperialist - but hardly because of the few countries like Puerto Rico that it rules directly.

To sum up, the USSR is imperialist despite the lack of capital export as a decisive feature: it functions as a vital section of world imperialism, and it is an autonomous center of capital accumulation with an internal drive to dominate other countries for economic purposes. It is different from the traditional imperialist powers because of the peculiar nature of that drive, resulting from its specific history as a destroyed workers' state. Its imperialism is essentially defensive, aimed at maintaining its position as a great power with the ability to bargain for economic concessions from the West rather than aggressively seeking to contend for Western holdings. Soviet imperialism plays a key role in accounting for the continuity of imperialism as a whole to the present day, a longevity Lenin never expected.

ALTERNATIVE THEORIES

Most attempts to devise Marxist theories of Soviet imperialism have been unsuccessful. The first worked-out "third-system" analysis of Russia was that of Shachtman, who for all his insistence on the uniqueness of the Stalinist system, saw an essential similarity between Stalinism's imperialist drive and capitalism's:

"The present world tends more and more to be divided into a few of the advanced and powerful economic countries who enjoy independence, and the others that stagnate or retrogress economically and inevitably fall into economic and then political dependency upon the few. For a country (and the ruling class in it) to survive as an independent entity, in our time especially, requires an extension of its economic (and therefore its political) power. ... In other words, for all the social ... differences that mark her off from the capitalist world, Russia is nevertheless confronted with the same problem and driven by the same

impulsion as every other country in the world."³⁵

Russia, said Shachtman, needs conquests for the exploitation of the conquered regions' wealth and its own military defense; it had an unlimited appetite for territory, limited only by the counterforce wielded by rival powers or the mobilization of the masses. But any world power has the same drive, especially those motivated by the need for surplus value. Thus Shachtman's theory of bureaucratic collectivism offers the same explanation for Soviet expansion as for capitalist expansion; it duplicates Cliffs notion that what drives both capitalism and Stalinism in the modern epoch is the need for use values, not value.

But Shachtman really did think Soviet Russia was different. It was backward and starved of capital, and therefore had to conquer territories that were industrially more advanced (which is why Yugoslavia and China were incompatible and allowed to escape the noose). This view helped make the claim that Stalinism was a dynamic system with an unlimited capacity for exploitation and looting - in contrast to capitalism, whose problem was not how to expand production but rather how to dispose of its excess products.³⁶ Here the underconsumptionist theory of capitalist development is extended to its full anti-Marxist logic: capitalism is less reactionary than Stalinism because its drive for brutal exploitation is at least bounded. This reasoning helped pave the way for Shachtman's adaptation to Western imperialism as the only viable alternative to the unmitigated rapacity of Stalinism.

Cliffs book on Russia was originally written in the 1950's and therefore could only discuss the methods of Soviet imperialism in the immediate postwar period. He held that the backwardness of the USSR drove it to conquer satellites in order to obtain cheap labor and to loot raw materials and machinery.³⁷ Since Soviet relations in this period were based on undeniable looting, this seemed correct. But when circumstances changed, Cliffs theory stood still. Later versions of the book (including the 1988 edition with an updating "Postscript") rehash the same limited discussion, cutting the story short at about 1955. The problem of how the USSR could remain imperialist since 1929 without a drive to export capital was never addressed. More recent works by Cliffs followers have added nothing substantial. The Cliffites' indifference to a theory of Stalinist imperialism

35. Shachtman, "The Program of Stalinist Imperialism," *The Bureaucratic Revolution* (1962), p. 123; reprinted from *New Internationalist* (1943).

36. Hal Draper, "Stalinist Imperialism and the Cold War Crisis," in Draper, ed., *Introduction to Independent Socialism* (1963), pp. 104-106; reprinted from *Labor Action* (1954).

37. Cliff, *Russia: A Marxist Analysis*, Chapter 9; *State Capitalism in Russia*, Chapter 8.

is not surprising, since they have essentially abandoned such a theory for capitalism in general, as we will see in Chapter 7.

Maoist theories of Soviet imperialism face an especially severe contradiction, since they deny the blatant Soviet conquests of the post-World War II period when Stalin was still alive. Thus they claim that the takeover of East Europe and parts of China in World War II, accompanied by various forms of looting, was socialist - while the relatively compatible relations of recent decades are imperialist! Most Maoists simply ignore the problem: Bettelheim's summary of Soviet foreign policy, for example, skips all the way from 1941 to 1953 without a word of explanation.³⁸ Then, for 1956 and after, Maoists try to prove Russia imperialist by claiming that Lenin's formulas now apply. One version holds that the USSR cannot yet afford to export much capital and therefore must build up its nuclear weaponry in order to win a world war and become the dominant power.³⁹ This fantasy perfectly fits Maoism's adaptation to U.S. imperialism.

A particularly convoluted Maoist argument runs as follows: 1) capital is a social relation; 2) hence "export of capital" means the export of capitalist social relations; 3) since foreign trade by the USSR with any capitalist country exports capitalist social relations, it is therefore imperialist.⁴⁰ This is just an extension to the domain of foreign relations of the Maoists' standard idealist conception that the class character of the USSR was transformed when Khrushchev made an anti-Stalinist speech. The only virtue of such reasoning is its consistency with the notion that socialism can be built in economic isolation. With arguments like this it is no wonder that defenders of the Stalinist USSR have had an easy time refuting leftist theories of Soviet imperialism.

DEFENSE OF THE SOVIET UNION?

The devil thesis of the Soviet Union shared by the right and some on the left is absolutely false: the Soviet rulers are *not* driven to unlimited military expansion. (The momentous events of 1989 make this obvious, but it was always clear to authentic Marxists.) The reverse argument offered by Soviet apologists that the USSR loves peace is also wrong. Some leftists who "defend the Soviet Union" of today because of its proletarian past

38. Bettelheim, *Les Luites de Classe en URSS*, Vol. 3, part 2.

39. Revolutionary Communist Party (U.S.), "Against the 'Lesser Evil' Thesis: Soviet Preparations for World War 3," *Revolution* (1984).

40. *Progressive Labor* magazine, Spring 1981 issue on "Soviet Capitalism," pp. 41-47. The same argument is given academic respectability in Patrick Clawson, "The Character of Soviet Economic Relations with Third World Countries," *Review of Radical Political Economics*, Spring 1981

imagine that our analysis, in that it distinguishes between the USSR's less potent aggressiveness and the West's, supports such a line. But it does not: defending the USSR means defending its share of the world's imperialist booty, its "sphere of interest," its internal empire.

Moreover, defending the Soviet Union means defending the division of the world in which the key factor is Western domination. The USSR's role in world imperialism is roughly analogous to the Democratic Party's role in U.S. capitalism: it associates itself with progress and peace in order to betray the mass sentiments and movements for change (and whose struggles potentially challenge the existence of the system). It is no accident that the most ardent defenders of the USSR tend to line up in support of the imperialist Democrats and class-collaborationist popular fronts.⁴¹

Even in a direct encounter between the USSR and a traditional imperialist power, victory for the Soviets would mean not the end of imperialism but the strengthening of the victor's hold, military and economic. The U.S. is the more aggressive superpower, seeking more actively to extend its sphere of influence. This is no reason to defend the other; and as we will see below, coming imperialist realignments are likely to bring the USSR into alliance with other imperialists.

The fundamental error of the defensist position is its confusion between a retrograde state and a progressive one. "Soviet defensists" see the absence of capital export as a progressive aspect. Indeed, the export of capital for the purpose of ingesting surplus value is reactionary; but it also reflects the international scale of the modern economy and the overripe-ness of the world for socialist transformation. Workers' states in the advanced countries would also send vast amounts of capital abroad — not because of the surplus value it could return but because of the use values that less advanced workers' states need. The USSR's failure to export capital shows the severe contradiction of a system at once advanced and backward in the extreme. As in the early years of the century, Russia is again a glaring example of Trotsky's "uneven and combined development."

The USSR's role is defended by leftists who rebel against the Cold War propaganda of the West by justifying Soviet behavior. For example, the radical journalist Alexander Cockburn justifies the Yalta agreement of 1945 and the fact that "Stalin politically terrorized and economically exploited Eastern Europe" by cynically remarking that "Germany had just claimed at least 20 million Russian lives. The shipment of factories, reparations agreed to by the Allies, seems a rather genteel penalty."⁴² That

41. These include not just the CPs but even the rabidly but superficially anti-popular frontist Spartacists. See *Socialist Voice* No. 14 (1981).

42. Cockburn, *The Nation*, March 9, 1985.

sounds good only in nationalist language. Restated in class terms the logic is a bit less convincing: since Germany's rulers had slaughtered more Soviet people than had the Stalinists, it was only fair for the Stalinists to take revenge on German - and East European - working people too. For precisely this reason the Bolsheviks excoriated the social-democrats' acceptance of reparations demands by the conquerors after World War I. It is an imperialist, not a socialist demand.

In sum, to defend the Soviet Union is to defend, whether in detente or Cold War, a fundamental prop for the imperialist system as a whole.

STALINIST NATIONALISM

Led by Russia and China, the Stalinist bloc at its height encompassed a quarter of the globe and ruled a third of the world's people. But almost as soon as it reached its peak it showed visible signs of distress - not only from the economic crisis that beset the entire capitalist world after the postwar boom but also from internal tensions rending the bloc apart. This had a major effect on inter-imperialist relations as well.

The East German working-class riots of 1953, the Polish upheaval of 1956 and the Hungarian revolution in the same year unnerved not only the Stalinist rulers. John Foster Dulles, the reactionary Secretary of State in the Eisenhower administration, stopped calling for the "rollback of communism" in the face of the workers' movements. The Hungarians confronting Soviet tanks and creating workers' councils were too dangerous a force. So the U.S. abruptly began to advocate the more realistic "Polish road."

This alternative, symbolized by the former Polish CP head Wladislaw Gomulka, began with a reformist policy of limited concessions to the protesting masses. But it also included a careful appeal to Polish nationalism. Gomulka understood that Stalinism could survive in Poland only by winning some popular support, and that required an end to overt Russian domination. Gomulka had no intention of driving the Soviets out of the country; on the contrary, he was simply a national Stalinist who had won mass sympathy because of his victimization by Moscow. Only through such a figure could the ruling party thwart the proletarian threat.

The road to this alternative had been paved by the Yugoslav break with the USSR in 1948. The West learned then that nationalist Stalinists could oppose Soviet domination and open up their countries to capitalist penetration. (Tito went so far as to endorse the U.S. imperialist side in the Korean war.) The eruptions after Stalin's death made such solutions much more urgent. After 1956 the Khrushchev regime mended relations with Tito, thereby establishing something like the "50-50" split of influence over Yugoslavia envisaged in the Churchill-Stalin deal at Yalta.

In Hungary the Polish alternative failed. Nationalist Stalinists led by Prime Minister Imre Nagy and military hero Pal Maleter were caught

between duplicitous Soviet diplomacy and the intransigent workers, and could not steer an independent course. As a result Soviet forces were sent in to crush the revolution, and efforts to achieve "peaceful" accommodation between the West and the USSR were set back for years.

The 1956 events threw into disarray the far left theories of Stalinism. In the case of the Shachtman group, for all its fiery rhetoric about destroying Stalinism, its response to Hungary was to concentrate on democratic demands rather than the socialist overthrow of the state. On a deeper level, the conception that the producing class under Stalinism was not a true proletariat faced a calamitous problem. Why, if they were not a proletariat, did the revolutionary workers construct classical proletarian dual power institutions? Why did their demands strike against the exploitation through value? Shachtmanism could not answer. Thus the workers' revolts, along with the break-up of the Stalinist monolith they compelled, undermined the theory that the Stalinist system was a dynamic successor to decadent capitalism.

The rival "orthodox Trotskyist" current was also shaken by the workers' revolts; it too tended to adapt to the left Stalinists calls for democracy. We take up their theory in detail in Chapter 7.

The nationalist aspect of the uprisings against Soviet domination raises a fundamental question: why did nationalism become so prominent if Stalinism has done away with capitalism? After all, for Marxists the nation-state is not a supra-historical phenomenon: it arose in the capitalist epoch of history as a product of the bourgeoisie's needs to break down precapitalist obstacles to accumulation, unify a territory large enough for capitalist commerce and develop a common language. Likewise, national movements came into existence with the creation of nation states.

Nationalism in East Europe is not just an echo of a capitalist past but an essential component of the anti-Stalinist struggles — because of the characteristics of Stalinist society. Indeed, the specific weakness of Soviet imperialism - the fact that without significant capital export it cannot provide even the semblance of benefits to its satellites — often made its rule more nakedly oppressive than Western imperialism. The nationalism of the subject states infected even the bureaucracies that had been carefully selected for loyalty to Moscow. Each state attempted to build its own national economy beyond the point of "rationality"; this reflected not only the USSR's interest in keeping them apart but also the national bureaucrats' interest in building their own power base even at the expense of their "comrades" across the border.

Stalin instigated purges in each of the East European dependencies to eliminate powerful bureaucrats deemed to be "Titoists" and disloyal; Jewish officials were particularly targeted in the hope of stimulating pro-

Russian national chauvinism. But even a reign of terror could not suppress nationalism. It spread further: to China, Vietnam and Cambodia in the 1960's; to Romania and Czechoslovakia, where it got out of hand in 1968; to all the Stalinist states, including the Soviet republics, today. In the West, "Eurocommunism" flourished within the CPs, a deepening of the centrifugal forces Trotsky had pointed to long before. Despite the right-wing "evil empire" and left-wing "post-capitalism" theories, the Stalinist bloc has suffered as many political confrontations and squalid wars as any other Balkanized group of states generally accepted as capitalist. And today rampant nationalism is ripping the USSR apart.

Nationalism, however, does not answer the needs of its mass following. It is no coincidence that it has been consciously used as a diversion from the class struggle. Just as Moscow has little choice but to try to ride the wave of anti-Russian movements, the Western authorities too prefer it as a wise alternative to proletarian revolution. But nationalism is a two-edged sword. The West has openly stepped in to support Gorbachev in trying to check the dismemberment of the USSR, in the interest of world stability.

EMPIRE IN RETREAT

When world crisis conditions resurfaced at the end of the 1960's, the Stalinists needed help to contain their potentially restive populations. They were compelled to break out of their bloc's relative isolation and become an integral part of the world economic structure. All the countries of statified capital, including even ultra-isolationist North Korea, increased trade and embarked on joint production deals with Western firms. Their plan was to expand intensively by importing Western technology and to pay for it by exporting raw materials along with goods produced with the imported techniques.

Because the economies of their own bloc were also worsening, Western financiers were eager to grant loans to the East. They expected that Stalinist discipline over the workers, especially prohibitions on strikes, would allow sufficiently high exploitation to guarantee profitable repayment.

Reality, including Stalinism's inherently retarded productivity and the deepening economic crisis, decreed otherwise. The Eastern bloc increased not its manufacturing exports but its state debt to the West, which mounted tenfold in the decade from 1971-81. As a result, the East, like the third-world South, still imports manufactured goods from the West and exports mainly raw materials. It also exports manufactures of lower quality to the South in exchange for raw materials and convertible currency, which is in turn used to help pay for its trade deficit with the West. Although militarily comparable with the West, the Soviet bloc (now minus China) cannot compete effectively on the world market either with the Western powers, which have higher productivity, or with third-world countries,

which have lower labor costs.

The internal decline of Stalinism was a problem for the West. Henry Kissinger, who directed U.S. foreign policy in the early 1970's, hoped to build a Holy Alliance to repress the wave of revolution threatening to engulf the world. The hub of his policy was to maintain American superiority by binding together the imperialist states of West Europe, North America and Japan. This meant trying to overcome their rivalries (in which the U.S. was losing ground) in order to hold their grip over the semi-colonial countries. This core alliance rested on regional junior partners like Iran, South Africa, Brazil and Israel to police the third world.

The end of the Vietnam war in 1975 enabled Washington to cut its losses and hold the rest of the imperial structure intact. It also permitted friendly relations with China and "detente" with Russia. The Soviet rulers, however, did not accept Kissinger's absolute attachment to the status quo. To make sure that their own interests were not bypassed, they demanded a senior partnership in stabilizing key regions like the Middle East. They also backed troublesome leaders - Assad in Syria, Qaddafi in Libya and Arafat in Palestine - as bargaining chips for entry into the world partnership. The Soviets never achieved their hopes, but they still held to the bargain and defended the imperialist system as a whole. Wherever they aided anti-imperialist struggles, as in Angola or Nicaragua, they did so to protect their own interests and to prevent bourgeois-democratic revolutions from becoming proletarian socialist ones.

The Stalinists' weakness became a problem for the West as well because the Soviet threat could not so readily be used to weld the Western bloc together. Fear of the Russian devil no longer made militant workers cringe from confrontations with their bosses. Nor could the collaborative Western Communist Parties be painted as conspirators behind every domestic ill. As well, revolutionary nationalist struggles now exploded without the restraining hand of Moscow holding them within safe bounds. And by the mid-1970's working-class unrest in East Europe was widespread once more. As Kissinger's lieutenant, Helmut Sonnenfeldt, put it, "The Russians are lousy imperialists."³

Western foreign policy had to deal with a wide array of problems. The economic crisis undermined American hegemony, leading to German leadership in Western Europe and a revived Japanese sphere of economic domination in Asia. The "trilateralism" of Jimmy Carter and Zbigniew Brzezinski was designed to maintain the U.S. as Western leader and policeman, under conditions where Germany and Japan had to consciously take a back seat. This was a temporary strategy, impossible for the long term.

43. See "Permanent Revolution in Southern Africa," *Socialist Voice* No. 1 (1976).

Carter revived the old American strategy of "democracy." He sought to contain the rising worldwide class struggle by forcing the most oppressive regimes of the Western bloc - South Africa, Chile, Somoza's Nicaragua, Iran — to accept a more benevolent facade. The adoption of pluralist systems was aimed at shoring up bourgeois rule by incorporating middle-class dissidents (including blacks in South Africa) and thereby buying off the leadership of the mass base of revolt.

Towards the USSR, where Kissinger had simply tried to prop up the old order, Carter and Brzezinski tried to force reforms on the stubborn Stalinists through their "human rights" campaign. They recognized that Stalinism had lost its ideological attraction and was running the risk of a destabilizing revolt. In the Helsinki accords the U.S. officially recognized East Europe as Moscow's fief in exchange for promises of loosening up its economic and social structure. Thus Carter sent aid speedily to the reformist Gierek regime in Poland in the face of workers' revolts in 1976. His U.N. spokesman Andrew Young summed up the strategy towards Stalinism:

"My feeling is that as the Russians begin to evolve, they're going to have more problems rather than less. The fact that we are helping them deal with these few dissenters right now will prepare them down the road to deal with a massive generation of dissent which is probably not ten years off in the Soviet Union."⁴⁴

Young was insightful about the Stalinist future but far less so about the ability of the rulers, East and West, to contain discontent. The straw that broke the back of the "human rights" campaign was the overthrow in 1979 of the Shah of Iran, the strong-man of pro-Americanism in the third world. Here Stalinism could not detour the masses; its ideological collapse had discredited "Marxism," i.e., national pseudo-socialist capitalism. As a result the revolt was channeled to a rival answer to the horrors of oppression: "anti-imperialist" religious fundamentalism developing into national-chauvinist clerical fascism. Another Carter effort also collapsed, the attempt to integrate the Nicaraguan rebels into a reformed Somoza regime. A new turn was obviously needed.

IMPERIALIST REALIGNMENT

When bourgeois reforms fail, the alternative is war-mongering. The Soviets provided the opportunity by invading Afghanistan. They expected few problems because their aims coincided with those of imperialism overall: the stability of the Middle East and the Gulf. Brezhnev assumed

44. For details of the Carter strategy, see "Jimmy Carter's *New New South*: the World," *Socialist Voice* No. 4 (1977)

he had a deal whereby the Americans would take care of Iran and the Russians would handle Afghanistan. But the strategy backfired.

The second Cold War was initiated under Carter but it brought Ronald Reagan to power, since the U.S. bourgeoisie demanded a tougher line. At home it was more guns and less butter, to show the working class who was boss. Economic embargoes over Afghanistan and Poland put increased pressure on the beleaguered Stalinist economies. The U.S. armed and aided counterrevolutionary movements against left-leaning regimes across the globe: Nicaragua, Angola, the Vietnam-imposed government of Cambodia, as well as Afghanistan. And to a degree it worked. Reagan's team understood what the liberals and left did not: that military/economic competition would further weaken the USSR's already crisis-ridden economy. Reagan's economic war further undermined the U.S. economy, continuing its transition to "first among equals" from hegemonic power. Japan and Europe had to invest in a declining U.S. to keep the West intact.

Even during the revived Cold War, Western capital continued to worry over the instability of the Soviet bloc. Margaret Thatcher aside, the West European leaders were always less than devoted to the Moscow-as-devil line, preferring profitable relations with East Europe. The U.S. deepened its relations with China in the interest of finding cheap labor and of keeping up pressure on the Russians. But with the Soviet threat declining and traditional imperialist rivalries growing, it needed openings with East Europe too. After General Jaruzelski's military suppression of the workers' movement in Poland (see Chapter 8), an important organ of U.S. imperialism evaluated the alternatives according to the dictates of exploitation:

"The imposition of military control in Poland could in the long run be reassuring to Western creditors, if it provides greater economic stability, an end to labor unrest and increased worker productivity — even at the point of a bayonet. But in the short run there isn't any guarantee this will happen, and the uncertainties could make all Western lenders more nervous about continuing to bail out the Poles."⁴⁵

Soviet economic weakness soon led to a crisis in Cold War ideology: you can't have a devil without horns. Since the "evil empire" wasn't playing its part, Reagan could not continue blaming the Soviets for "all the unrest that is going on," as he had done in his 1980 campaign. The Cold War floundered, and a new enemy had to be invented. Hence the campaign against "international terrorism" in which thousands of third-world victims have already been slaughtered. But even such enemies as Qaddafi, Khomeini and Castro are unbelievable as omnipotent sources of evil without Soviet power behind them. The "war on drugs" dragged up to

45. *Wall Street Journal*, December 16, 1981.

fill the gap is also a poor substitute, although it does allow U.S. imperialism to deploy its forces against unrest in third-world countries.

When Gorbachev took power, his keen perception of the Soviet emergency led to an all-out effort towards accommodation. Even more than before, the USSR needed credits and technology from the West; its eagerness for peace was palpable. Soviet policy shifted toward a deal with the West, hoping for settlements in Afghanistan and elsewhere and a common effort to prevent the Iraq-Iran war from getting out of hand. Gorbachev's diplomacy successfully used the differences between Europe and the United States and played on the Western public's peace sentiments. His efforts made Reagan's dilemma all the more apparent and led to the more or less official end of Cold War II in December 1987, when the two superpowers staged a week-long lovefest at the Washington summit conference.

Part of the deal was the Soviet pullout from Afghanistan, the settlements in Angola and Cambodia and the Arias peace plan for Central America. But as Lenin said of similar diplomatic deals in his day, the imperialists' alternative to war is imperialist peace - which leads to imperialist war. The Soviet Union has been the natural enemy since World War II. But the world situation is rapidly changing. It is becoming increasingly clear that the U.S.'s major rivals today are its economic competitors, Japan and Germany. Despite every administration's attempts to preserve the U.S.'s traditional international alliances, the bourgeoisie is increasingly compelled to undertake jingoist, protectionist policies against its real targets.

All this points toward a rearrangement of imperial blocs, as happened at the start of World War II. If world war is staved off for a time, the U.S.'s main enemy will not be the USSR but Germany or Japan, or both. New imperialist rivalries would undoubtedly manifest themselves through quarrels over the Middle East and other prime regions for exploitation, such as China or the more industrial Soviet-East European region. In this case the USSR would serve as a junior economic partner of one side or the other (as in the last world war); its nuclear and conventional armed forces would serve as its most valuable bargaining counter.⁴⁶

The 1987 stock market crash prompted a leading Wall Street and Democratic Party power broker to overstate graphically the changing world balance of power:

"Here we and the Soviets are spending so much money on defense and nuclear weapons while the Japanese are winning World War III

46. Such a shift is obvious now in the era of Gorbachev, but we pointed to it well before, at the height of Cold War II. See "Marxist Response to Reaganism," *Socialist Voice* No. 13 (1981) and "LRP Convention," No. 18 (1983)

without one nuclear warhead. We are becoming a second-rate economic power and the Soviets a third-rate economic power, and the two countries that are first rate, Japan and West Germany, are without any real military strength. That is absurd."⁴⁷

So it is, and therefore the direction of bourgeois policy on all sides will be to correct the imbalance. Japan will militarize more than it already has, the U.S. will seek to overcome its economic flabbiness through a serious austerity policy, and Germany will try to extend its Ostpolitik of economic and political ties with the East European Stalinists. There is talk in high places of a new "Marshall Plan" for Eastern Europe, allowing investment in those anemic economies in order to both extract profits and forestall revolt. Starting in 1988, a parade of Westerners marched to Moscow to offer loans and investments. The U.S. too began moving in on Poland and Hungary. After the revolts of 1989, the parade became an avalanche. But the post-boom economic conditions of world capitalism do not permit the same level of aid for recovery that was possible in the 1940's.

For several decades, Stalinism and its ideology of nationalization served capitalism well. It was the bulwark against revolution in Europe; it channeled the upheaval in China into a nationalist dead-end; it persuaded the workers and peasants in innumerable third-world revolutions that the national bourgeoisies shared their interests; it was a reformist prop for capital in the imperial countries. But all that has changed. The USSR cannot even support the disintegrating economies of its traditional satellites, much less new ones. It has always refused to do for the pro-Stalinist rulers of beleaguered Nicaragua what it does for Cuba,⁴⁸ and in the late 1980's it started backing away from East Europe too.

The rulers of East and West face an overwhelming dilemma: they need a full-scale cathartic crisis to wipe out obsolete capitals and centralize their economies to re-establish profitability. But the size of the enterprises that would have to undergo the cure is so great that collapse cannot yet be risked: not only are its economic effects unpredictable, but so is the response by the working classes. And the collapse of the East European

47. Felix Rohatyn, quoted in *New York Newsday*, November 12, 1987.

48. As our corollary to permanent revolution explains, Stalinist parties cannot carry out their statification goals without first crushing or at least decapitating the working class. We pointed out at the dawn of the revolutionary regime that Nicaragua could not follow the Cuban road, because of the Soviets' reluctance to intervene in the U.S.'s "backyard," their own diminishing resources and the decay of local Stalinism as a force capable of attracting and thereby disciplining revolutionary workers. See *Socialist Action* (LRP), September 1979.

regimes shows that crisis containment is not entirely under ruling-class control. Since the system can afford very few liberal reforms, economic forces will continue to build to a greater crisis. The major economic strategies of the 1980's - nationalist reforms in the East, protectionism in the West - are stopgap measures in lieu of a real revival. That will require far deeper inroads into working-class living standards than have yet been possible, and East Europe is the first testing ground.

The weakness of Stalinism does not mean that its futile reformist programs are harmless. They can lay the basis for fascism again, since the capitalist solution for another sustained upswing is a bout of violent defeats of the working class and a new centralization of capital. While Stalinism can no longer provide the cadre to accomplish the stiffening capitalism needs, fascism, based on distorted hopes for a radical alternative channeled through a program of racist and anti-leftist violence, potentially can. (The Iranian regime of religious fundamentalism already offers a model.) If reformists and Stalinists deflect the working classes from revolutionary solutions they would share the responsibility for such a defeat. Today, the question of proletarian revolution is being posed most sharply in the Stalinist countries themselves.

Chapter 7

The Degeneration of Trotskyism

1. THEORIES OF A NEW EPOCH

A significant consequence of the triumph of Stalinism in the World War II period was the demoralization and collapse of the Trotskyist movement. We cannot present here a full history of the Fourth International, but we do seek to examine the roots of the major Trotskyist theories of Stalinism. We begin by seeing how tendencies deriving from Trotskyism interpreted the changes in the imperialist epoch resulting from the war.

THE FOURTH INTERNATIONAL

In 1938 Trotsky and his followers founded the Fourth International (FI), the "World Party of Socialist Revolution," as the organizational embodiment of Marxism. Since the Third International (the Comintern) under Stalinist control had proved itself counterrevolutionary (although it still included the majority of advanced workers in most countries), a genuine revolutionary party had to be rebuilt.

The future of the FI was predicated on the expected outbreak of mass revolutionary struggles as a result of the coming war (as had happened after the First World War). Such explosions did occur but, as we have seen, "democratic" imperialism and Stalinism — far stronger than Trotsky had thought - combined to defeat them. Subsequently the expansion of Stalinism and the containment of the workers' struggles further undermined the FI. These material forces led to its political collapse in the early 1950's. Since then it has split into several competing currents. All of these, despite their formal adherence to the name of Trotskyism, have in reality substituted a middle-class outlook for the fundamentals of the Marxist revolutionary program and became centrist.

Some, notably the Cliff tendency, argue that the FI's opportunism was brought about by its "defensist" position on the Russian question. But the causation went the other way. The final corrosion of the FI came during the period of growing Western prosperity, which expanded the labor aristocracy and produced a huge growth of the middle-class layers between the bourgeoisie and the proletariat. The FI's connection to these layers, even

before World War II, is what led them to recognize the supposed revolutionary capacity of the petty-bourgeois Stalinist parties in the East. This notion was in reality a reflection of their adaptation to the Communist and Socialist Parties at home.

The pessimism among many radical currents originated in the 1930's with the crushing of the working-class movement throughout Europe under the heel of fascism. The Stalinists' cynical betrayals of every revolutionary ideal and achievement - seemingly without proletarian resistance — deepened the radicals' fatalistic attitude toward the masses. Against these powerful forces, the predominantly middle-class left looked to the bourgeois state and nationalism for salvation. Thus it built ties to imperialism, normally via the intermediary of social democracy. The Hitler-Stalin pact strengthened the argument that bourgeois democracy was the sole defense against totalitarianism in all forms.

George Orwell, never a Trotskyist but nevertheless a partisan of anti-Stalinist communism after his experiences in the Spanish civil war, wrote revealingly in 1940:

"For several years the coming war was a nightmare to me, and at times I even made speeches and wrote pamphlets against it. But the night before the Russo-German pact was announced I dreamed that the war had started.... I came downstairs to find the newspaper announcing Ribbentrop's flight to Moscow. ... What I knew in my dream that night was that the long drilling in patriotism which the middle classes go through had done its work, and that once England was in a serious jam it would be impossible for me to sabotage."¹

The social democrats and Stalinists (after Germany's invasion of Russia) adopted similar positions with less hesitation. The Fourth International was not immune from these pressures. The Trotskyists' justifiable hatred of Stalinism for betraying communism helped push them in a social-democratic direction, with different wings moving in different degrees. (Ironically, the hated Stalinists often adopted parallel positions.) A major stress tearing at the FI was the fight by the faction led by Max Shachtman in the U.S. Socialist Workers Party (SWP) that led it to a treacherous split of the vanguard party on the eve of the new World War.

Closely tied to the Shachtmanites was a wing of the FI that believed that world history had been set back so far that the fight for socialism was no longer on the agenda. In their major document they wrote of the class struggle in Europe that "However one views it, the transition from fascism to socialism remains a Utopia without a stopping place, which is in its

1. Orwell, "My Country Right or Left," *Collected Essays, Journalism and Letters*, Vol. 1, pp. 590-1

content equivalent to a democratic revolution." In other words, the revolutionary goal could no longer be socialism: it could only be to restore democracy and national independence (for countries that were already imperialist!). This strategy, moreover, was proposed when the war was ending and mass proletarian mobilizations were developing in Western Europe.

The theory was known as "historical retrogression."² Going beyond an adaptation to bourgeois democracy, it rejected the Leninist conception of the epoch and recapitulated the Menshevik and social-democratic position during World War I. Marxists had learned to oppose every war by an imperialist power even against less democratic imperialists. Whatever the stated war aims, the result would be not democracy and certainly not "an end to war" but the re-division of the world. Although not stated explicitly, the retrogression position's inevitable but unforeseen logic was to support the Allies, the alleged defenders of national liberation (except in their own colonies) in the war "against fascism."

The leaders of the International opposed such views nominally. But too often they adapted to the popular view that a victory of democracy over fascism was a necessary stage in the workers' struggle. So despite the often heroic wartime deeds of Trotskyist cadres, the Fourth International's leaders more than once accommodated politically to the Allies in the war.

In the U.S., the SWP compromised with the anti-German mood and avoided a head-on confrontation with "its own" imperialism through the slogan, "Turn the imperialist war into a war against fascism." This echoed the form of Lenin's World War I slogan - "Turn the imperialist war into a civil war" - but inverted its content. The French section in 1940 "held out its hand" to the pro-British and American majority of the French bourgeoisie to help it "save itself. This position was repudiated as social patriotic by a European conference of Trotskyist sections in 1944.³ But at the end of the war the French section still called on the workers to vote for the new bourgeois constitution.

2. "Three Theses," *Fourth International*, December 1942, and "Capitalist Barbarism or Socialism," *New International* (September 1944), by the International Communists of Germany (IKD) in exile. For opposing views, see J. R. Johnson (C. L. R. James), "Historical Retrogression or Socialist Revolution," *New International*, January and February 1946, and E. Germain (Ernest Mandel), "On the Opportunist Utilization of Democratic Slogans," *Fourth International*, November 1946.

3. "The National Question in France and the Socialist United States of Europe" and "Theses on the Situation in the Workers' Movement and the Perspectives for Development of the Fourth International"; in *Les Congrès de la Quatrième Internationale* Vol. 2, pp. 98, 242.

POSTWAR ADAPTATIONS

Political concessions made under conditions of murderous attacks by enemies on all sides and separation from an international movement in wartime were bad enough. But after the war the FI remained isolated from the advanced proletariat because of continued Stalinist hegemony. The crushing of the workers' uprisings after the war was the key factor infecting them with the cynicism towards proletarian revolution already rampant among the petty-bourgeois intelligentsia. At the same time, the imperialist boom made possible by the postwar defeats began to enlarge the middle classes beyond previous bounds. Trotskyists then turned their revisions into codified theoretical systems. The combination of Stalinist expansion and the boom seemed to herald a whole new epoch of capitalism. That the new world situation was based on the defeat of the workers - and that this condition could only be temporary — was overlooked.

The first reaction of the Trotskyist leadership to the postwar situation was that nothing had changed: Trotsky's prognosis of a revolutionary outbreak after the war that would spell the end of capitalism and Stalinism was unchallenged. In part this was a reaction against the retrogressionists, who had the tacit support not only of Shachtman but also of important SWP figures like Felix Morrow and Albert Goldman, as well as international leaders based in the United States during the war. The SWP wrote in November 1946:

"The following conclusion flows from the objective situation: U.S. imperialism, which proved incapable of recovering from its crisis and stabilizing itself in the ten-year period preceding the outbreak of the Second World War, is heading for an even more catastrophic explosion in the current postwar era. The cardinal factor which will light the fuse is this: the home market, after an initial and artificial revival, must contract. ... What is really in store is not unbounded prosperity but a short-lived boom. In the wake of the boom must come another crisis and depression which will make the 1929-32 conditions look prosperous by comparison."⁴ The SWP's catastrophe theory rested on the underconsumptionist reasoning that the poverty of the masses after the war in Europe and Asia as well as America would prevent them from buying the output of U.S. industry. The followers of Shachtman, also relying on underconsumption-ism, claimed that arms production could take up the slack in market demand as it had done during the war and keep the economy rolling. They too assumed that this would mean a rapid decline in the workers' standard

4. "Theses on the American Revolution," in James P. Cannon, *Speeches to the Party*, pp. 324-5, 330

of living, since other forms of public spending would have to be cut back in favor of arms⁵

Despite these errors there was also an element of revolutionary optimism (like that of Rosa Luxemburg in the World War I period) in a theory that tried to prove that the overthrow of capitalism did not have to be indefinitely postponed. In any case, "Trotskyist orthodoxy" was fundamentally not a refusal to recognize reality⁶ but a cover for practical adaptation to it. For example, the Britain-based Healy tendency became notorious for its catastrophe-mongering, perennially warning that the collapse of capitalist economy was right around the corner. This was combined, however, not with a defense of revolutionary principles but instead with a blatant adaptation to left reformists within social democracy - a practice defended by arguing that tumultuous events would drive the reformists, despite their consciousness, into the arms of revolution.

NEO-CAPITALISM

The main orthodox Trotskyist adaptation to reformism was Mandel's, an empirical reaction to the postwar boom. In the course of the postwar period he discovered a new stage of capitalism which he labeled "neo-capitalism" or "late capitalism." Other Trotskyist theorists were normally not so blatant — some criticized Mandel in the strongest terms for revising Lenin's conception of the epoch — but almost all accepted political conclusions that flowed from the ideas made explicit by Mandel.

"I am quite convinced that, starting either with the great depression of 1929-32 or with the Second World War, capitalism entered into a third stage in its development which is as different from monopoly capitalism or imperialism described by Lenin, Hilferding and others as monopoly capitalism was different from classical 19th-century laissez-faire capitalism."⁷

This new epoch was distinguished by a number of factors, including state intervention into the economy, permanent arms spending, and above all, "the stepping up of the general rate of technological innovation" brought about by the arms race. Mandel does cite the historic defeats of the working classes as an additional reason for the postwar boom (he cites

5. T.N. Vance, "The Permanent War Economy," *The New International*, 1951; reprinted in Draper, ed., *The Permanent War Economy* (1970).

6. As has been suggested, for example, by the LRCI's Mark Hoskisson: "The Transitional Program Today," *Permanent Revolution* No. 7 (1988), p. 81. See "How Not to Defend Trotskyism, Part 2," *Proletarian Revolution* No. 33 (1989).

7. Mandel, "Workers under Neo-Capitalism," *International Socialist Review* (1968).

8. Mandel, "The Economics of Neo-Capitalism," *The Socialist Register* (1964).

every possible explanation at least once), but that is not key to his theory. Later he adopted a subtler cover for his reformist ideas: the theory of "long waves." "The history of capitalism on the international plane thus appears not only as a succession of cyclical movements every 7 or 10 years, but also as a succession of longer periods, of approximately 50 years, of which we have experienced four up till now." Each rising wave is based on a "technological revolution." The third, post-World War II expansion was founded on electronics and automation; the earlier ones on steam power after 1848 and electric and combustion motors in the 1890's.⁹

Such technological determinism is highly superficial: it doesn't explain why innovations occur in one period and not another.¹⁰ But there is a deeper flaw. Mandel's view echoes the theory of 50-year capitalist cycles (25 years up and 25 down) developed by the non-Marxist Soviet economist Kondratiev in the 1920's. By postulating the recurrence of successive waves of development, the long-wave theory implies that capitalism has not exhausted its progressive potential. This point and the generally anti-Marxist nature of Kondratiev's theory was demonstrated by Trotsky in 1923.

Mandel denies that he has any difference with Trotsky, implying that Trotsky too had a long-term cyclical theory. But Trotsky replied to Kondratiev (and Mandel) that the long-term effects were the result of non-periodic external historical conditions - conquests of new countries and continents, discoveries of natural resources, wars and revolutions; they were not inherent in the operation of the system:

"As regards the large segments of the capitalist curve of development (fifty years) which Professor Kondratiev incautiously proposes to designate also as cycles, their character and duration are determined not by the internal interplay of capitalist forces but by those external conditions through whose channel capitalist development flows."¹¹

Mandel went further, calling the postwar wave of innovation a "permanent technological revolution." "To the degree that we are involved in a permanent cold war, which is characterized by a permanent search for technical changes in the sphere of armaments, we have a new factor here, a so-to-speak extra-economic source, which feeds continuous changes into

productive technique."¹² Thus the very decadence of capitalism, embodied in a seemingly permanent cold war, shows its permanent capacity for development!

Mandel's combination of a technologically determined expansion coupled with a permanently innovative arms economy describes a capitalism that must be fundamentally crisis-free. It is not necessarily a universally benevolent society, but it is at least one that doesn't propel the proletariat into revolutionary opposition — and one in which reformist solutions are possible. The point of a theory like Mandel's - and its fundamental flaw — is to locate capitalism's inner drive somewhere other than with the pursuit of value and the exploitation of the proletariat.

This various forms of the neo-capitalism theory jibed with the political programs adopted by Mandel and his firm, the "United Secretariat of the Fourth International," starting with long-term "deep entrism" into the reformist Communist and Socialist Parties in the 1950's. Many national Trotskyist groups were already demoralized enough at the end of the war to bury themselves in these rightward-moving parties. (This strategy contrasts with Trotsky's advocacy of temporary entry into certain working-class parties in the 1930's, based on the leftward motion of the workers.) The Mandel wing did not emerge until the upheavals of 1968 - and then it turned to student vanguardism and third-world guerrillaism. In the reformist spirit, Mandel advocated that the working-class movement undertake not revolution but "a basically anticapitalist policy, with a program of short-term anticapitalist structural reforms":

"The fundamental goal of these reforms would be to take away the levers of command in the economy from the financial groups, trusts and monopolies and place them in the hands of the nation, to create a public sector of decisive weight in credit, industry and transportation, and to base all of this on workers' control. This would mark the appearance of dual power at the company level and in the whole economy and would rapidly culminate in a duality of political power between the working class and the capitalist rulers."¹³

With its reliance on the "public sector," this passage could have been drafted without a qualm by the reformists of Bernstein's day, who would only have specified that revolution was not the way forward because the workers will conquer power through parliamentary methods. Placing the major enterprises "in the hands of the nation" is precisely how Bernstein would have interpreted a term like dual power, with its otherwise uncomfortable implications of class conflict. Mandel added just a touch of

9. Mandel, *Late Capitalism* (1972; English edition 1975), Chapter 4.

10. Mandel later denied, unconvincingly, that he had a technological explanation of long waves: see *Long Waves of Capitalist Development* (1980), p. 9. His dispute is largely with Richard B. Day, "The Theory of the Long Cycle: Kondratiev, Trotsky, Mandel," *New Left Review* (1976).

11. Trotsky, "The Curve of Capitalist Development," *Problems of Everyday Life* (1973), pp. 276-7

12. Mandel, *Introduction to Marxist Economic Theory*, p. 58

13. Mandel, *Introduction to Marxist Economic Theory*, p. 78.

anti-capitalist cover: "This stage in turn could usher in the conquest of power by the workers and the establishment of a working-class government which could proceed to the construction of a socialist democracy free of exploitation and all its evils."

So stagist a description of creating a public sector in order to construct socialism has nothing in common with the mass upheavals in real revolutions like the dual power period in 1917 - and even that met only a pale foretaste of the violence the capitalists have since learned to employ against revolutionary masses.

Mandel's faith in "structural reforms" is a sharp break from the communist tradition. Luxemburg, for example, pointed out that the difference between reformists and revolutionaries was not their support for reforms, which are in any case limited and temporary, but rather that revolutionists saw the major gain from reforms to be the advance of workers' consciousness through struggle. For Mandel, the workers' social power follows as a formal adjunct to improvements under capitalism. The term "structural reform" itself shows the emphasis on technical change rather than consciousness.

Mandel's new epoch of late capitalism contrasts to the decadent epoch when no class forces other than the proletariat are consistently revolutionary; his world view contains many new revolutionary forces like students, reliable bourgeois nationalists and petty-bourgeois guerrillas. That was the reason for its invention: all these benevolent forces, unlike the demons of the past, can help rescue the underconsuming victims of capitalism from the conditions which the masses are in no position to change by themselves. Mandel's theory is a clear adaptation to the middle-class technical intelligentsia's idea that "we" organize social progress for the masses. Workers (or peasants, in the third-world countries) need serve only as battering rams for manipulation by socially conscious benefactors.

THE PERMANENT ARMS ECONOMY

The leading alternative to the degenerating Fourth International from the Trotskyist tradition was the Shachtman-Cliff current, defined by its new-class theories of the USSR. Trying to escape pitfalls that had entrapped orthodox Trotskyism, they denied that the Stalinist states were progressive and attempted to orient their political activity in the light of the postwar boom. But in their effort to be practical at a time when revolutionary struggle in the advanced nations seemed to be ruled out, they downgraded the crisis-ridden reality of the epoch. Thus they too abandoned fundamental lessons of Marxism - with even less disguise than Mandel.

The Shachtman and Cliff tendencies also share a common attitude and practice towards the working class at home. Their characteristic idea is that the key element for socialism is the "rank and file," that is, the mass of

workers at their current level of consciousness. Workplace democracy and militancy becomes the chief focus of their activity, with little attention paid to the longer-run interests of the working class.

The trouble with this approach is that in the normal course of events, the ranks of workers do not all hold one program; their consciousness is inevitably mixed. For the most part they accept the system they live under as a fact of life. But once they begin to move and recognize their own power, their political horizons widen: they fight for things they didn't believe possible before. "Rank and filists" ignore this dynamic. They accept militant but backward consciousness, raising as their program not even what they think is needed but what they imagine will attract the ranks. It is the opposite strategy to that of a revolutionary party, which must point to the future of the movement, the tasks ahead.¹⁴

Rank and filism arose in the Trotskyist tradition out of antagonism towards the "overcentralization" of Stalinist Russia. It breathes a cynicism towards the workers parallel to Mandel's: the masses concern themselves only with day-to-day struggles at the workplace, while the cognoscenti handle the deep political and economic theories and link all the struggles together. The "democratic" rank and file emphasis marks the difference between good intellectuals and evil Stalinists: workplace democracy serves as a corrective for the intellectuals at the center, making sure that they stay in touch with their base.

The Cliff wing of the tendency is centered around the British Socialist Workers Party and calls itself International Socialism (IS). Its interpretation of the postwar period was based on the "permanent war economy" theory devised by the Shachtmanites. Refined by the Cliffites in the 1950's and 1960's (and later renamed the "permanent arms economy" for peacetime application), its current presentations rely on borrowings from Marx, Lenin and Bukharin and therefore require careful refutation.

In his early formulation of the theory Cliff accentuated its inherent underconsumptionist methodology. Peacetime arms spending, he said, a permanent feature of postwar capitalism, was the key to the economic boom. It soaked up the excess production that the underpaid masses could not buy, diverted funds away from capital accumulation that would only end up as consumption goods later, and distributed the surplus in the form of increased wages and state spending. Investment was thereby stimulated and profitability increased by "the increasing purchasing power of the people, together with the new State demand for arms, army clothing,

14. See "Communist Work in the Trade Unions," *Proletarian Revolution* No. 25 (1985-86).

barracks, etc."¹⁵

As a description of post-World War II capitalism, Cliffs picture contained elements of truth. The state budget - for arms in the U.S. and Britain, for social welfare in Europe (but less so in the U.S.) - *was* used to moderate cyclical crises and reduce opposition from the working classes. Cliff also pointed to limits of arms spending as a solution to capitalism's problems: the arms burden could grow too big and thereby cut into the masses' standard of living - which has indeed happened. But another supposed problem that Cliff cited exposes the weakness of his reasoning:

"The Powers may compete so fiercely on the world market that each, in order to strengthen its position, would start to cut arms expenditure. ... The war economy may thus less and less serve as a cure for over-production, a stabilizer of capitalist prosperity. When the war economy becomes expendable, the knell of the capitalist boom will surely toll."

Cliff overlooked that the peacetime arms buildup was not chiefly an economic question. It had critical political and military purposes as well: keeping rival imperialists at bay and suppressing the colonial revolutions. It was also a necessary component of the Cold War strategy, using the Russian menace to weld the Western bourgeoisies and the working classes together under U.S. hegemony. Thus arms spending was in no way "expendable," especially when competition between powers became increasingly fierce. The fact that particular sections of the bourgeoisie benefited economically from the arms race is of secondary importance compared to the military, social, political and economic benefits it brought the ruling class as a whole.

For these reasons military spending expanded, if at a lesser rate, even after serious economic crises re-emerged in the early 1970's. Contrary to Cliff, the postwar boom died and economic stability disappeared *despite* continuing massive arms budgets - whether they declined as a proportion of national product as in the 1960's or expanded as under Reagan in the 1980's. The underconsumptionist or Keynesian "solution" to capitalist crises has proved false.

In the last quoted passage Cliff uses the term "overproduction," but his is not an overproduction theory of crises. In such a theory, crises are due to capitalism's inexorable drive to increase production beyond all bounds - in all spheres of production, not just consumer goods. Accordingly, a large peacetime arms budget can only delay but not prevent crises. That Cliff believes arms spending at a constant level prevents crises is further indication that his crisis theory is based on insufficient consumer demand.

15. Cliff, "Perspectives of the Permanent War Economy," *Socialist Review*, May 1957; reprinted in *Neither Washington nor Moscow* (1982), p. 104

Subsequently Cliffs followers have attempted to discount the theory's blatant underconsumptionism. Chris Harman patronizingly explained that Cliff "*presents* the argument - for simple exposition in a popular publication - in 'underconsumptionist' rather than 'rate of profit' terms." Peter Binns insisted that Cliff gave "the first theoretically sound analysis of the permanent arms economy" because he linked it to the falling rate of profit (FRP) law based on the rising organic composition of capital. But in fact there is no such link attempted in Cliffs writings.

The permanent arms economy theory was reworked on a more sophisticated basis by Michael Kidron. Arms production is unproductive, according to Kidron, because weaponry does not re-enter the productive circuit of capital either as production or consumption goods; it is paid for out of surplus value, similar to luxury goods bought by the bourgeoisie for personal consumption. Therefore the surplus value available for expanding production is constantly reduced by arms spending, and this slows down the rate of economic growth. Because accumulation is retarded, so are all the laws of motion that follow from it, including the rising organic composition of capital and the falling rate of profit. Thus the FRP tendency operates only slowly, and cyclical crises can be forestalled or at least made infrequent. In Kidron's words:

"In Marx, the model assumes a closed system in which all output flows back as inputs in the form of investment goods or wage goods. There are no leaks. Yet in principle a leak could insulate the compulsion to grow from its most important consequences. ... In such a case there would be no decline in the average rate of profit, no reason to expect increasingly severe slumps, and so on.

"Capitalism has never formed a closed system in practice. Wars and slumps have destroyed immense quantities of output, incorporating huge accumulations of value, and prevented the production of more. Capital exports have diverted and frozen other accumulations for long stretches of time. A lot has, since World War II, filtered out in the production of arms. Each of these leaks has acted to slow the rise of the overall organic composition [of capital] and the fall in the rate of profit."¹⁸

This reasoning is full of fallacies. First of all, it cannot explain how the boom got started. For even if it were true that arms spending slows the decline in profit rates, Kidron's "leak" cannot be responsible for the initial

16. Harman, *Explaining the Crisis*, p. 166.

17. Binns, "Understanding the New Cold War," *International Socialism* No. 19 (1983).

18. Kidron, "Capitalism: the Latest Stage" (1971), in *Capitalism and Theory* (1974), pp. 16-17.

high level of profits from which the decline was retarded. That depended on the higher level of exploitation achieved by the proletariat's defeats, and on the possibilities for new investment resulting from unprecedented wartime capital concentration. When it was a question of mobilizing labor and capital resources from depression levels of activity, arms spending played a major role in getting the boom started - but by raising production, not lowering it.

Second, the theory also fails to explain the extended duration of the postwar boom. With the economy in full swing, arms costs are an unproductive deduction from surplus value: they retard accumulation and also the normal rise in the organic composition. Arms spending can therefore be said to slow the operation of the FRP tendency as Kidron claims - but only by diverting industry into making commodities that contribute no further to surplus-value production. In other words, in the rate-of-profit formula $S/(C+V)$, the arms budget keeps the denominator (capital invested) from rising - but only by holding the numerator (surplus value produced) down as well. This does not make for a prolonged boom - as has been shown by the relative decline of the leading Western arms producing country, the United States.

Moreover, Kidron's theory assumes that cyclical crises are caused directly by the FRP. This is not the case: the cycles and the FRP are intertwined, and the crises carry out the countertendencies to the FRP by wiping out less profitable capital (Chapter 1). To the extent that arms spending, like most state intervention into the economy, helps postpone crises, it forestalls the countertendencies to the FRP, promotes the buildup of fictitious capital and thereby hastens the fall in the rate of profit.

Only in an extreme case would arms spending be guaranteed to halt the FRP: if *all* surplus value were taxed for arms and therefore *no* new productive investment were possible. But this imaginary case exposes the absurdity of the theory. Since the effect of the FRP is to induce stagnation, arms spending simply displaces the mode of stagnation without eliminating it. Instead of allowing the FRP to reduce the rate of accumulation by lowering the rate of profit, arms spending reduces the rate of accumulation directly. The effect of the FRP is carried out by another method.

Kidron raises another argument. The virtue of arms spending is that one power's build-up forced other competing powers to do the same: "The very existence of national military machines of the current size ... both increases the chance of economic stability and compels other states to adopt a definite type of response and behavior *which requires no policing* by some overall authority."¹⁹

19. Kidron, *Western Capitalism Since the War* (1968), Chapter 3

But in reality the opposite occurred. Since much new investment was channeled into the military budget (in the U.S., USSR and Britain) instead of productive investment (as in postwar Japan and West Germany), accumulation slowed down in some countries but accelerated in others. As a result the arms economy has been a *destabilizing* economic force internationally. That reflects our general point that the FRP operates unevenly within the economy, lowering the profit rates of the more backward capitals. Thus, when the U.S. arms budget hindered domestic investment, allowing German and Japanese industry to surpass American productivity, it thereby helped to carry out the FRP in the U.S., not retard it.

IS theorists frequently argue that cutbacks in arms spending account for the occurrence of crises in the short term. But according to Kidron's theory, an arms cutback would lead, first, to an upsurge in productive investment, hence a rising organic composition of capital — in a word, a boom. Only in the long term would it accelerate the falling rate of profit. That declines in arms spending are thought of as the triggers of recession shows again that IS in practice does not bother with Kidron's attempt to invoke the FRP. It really operates under an underconsumptionist notion of crises, where the military budget absorbs the surplus.

The basic problem with any version of the permanent arms economy theory is the claim that imperialism's necessary but wasteful drain of weapons production is economically healthy for capital accumulation. No doubt it has been beneficial for some capitalists. But the thesis that arms spending helped the system grow for decades only conceals the real explanation - deepened exploitation of the working people of the world.

THE END OF IMPERIALISM?

Permanent arms economy theory is more than an attempt to explain the postwar boom. It also justifies IS's rejection of the Leninist theory of imperialism. Giving an underconsumptionist twist to Lenin, IS reasons that in Lenin's day the export of capital siphoned excess value out of the economy and therefore eliminated crises caused by insufficient demand. In the modern world, arms spending has replaced capital export as capitalism's device for avoiding collapse. Since Lenin's analysis is no longer applicable, IS mockingly labels imperialism "the highest stage but one."²⁰

IS shares the social democratic view that capital export is outmoded: "metropolitan capital as a whole is scarcely dependent on its marginal investments in backward countries."²¹ This implies, in the absence of any

20. Kidron, "Imperialism: Highest Stage but One," *International Socialism* (1962); reprinted in *Capitalism and Theory* (1974).

21. Kidron, "International Capitalism," *International Socialism* (1965); reprinted in *Capitalism and Theory*, p. 162

imperialist drive to exploit foreign sources of surplus value, that the third world is economically too insignificant to be relevant for the struggle for socialism. There was a superficial basis for this opinion in the 1960's, but it is clearly outmoded in the 1980's when, on the one hand, a default by the debtor countries could cripple Western banks, and on the other, third-world working-class struggles have had worldwide impact.

It is striking how clashing political conclusions can be deduced from very similar theories. Baran/Sweezy and the IS both argue that long-term crisis-free growth comes from arms spending that sops up excess demand; the former's claim that the working class in the imperialist countries is irrelevant and the IS's similar view towards the third world both depend on this underconsumptionist theory. Such a theory is certainly no reliable guide to analysis or action, but it reveals what Baran/Sweezy and Cliff/Kidron have in common: a rejection of proletarian exploitation as the motor of capitalism.

Kidron subsequently asserted that imperialism's drive to amass surplus value is very much alive, citing "the forced drain of resources from the periphery of the system to its industrial heartlands - a reflection of the need to create increasingly huge minimum capital concentrations in order to survive in the integrated world market of today."²² Similarly, Duncan Hallas, in the introduction to a reprinting of IS's basic theoretical documents, noted that the "highest stage but one" formula was unfortunate: "it may suggest that imperialism no longer exists." "Of course imperialism still exists," Hallas continued, only to add: "the point is that it is no longer central to the survival of capitalism."²³ Whatever it believes, the IS continues to use the term imperialism as if it had never issued polemics against it. That is not because the IS has reverted to Leninism in practice but because it has a great contempt for theory, including its own.

One purpose of a communist theory of imperialism is to clarify the fight against it. Over the years, the Cliff tendency has had an inconsistent record in carrying out the elementary task of supporting anti-imperialist struggles, especially those of the victims of its own (British) ruling class. It rejected support for China and Korea against the imperialist forces in the Korean war of 1950. In Northern Ireland, when the Catholic uprising intensified in the late 1960's, it hesitated to demand the recall of British troops, expecting that the oppressors forces were a better alternative than an unsupervised bloodbath. In 1982, when Britain went to war against Argentina over the Malvinas (Falkland) Islands in the South Atlantic, the

British SWP chose to stay neutral with a policy of "revolutionary defeatism" toward both sides. Unlike the rulers of the Western powers who understood that Argentina's takeover threatened to destabilize imperialist control in general and uniformly backed Thatcher's war, the SWP insisted that "no *vital* interests of British capitalism are at stake."²⁴

In these cases it was clear that the distinction between oppressor and oppressed countries was not a top concern for the IS; the notion that imperialism is an obsolete theory contributed to this rationalization. It also enabled the SWP to line up with a whole spectrum of the British left, from Stalinists to Labourites, who are hostile to U.S. imperialism but have little objection to a nationalist Britain (or Europe, in some versions) carving out its own imperialist niche in opposition to the Americans and Russians. In this light, when the SWP decided to support Iran's war against Iraq in 1987 because of imperialist naval intervention in the Gulf, all its Leninist argumentation was a cover. The basic reason was that the Gulf war was not the doing of *British* imperialism, so an anti-U.S. stance could masquerade as revolutionary policy.²⁵

IS's fundamental difference with Lenin over imperialism is not over third-world struggles. It is the question of the revolutionary character of the epoch: whether the objective drives of capitalism toward socialization and decay force the proletariat onto a revolutionary road. Cliff's doubts were formulated in his notion of "deflected permanent revolution." This theory purports to explain why successful revolutions were led by non-proletarian forces in China and Cuba; its answer is that the proletariat was aristocratic, bought off and indifferent (Cuba) or irrelevantly small in areas where the Stalinists held sway (China). In general, "Those forces which should lead to a socialist, workers' revolution according to Trotsky's theory can lead, in the absence of the revolutionary subject, the proletariat, to its opposite, state capitalism."²⁶

No, the proletariat was not "absent"; it had to be first defeated or betrayed before statified capitalist regimes could be set up. In the context of the worldwide defeat, nationalist petty-bourgeois revolutionists were able to seize the stage. But contrary to Cliff the class struggle operates even where the proletariat is weak. When the old regimes can no longer rule, the workers have no choice but to fight; the laws of capital drive them

24. *Socialist Review*, May 20, 1982.

25. The SWP even urged workers in Iran to avoid strikes that could endanger the war effort - at a time when working-class unrest was intensifying and with Marxist leadership could have posed a challenge to the regime. (National Conference resolution, November 1987.)

26. Cliff, "Permanent Revolution," *International Socialism* No. 12 (1963).

22. Kidron, "Capitalism: the Latest Stage," p. 28.

23. Hallas, *International Socialism* No. 61 (1973)

over and over again into battle. But sometimes they lose. Stalinism, resting on the usurpation of proletarian conquests, has been a formidable foe.

For Cliff it was the workers' failure to achieve revolutionary consciousness that falsified Trotsky's perspective and saved capitalism. As he sums up, "Once the constantly revolutionary nature of the working class, the central pillar of Trotsky's theory, becomes suspect, the whole structure falls to pieces." We leave aside the false equation of Trotsky's (and Marx and Lenin's) conviction that the proletariat is inherently a revolutionary class with the ludicrous notion of *constant* revolutionary consciousness. The consequence of Cliffs outlook is to blame the workers, not their Stalinist and social-democratic betrayers, for the failure of the Marxist perspective. The second danger is to be unprepared, pessimistically conservative, or allied with treacherous forces when the workers do break out of their ideological straitjacket.

Stalinism's victories after World War II convinced many leftists that the proletariat was dead. Cliff holds a left-centrist version of that view. Like the deformed workers' state theory of the orthodox Trotskyists (below), Cliffs deflected permanent revolution describes the workers as replaceable by non-proletarian elements in building a new world, even if that world is not a progressive one. That is the logic of a theory of a new epoch.

MILITARY STATE CAPITALISM

The Cliff theory of state capitalism points to very different conclusions about Stalinism's world role from our own.

Cliff argues that the arms race has compelled the powers of both West and East to dedicate their economies to use value rather than value production. Moreover, IS's analysis leads it to treat the class struggle itself as a secondary conflict, subordinate to international military competition. Chris Harman put it baldly:

"The logic of the new imperialism was simple: grab, and exploit as much of the world as possible so as to build up the military potential to stop your rival grabbing and exploiting areas to build up its own military potential."²⁷

For Marx, the aim of military and every other capitalist advantage is further exploitation; for Harman, in contrast, the aim of exploitation is military advantage in order to accumulate more means of destruction.²⁸ No

27. Harman, *Explaining the Crisis*, p. 88.

28. Ironically, the IS shares its methodology with the pro-Stalinist Spartacists who ascribe every evil in U.S. capitalism, including exploitation itself, to anti-Sovietism. Thus "Reagan's class war on blacks and labor" is only the "domestic reflection" of the "anti-Soviet war drive." (*Workers Vanguard*, September 29, 1984.)

wonder IS misrepresents the underlying capitalist nature of Stalinism - it does the same for ordinary capitalism. More commonly, IS does make a distinction between traditional and Stalinist capitalism; it admits that the West is not quite as devoid of internal competition as the East and still retains its internal capacity to expand. (That is, the IS does not fully believe Cliffs notion that accumulation *in the West as well as the East* is driven by use values.) If, therefore, the West is forced to devote efforts to military rivalry, that is because it has to match Russia; Soviet capitalism, unlike the West, is too backward to compete peacefully. The result of this logic is disastrous:

"The Russian and American ruling classes did not 'choose' to create an arms economy because of its positive consequences in creating the longest boom in capitalism's history. No choice at all was involved in the matter; rather, it followed from the specific features of the world in which they found themselves. American capital's ability and willingness to compete commercially and financially was quite unmatched by that of Russia. ... For the Russian ruling class, military power was all they possessed to defend themselves against Western capital. For the American ruling class, this fact, in its turn, implied the need to supplement their financial and productive power with a military power that was equally overwhelming."²⁹

That is, the U.S. arms build-up is not part of its nature as the leading imperialist power but rather a reaction against the Soviet military threat. Such a position leans dangerously towards the Maoist line of condemning Russia as the "have-not" power that needs to destroy the peaceful balance of power in order to expand, like Germany before World Wars I and II. This was not an accidental formulation: a similar line was taken by the IS tendency's American section in analyzing the revived Cold War of the 1980's. The United States looked toward an eventual arms reduction: "In the late '70's and early '80's under Carter and Reagan, the U.S. pursued an arms buildup to break the USSR's economy and defeat it in the arms race. In this way, the U.S. could lower its arms spending later when the USSR was no longer a threat." But for the Soviets the ultimate goal was a military buildup - even if the immediate tactic was the reverse: "Gorbachev ... needs to increase the ability of his civilian economy to compete in the world market and therefore cut the share of the economy that goes into the military. This is the only way to rebuild the economic basis of military power in the long run."³⁰

29. Peter Binns, "Understanding the New Cold War," *International Socialism* No. 19 (1983), p. 24.

30. *Socialist Worker* (International Socialist Organization), January 1988.

The result of this distinction between the military drives of East and West is to place the chief blame on the Soviets for the international rivalry that brought about the Cold War. This ignores world reality, the U.S.'s dominant imperialist role. It also forgets history: Stalinism cannot have been the stimulus for Western "military state capitalism," since (as the IS itself argues) the imperialists had already reached that status in World War I.

The underlying problem, again, is that the IS denies the epoch of imperialism and is therefore searching for another rationale for the arms race. Attempts to construct a Marxist theory while ignoring the epoch of the decay invariably point to reactionary conclusions. Ironically, the IS tendency, which based its analysis of the restoration of capitalism in the USSR on the fact that Russia had to accumulate capital under military pressure from the West, now says that Soviet pressure determines the nature of Western accumulation. Such dilemmas are inherent in a theory that finds the impulse to capitalism's accumulation coming from outside. There are further problems. Imperial rivalry is no longer a question of dividing up the spoils of World War II and of coexisting in a period of stability and prosperity; were that the case, says the IS, the superpowers would "reach a new accommodation between themselves" and "there will be no need to mobilize the working class to get rid of the risk of nuclear war — the natural functioning and expansion of the world system will do that for us instead." No, now the revived economic crisis makes war inevitable in the absence of proletarian revolution.

"In its essential details the current period of rearmament resembles not the early 1950's, but rather the years preceding the 1914-18 war. We can therefore expect the continued crisis to push the ruling classes of the two superpowers (and their hangers on in the NATO and Warsaw Pact alliances) further along the road of all-out confrontation. In an important sense, therefore, it is inexact to refer to this period as that of the New Cold War. There is nothing intrinsically 'cold' about the nature of the confrontation that we are currently witnessing, quite the opposite is the case; we are seeing, rather, the accelerating war drive of aging, militarized state capitalisms in crisis."³¹

A revealing argument. First, even to raise the possibility that an imperialist system could end the risk of nuclear war through its own expansion is a reflection of the long-discredited Kautsky model of imperialism. It is incredible that a revolutionary Marxist can conceive that at any time in this epoch there can be "no need to mobilize the working

class" to end the war danger. Second, the IS seems unaware of the developing realignment of the powers, that an accommodation between the U.S. and USSR is possible without putting an end to the danger of inter-imperialist conflicts. This again reflects a little-England nationalism: the blame for the world's ills always falls on somebody else's imperialism.

It is worth noting that the immediate danger of war is not as formidable as claimed. Even the intensifying crisis is not enough to compel the powers to rush headlong into war. As we showed in Chapter 6, the imperialists learned from World War I that an *undefeated* proletariat will turn against its masters if it suffers war depredations; World War II became safe for the bourgeoisie only when Nazism and Stalinism had brought the masses to their knees.

As is so often true, political capitulation is linked to bad theory. Not understanding the Soviets' weakness — its technological dependence on the West and their eagerness to retreat from the arms race - derives from denying that the USSR's deformed capitalism in any way reflects its origins out of the corpse of a workers' state. And imagining that the drive of capitalism is to produce use values leaves the IS unable to see why the arms race is a problem. It is the law of value, the drain of labor time from productive resources, that forces the Stalinists to pull back.

BUKHARINISM VS. KAUTSKYISM

The IS view of the cold war is closely linked to its overall theory of twentieth-century capitalism. This is based on Bukharin's "more rigorous version of the theory of imperialism" (compared to Lenin's).³² Bukharin postulated that the drive toward statification was making internal contradictions and crises obsolete (Chapter 1); they were replaced by external competition and above all by war, the military expression of international competition. Callinicos observes:

"Bukharin's analysis, with its vision of a world system composed of militarized state capitals, informed the cornerstone of our tradition, Tony Cliff's theory of state capitalism in Russia. It is also implicit in Kidron's explanation of the long boom of the 1950's and 1960's as a consequence of the permanent arms economy; indeed, an embryonic version of this analysis is to be found in Cliff's book on Russia."³³

Bukharin was indeed the IS's theoretical predecessor. He too called his theory of a monolithic state capitalist trust "state capitalism" — because of its external trade relations on the world market and the class relations

31. Binns, pp. 38-39. This 1983 prediction contrasts with ours of the same year foreseeing the great power realignment (Chapter 6)

32. Callinicos, "Imperialism, Capitalism and the State Today," *International Socialism* No. 35 (1987), p. 81.

33. Callinicos, p. 82.

between the proletariat and the bourgeoisie. Cliff also follows Bukharin in his opposition to Stalin's industrialization of 1928-29 - on the grounds that *any* accumulation of capital in a backward country would establish a new ruling class. The alternative fought for by Trotsky and the Left Opposition was an industrialization drive to preserve the social gains of the workers. In rejecting this strategy along with Stalinism, Cliff has only one alternative left: Bukharin's slow-paced growth for a peasant-based economy (Chapter 3).

Callinicos presents a partial critique of Bukharin's theory of a crisis-free state capitalism. Bukharin, he says, overlooked the possibility of economic crises because he thought centralized planning under state capitalism would eliminate economic disproportions. On the contrary, Callinicos replies, another tendency of capitalist development is the growing internationalization of production, which forces the powers to intensify competition with one another - thereby restoring the drive toward crises. Callinicos does not dispute Bukharin's elimination of internal contradiction; he agrees that "state capitalism could overcome this disproportion between production and consumption."³⁴ He objects to Bukharin's restriction of external contradiction to military expansion and war. Like his amendment to Cliff on the Soviet proletariat (Chapter 5), this cure misses the main problem.

An alternative was offered by the British SWP's Nigel Harris. Whereas Bukharin and his modern disciples eliminated *internal* contradictions but stressed the role of the state in international competition, Harris suggests that state capitalisms and their *international* rivalry are doomed. Generalizing from the success of some third-world countries in expanding industrially by participating in the world market - not seeking to escape it as in the Stalinist model of economic independence - Harris concludes: "The more successful the governments of newly industrializing countries were in pursuing growth, the more powerful private capital at home and the more closely integrated with external markets and world capital abroad, the more the power of the government to shape the domestic economy declined ... The changes in both more developed and newly industrializing countries thus promised the continuing erosion of the foundations of the economic power of the states concerned, the basis of any revival of state capitalism. Privatization - and its theoretical underpinnings in neoclassical economics - was the ideological and practical recognition of this emerging new world order."³⁵

That is, because of the increasing power of private capital in the

stronger third-world countries, the state itself no longer plays a necessary accumulative role. Moreover, this is true in capitalism generally: the role of the state is only supportive. Direct state intervention in the economy, as the rotting Stalinist examples demonstrate, is unproductive and irrational from the standpoint of capital. But if this were true, Callinicos observes, then military rivalry between countries would decline. Harris reluctantly agrees: "One of those sources of optimism is the weakening of the drive to war; as capital and states become slightly dissociated, the pressures to world war are slightly weakened."³⁶

Of course, since war is a function of states, under Harris' scheme militarism cannot be the primary form taken by capitalist competition. Harris' theory, therefore, is an indirect challenge to Cliffism. For Callinicos the problem lies in Harris' one-sided "treatment of the global integration of capital as an accomplished result."³⁷ True enough, but again his critique falls short of naming things by their true names: Harris (along with Binns, as we previously saw) is abandoning Bukharinism in favor of Kautskyism, the theory of one international "ultraimperialist" capitalism capable of eliminating the system's drive toward war (Chapter 2).

Bukharinism and Kautskyism are not far apart. Kautsky held that ultraimperialism was possible and therefore that crises and conflicts could be eliminated on the international level. Bukharin thought ultraimperialism impossible but nevertheless saw crises removable on the national level. The distinction is not fundamental: in the history of capitalism, monopoly has replaced the small-capital stage only to become competitive itself, and the same is true of national capitals. The law of value always reappears between and within the ever-larger blocs of capital.

Kautsky's theory is not counterposed to Bukharin's but extends it. Kautsky's version is more consistent in that he draws out the logical conclusion from the premise that crises can be eliminated: capitalism can be made peaceful. Bukharin's theory is more in tune with the pervasive nationalism that inheres in capitalism. Both are third-system theories that pose a collectivist class society as capitalism's successor; both are therefore worthy theoretical predecessors for the International Socialists. These roots, together with the politics they rationalize, demonstrate that the IS tendency is no alternative to "orthodoxy" for re-establishing the Trotskyist heritage.

34. Callinicos, p. 86.

35. Harris, *The End of the Third World* (1986), p. 169

36. Harris, p. 202.

37. Callinicos, p. 97.

2. DEFORMED WORKERS' STATE THEORY

A defining characteristic of "orthodox Trotskyism" has been its conception of the new Stalinist states. The invention of the theory of deformed workers' states in the East is closely related to the adaptation to reformist and middle-class forces in the West.

The theory originated in the late 1940's, when East Europe under Russian rule was transformed to approximate the Soviet model in politics and economics. The old bourgeoisies were overthrown, industries nationalized and capitalist relations seemingly abolished - without a revolution by the working class. The Communist Parties, which according to Trotsky had been marching down the road to reformism, now appeared capable of destroying the bourgeoisie instead of preserving it. The old theory of Stalinism was patently inadequate, and something had to give.

THE "PEOPLE'S DEMOCRACIES"

The central question to be resolved was the class character of the new Stalinist states. Trotskyists who believed that the USSR was still a workers' state were drawn to conclude that the new systems had to be the same. But it was not easy to accept that Stalinism had created workers' states; much Marxist heritage had to be overcome. As James Cannon, the leader of the American SWP, put it:

"I don't think you can change the class character of the state by manipulations at the top. It can only be done by a revolution which is followed by a fundamental change in property relations. ... If you once begin to play with the idea that the class nature of the state can be changed by manipulations in top circles, you open the door to all kinds of revisions of basic theory."³⁸

But the door had already been opened through adaptations to the middle-class programs of democracy and nationalism and accommodations with reformists in the unions. In purely logical terms, the Fourth International could have reasoned the other way: that is, the fact that the Soviet satellites had been transformed from above should have proved they weren't workers' states - and therefore Soviet Russia wasn't either. Indeed, at first the FI insisted that the new Stalinist states could only be capitalist. With good reason: many capitalists in East Europe still held their property, the old parliaments had been revived, and bourgeois politicians were in the governments (as were a few leading fascists, and, in Romania,

the king!).

The ruling Stalinists even adopted a formally bourgeois terminology for their states: "people's democracies" in East Europe and "new democracy" in China. Cosmetic though these bourgeois titles were, they indicated Stalin's purpose of keeping the satellites as states whose underlying class relations were capitalist. They also reflected his desire to maintain the alliance with bourgeois forces internationally that had characterized Stalinism since the 1930's.

Ernest Mandel correctly insisted for a time that "We will continue, until we have sufficient proof to the contrary, to consider as absurd the theories of a ... degenerated workers' state being installed in a country where there has not previously been a proletarian revolution."³⁹ Polemicizing against Shachtman's theory that the Stalinist states were bureaucratic collectivist and therefore non-capitalist, Mandel mocked, "Does he really think that the Stalinist bureaucracy has succeeded in overthrowing capitalism in half of our continent? Shachtman again finds himself in this hardly enviable position of having to share his views with the Stalinists!"

By early 1948 the Communists had swallowed the other working-class parties, ousted their bourgeois coalition partners and completed the nationalization of major industry. Now there were few differences in property forms between Eastern Europe and the USSR. But the FI did not change its analysis. Its position that the Soviet Union was a workers' state while the others were capitalist was inherently unstable, demonstrating that its theory was too fragile to confront real changes in the world.

So when Tito's Yugoslavia was kicked out of the Stalinist fraternity, the FI abandoned its theory overnight and declared Yugoslavia both proletarian and revolutionary. By 1951 the contradiction was resolved through the formula of the International's leader, Michel Pablo: the Eastern European countries were all redefined to be workers' states - not "degenerated" like the USSR but "deformed," because they had never been genuine workers' states to begin with.

Cannon's warning was apt, although he too went along with Pablo. The creation of a workers' state is not just a matter of economic forms; it is the result of a social revolution that places state power in the hands of the working class. Since it inaugurates the period of transition to communism, it is in fact the *socialist* revolution. And it must be a *conscious* achievement of the workers (that is, it requires leadership by a revolutionary party): as we have seen, the task of a workers' state is to fight against the pressures of capitalism and its laws, unlike the bourgeois revolution which overturns restrictions on the operation of the blind law of value. By

38. Cannon, SWP (U.S.) *Internal Bulletin*, October 1949, pp. 25-6

39. Mandel, "The Conflict in Poland," *Fourth International* (1947).

asserting that the socialist revolution was a task accomplished by the petty-bourgeois Stalinists after smashing the workers' own efforts, the Pabloite "deformed workers' state" theory turned Marxism upside down.

THE DATE QUESTION

A specific difficulty never resolved by the FI was to determine the "date" of the revolutionary changeover. When exactly had these socialist revolutions had taken place: in 1944-45 at the time of the Stalinist conquests, or in 1947-48 when the old bourgeoisies were ousted from their share of power? Either alternative led to insuperable difficulties.

To place the revolutionary date at 1947-48 or later says that the social transformation left the state apparatus unchanged, since the Stalinists controlled the armed forces and the state bureaucracy both before and after. This directly contradicts the Marxist principle that a state is the organ of its ruling class; the same state cannot serve first an exploiting ruling class, then participate in the rulers' overthrow and end up serving the formerly exploited working class. Even if we accept for the sake of argument the contention that the Stalinists held state power "in trust" for the workers, this still means that class power was transformed peacefully with no change in the state, for previously the Stalinists had ruled in trust for the bourgeoisie.

Such a theory echoes the revisionist method of Bernstein, and it is no abstract formality. The principle it violates had been the historical demarcation between reform and revolution, a lesson paid for with the blood of millions of workers. It was learned by Marx and Engels from the experience of the Paris Commune's failure to smash the bourgeois state machinery. The point was so fundamental that it led them to amend the Communist Manifesto: "One thing especially was proved by the Commune," they wrote in their preface to the 1872 German edition, "that 'the working class cannot simply lay hold of the ready-made state machinery and wield it for its own purposes'." But that is precisely what the new theory claimed that the Stalinist party did in the name of the working class.

Such a theory would also imply that the Russian revolution had not created a workers' state until at least a year after the Bolshevik revolution. For it was not until late 1918 that the industrial property of the bourgeoisie was nationalized, and that only in the limited territory controlled by the Red Army. Of course, no Marxist analysis of the USSR has ever made this claim, since it is undeniable that the working class took state power in 1917.

On the other hand, if the date of the East European revolution is put at 1944-45, then the Stalinist forces become the agent of proletarian revolution at the very moment when they were crushing the movement of

workers' revolt. In reality, at that time Stalin hesitated to break with the Allied imperialists and the local bourgeoisies for several reasons: he hoped to maintain the wartime alliance, following the agreement with Churchill (Chapter 6); and the working class was as yet undefeated. So the Stalinist social turnover came only later. As Trotsky had noted, nationalized property would prove too tempting an object to place within the grasp of an active, undefeated workers' movement.

A further difficulty in seeing a socialist revolution in 1944-45 is that in two regions originally occupied by the Soviet forces, Finland and Eastern Austria, the troops were later withdrawn. If Soviet occupation in itself meant proletarian revolution, then these territories would have reverted peacefully to capitalism after being workers' states. A peaceful social counterrevolution violates Marxist theory just as much as a peaceful social revolution.

In either case, labeling the Stalinist states proletarian means that socialist transformation can be achieved without overthrowing the bourgeois state - the hallmark of reformism. No wonder the different wings of Pabloism (we use this term for all those who accept the deformed workers' state theory) have had to concoct a never-ending series of rationalizations in place of theory. They cannot decide precisely *which* states are deformed workers' states - even within the same international organization.⁴⁰ No wonder, decades later, that so many of the Pabloites (or Soviet "defensists," as they prefer to call themselves) acknowledge that there are still deep problems in explaining the transformations.⁴¹

Pablo's "solution" had an interesting predecessor, the minority in the American SWP led by James Burnham and Joseph Carter in 1937 (before the Shachtman split). Burnham and Carter argued that the USSR was no longer a workers' state and not yet a bourgeois state — but since it was based on nationalized property, it was still socially progressive and must be defended against capitalist imperialism.⁴² Their method was to grant

40. Pol Pot's bloody regime in Cambodia proved a particularly tricky case to handle. If it was a workers' state it was one that killed or deproletarianized the entire working class. For attempts to square the circle, see the debate in *Intercontinental Press*, June 4, 1979.

41. "I think it is just to say that we have not yet achieved a fully satisfactory unified theory." (Joseph Hansen, "The Social Transformations in Eastern Europe, China and Cuba," in *The Workers and Farmers Government*, SWP Education for Socialists pamphlet, 1969). "The orthodox Trotskyists ... could not construct a theory to explain the East Europe transformation without embracing non-revolutionary conclusions." ("Genesis of Pabloism," *Spartacist* No. 21, 1972).

42. Burnham and Carter, "Amendment to Resolution on the Soviet Union," in G. Breitman, ed., *The Founding of the Socialist Workers Party* (1982). Trotsky's polemic, "Not a Workers' and Not a Bourgeois State?" (*Writings 1937-38*) was written in reply to this document.

progressive status to a state based on nationalized property whatever its class nature, overlooking the dialectical reality that proletarian achievements, including the state property form, could be turned against the workers by their exploiters. The Pabloites accepted this error and went further: such a state was not only progressive but automatically proletarian as well.

In adopting the deformed workers' state position, the FI made no visible attempt to clarify the implications. It did not review its own previous analysis of Eastern Europe as capitalist. It left the ground open for later debates as to whether the CPs were no longer Stalinist because of their revolutionary achievements, or whether they had been pressured by the proletarian struggle. And when new revolutionary situations arose, the theory failed across the board. Different wings of the FI and its successor groups could not agree on when China became a workers' state, some saying that the fundamental social transformation occurred with the 1949 revolution, others in the mid-1950's when property was fully statified. Even decades later the theoretical problems remained unresolved. After the Nicaraguan revolution of 1979, Mandel's United Secretariat recognized that the Sandinista-led state was still capitalist. Six years later it reversed itself, with the majority now saying that the revolution had created a workers' state. A theory that allows its practitioners to overlook or deny every "socialist revolution" since World War II can hardly be recommended as a guide to action.

It took a deviant branch of "orthodox Trotskyism," the Spartacist tendency, to cut through the date question and express the anti-Marxist essence of Pabloite theory. For them, the Eastern European countries between 1944 and 1948 were *indeterminate* states (or perhaps *no states at all*), because the regimes in power were not committed to either capitalist or socialist economic forms; Nicaragua was in the same limbo for nine years (at least) after 1979.⁴³ The Spartacists' indeterminacy theory is well named: it is totally unable to predict which forms of property the Stalinist rulers will adopt. Of course, the idea of a class-neutral or class-independent state (or a non-state) lasting for more than a historical instant - in this epoch of revolutionary conflict — is absurd both in theory and reality. And it is centrist to the core: it allows its perpetrators to blur class lines and offer support to the "non-class" regime. As Trotsky observed, the "non-Marxist definition of the USSR as neither a workers' nor a bourgeois state opens the door for all kinds of conclusions."⁴⁴

43. *Workers Vanguard*, April 19, 1985 and September 4, 1987.

44. Trotsky, "Not a Workers' and Not a Bourgeois State?", *Writings 1937-38*, p. 69; his polemic against soon-to-be Shachtmanites of the 1930's hits the Spartacists head on. Interestingly, the combined Mandeliste/Shachtmanite Solidarity tendency (of the U.S.) today has the same view of Nicaragua. The roots of Shachtmanism and Pabloism intertwine

The Pabloite dilemma of explaining Stalinist expansion *against* the working class ceases to be a problem once Marxists understand the postwar USSR to be capitalist: its copies are capitalist too. In seizing state power from the Nazis and their puppets, the Stalinists carried out political, not social, revolutions, changing regimes by force while maintaining capitalist relations of production. They did the job in two stages. At first they kept bourgeois elements as partners, but once the workers were suppressed and pressure from Western imperialism increased, they used their monopoly of official violence to defend the national capital and clean house. This interpretation conforms with the actual history of the period rather than evading or distorting it to fit it a theoretical Procrustean bed.

THE "WORKERS' GOVERNMENT"

Pabloite theorists claim that their theory is grounded in Trotsky's analysis, despite Trotsky's characterization of Stalinism as a petty-bourgeois and counterrevolutionary force. The claim to orthodoxy is often based on a tortured interpretation of passages from the Transitional Program on the "workers' and farmers' government" slogan.

During the Russian revolution, the Menshevik and Social Revolutionary parties had joined the bourgeois Provisional Government. The Bolsheviks demanded that they break with the liberals and take power into their own hands. Had this happened, these petty-bourgeois parties would thereby have created "a government of workers and peasants, that is, a government independent of the bourgeoisie." But they dared not take power for fear of further weakening capitalist rule: "the *workers' and peasants' government created by them could only have hastened and facilitated the establishment of the dictatorship of the proletariat."⁴⁵

That is, the purpose of Lenin's tactic was to place the Mensheviks in office so that their subservience to capitalism would be made visible to all. In words he used some years later, Lenin offered critical support "as a rope supports a hanged man." Less advanced workers who believed at first that reformist gains (changing the *government*) would answer their demands could then be won to the revolutionary program of overthrowing the bourgeois *state* (and all of its governments). Through the workers' government

45. Trotsky, "The Death Agony of Capitalism and the Tasks of the Fourth International" (1938), in *The Transitional Program for Socialist Revolution* (1973), pp. 134-5

slogan, revolutionaries could prove the inability of the petty-bourgeois parties to fulfill the masses' needs, whether they dare take office or not. Trotsky advocated a similar tactical use of the workers' government slogan as a demand on the leaders of working-class parties in the crisis conditions of the 1930's. Such a government could only occur under revolutionary conditions, since it would be a life-and-death challenge to the bourgeoisie - ousting the ruling class from the government of its own state. And even then it could have only a fleeting existence: either it leads to the workers' revolution, or it is defeated and bourgeois order is bloodily restored.

Pabloites insist that Trotsky's position means that Stalinism could accomplish the proletarian task of socialist revolution, even though Menshevism could not. Here is the passage they cite as evidence: "Is the creation of such a government by the traditional workers' organizations possible? Past experience shows ... that this is to say the least highly improbable. However, one cannot categorically deny in advance the theoretical possibility that, under the influence of completely exceptional circumstances (war, defeat, financial crash, mass revolutionary pressure, etc.) the petty-bourgeois parties including the Stalinists may go further than they themselves wish along the road to a break with the bourgeoisie. In any case one thing is not to be doubted: even if this highly improbable variant somewhere at sometime becomes a reality and the *workers' and farmers' government' in the above-mentioned sense is established in fact, it would represent merely a short episode on the road to the actual dictatorship of the proletariat." The "orthodox" reading of this passage is that the Stalinists (or social democrats) could create a workers' government and then find themselves propelled to establish the proletarian state. This is alleged to be what happened in the 1945-48 period: the joint Stalinist-bourgeois regimes were "workers' governments" on the road to workers' states.

But that is not at all what Trotsky says. He does state that the Stalinists, unlike the Mensheviks in 1917, might be forced to take governmental office "independent of the bourgeoisie" - that is, without bourgeois parties in the government - and that such a step would help bring about the workers' state. But this does not mean that the *Stalinists* would make the socialist revolution. On the contrary, Trotsky's explicit analogy to Lenin's slogan in 1917 ("the above-mentioned sense") shows that he means just the opposite. If the Stalinists' and reformists' unwillingness to break with capital is exposed, the revolutionaries could win leadership of the workers, and the socialist revolution would then be made - *against* them. That is why putting them in office would "represent merely a short episode" on the road to socialist revolution: it would be a short step to their overthrow.

Moreover, since placing Stalinists in office does not lead to their making a social revolution, all the less does it mean that Stalinism in office *already* signifies the proletarian dictatorship. What is "merely a short episode on the road" is not the thing itself; the "short episode" ends with the proletarian revolution. The "workers' and farmers' government" slogan is a revolutionary tactic, not a shortcut for bypassing the revolution.

The Pabloites developed the "workers' government" dodge further, using it to suggest that the Stalinist takeovers went through a stage where the state was momentarily neither bourgeois nor proletarian. Back in 1943, they wrote retrospectively, in those areas where the Yugoslav CP had taken power, "this part of Yugoslavia ceased to be a bourgeois state; under a workers' and peasants government it advanced toward the final accomplishment of the proletarian revolution." Only in late 1945, when the last bourgeois ministers left the central government, could it be said that "the transition between the workers' and peasants' government and the dictatorship of the proletariat was being completed."⁴⁶ In this case the workers' government was evidently something between a bourgeois and a workers' state in the spirit of Burnham and Carter, a handy way of avoiding the difficulties inherent in choosing a specific historical moment for the alleged workers' revolution.

Trotsky had given a sharp answer to Comintern theorists, predecessors of the Pabloites, who insisted on an intermediate stage before the socialist revolution. Writing about the Spanish revolution in 1931, he said: "These people dream of a process of evolutionary transformation from a bourgeois into a socialist revolution, through a series of organic stages, disguised under different pseudonyms: Kuomintang, 'democratic dictatorship,' *workers' and peasants' revolution,' 'people's revolution' - and what is more, the decisive moment in this process when one class wrests the power from another is unnoticeably dissolved. ...

"It is not the bourgeois power that grows over into a workers' and peasants' and then into a proletarian power; no, the power of one class does not 'grow over' from the power of another class but is torn from it with rifle in hand. But after the working class has seized power, the democratic tasks of the proletarian regime inevitably grow over into socialist tasks. An evolutionary, organic transition from democracy to socialism is conceivable only under the dictatorship of the proletariat. This is Lenin's central idea."⁴⁷

46. "The Yugoslav Revolution," resolution of the Third World Congress *Fourth International*, 1951.

47. Trotsky, "The Spanish Revolution in Danger," in *The Spanish Revolution*, pp. 121-3.

That central idea was violated by those trying to find a proletarian regime where there was none.

BUREAUCRATIC REVOLUTION

Another justification for the claim of the Pabloism to Trotskyist legitimacy concerns the events of 1939, when the Soviet Army seized half of Poland in conjunction with the German invasion and incorporated the territory into the USSR. Trotsky still regarded the Soviet Union as a workers' state and saw the incorporation as an extension of the socialist revolution. Nevertheless, he indignantly rejected the view attributed to him that the Stalinist bureaucracy was a revolutionary agency:

"My remark that the Kremlin with its bureaucratic methods gave an impulse to the socialist revolution in Poland is converted by Shachtman into an assertion that in my opinion a 'bureaucratic revolution' of the proletariat is presumably possible. This is not only incorrect but disloyal. My expression was rigidly limited. It is not a question of 'bureaucratic revolution' but only a bureaucratic impulse. To deny this impulse is to deny reality. The popular masses in western Ukraine and Byelorussia, in any event, felt this impulse, understood its meaning and used it to accomplish a drastic overturn in property relations." ⁴⁸

Trotsky here credited the transformation to the masses, not the Stalinists. His understanding of the counterrevolutionary nature of Stalinism led him to deny that the Stalinists themselves could have made a revolutionary overturn of property relations. A few months earlier, however, he had written:

"It is true that in the occupied regions the Kremlin is proceeding to expropriate the large proprietors. But this is not a revolution accomplished by the masses, but an administrative reform, designed to extend the regime of the USSR into the new territories. Tomorrow, in the 'liberated' regions, the Kremlin will pitilessly crush the workers and peasants in order to bring them into subjection to the totalitarian bureaucracy." ⁴⁹

Trotsky seems torn between crediting a revolutionary overturn to the masses and denying the revolutionary character of the Stalinists' acts. The contradiction in his assessment can be resolved only by recognizing that the overturn of the old bourgeoisie and their property was a political revolution, replacing one form of capitalist property by another.

In fact, it appears doubtful that the transformation of private to state

48. Trotsky, "From a Scratch - to the Danger of Gangrene" (January 1940), *In Defense of Marxism*, p. 130.

49. Trotsky, "The U.S. Will Participate in the War," *Writings (1939-40)*, p. 96

property in 1939 was accomplished by the largely peasant masses of the eastern Polish territories. There was a major social upheaval — including looting and expulsions by Ukrainian and Byelorussian peasant bands and village militias, partly on a class but also on a national basis, with Polish settlers the chief victims. There was also requisitioning and looting by the Soviet forces, of both large landowners and ordinary peasants, workers and other urban residents. Finally, there were expropriations of landowners, by the Soviet authorities. The chaos inspired by the war in general and the Soviet conquest in particular had an ambiguous, mixed character, combining class, national and banditry elements. ⁵⁰

In contrast, in the Baltic countries taken over by the Soviets in 1940, the working class was a major element of the population; there the Stalinists did not dare undertake the risk of property overturns until their power had been securely established after World War II.

In any case, the postwar events in Eastern Europe were very different from 1939. Then there *were* mass takeovers of bourgeois property, inspired by the Nazis' defeat. But the victorious Stalinist forces reversed the workers' revolutionary changes, restored sections of the old bourgeoisie to a share of power - and undertook full statification only later, after they had suppressed all working-class action. Russia's victory indeed gave an "impulse" to the masses, but the Stalinists' seizure of power was based not on riding that impulse but on crushing it. In a masterpiece of political evasion, Joseph Hansen, an SWP leader who bore a major responsibility for the Pabloite theory, rejected concrete historical analysis in favor of a smudge:

"Now, if we do not draw air-tight, metaphysical dividing lines between the various stages of this process in Eastern Europe, but for theoretical purposes consider it as a whole, that is, regard this entire period since the Red Army entered these fringe-lands of the USSR in combat with the German armies as one 'moment,' an episode in world history, what is it but a social revolution started by the masses under the influence of the Soviet Union and deformed by the political counterrevolution conducted by the Kremlin?" ⁵¹

The difference between a workers' revolution and a counterrevolution

50. Trotsky's cited sources for the masses' actions were articles from the Menshevik press and the *New York Times* of January 17, 1940 (*In Defense of Marxism*, pp. 131-2). Curiously, we have checked the *Times* files and can find no such article. For an account of the Eastern Polish events, see Jan T. Gross, *Revolution from Abroad* (1988), pp. 59-66.

51. Hansen, "The Problem of Eastern Europe" (1950), in *Class, Party and State in the Eastern European Revolution*, SWP pamphlet (1969), p. 32.

that crushes them is "metaphysical" only to one who sees a "workers' state" as the embodiment of structural property forms rather than class relations. The same refusal to draw "metaphysical dividing lines" characterizes the legions of bourgeois historians who regard the Soviet state of Lenin's day and the empire of Stalin as one and the same totalitarian monstrosity.

Unfortunately, Trotsky's principled insistence that social transformations require mass revolutions was borne out only negatively after the war. Then the Stalinist takeovers were precisely the "bureaucratic revolutions" he denied before the war. To claim Trotsky's authority for calling them socialist revolutions — at a time, moreover, when the specific history of anti-proletarian counterrevolutionary measures was clearly established — is not only "incorrect and disloyal" but deceitful as well.

Hansen's theory at least had the merit of trying to find some proletarian content in the birth of the "deformed workers' states." Subsequently the FI denied the proletarian role, a more accurate position historically but an even more cynical one with respect to Marxist theory. The resolution on Eastern Europe at the Third World Congress in 1951 admitted that "These states have arisen not through the revolutionary action of the masses but through the military-bureaucratic action of the Soviet bureaucracy, thanks to exceptional circumstances created by the last war" What was not admitted, however, was that the Stalinist conquests required a great defeat of the working class. Thus the FI was left claiming that a progressive new society has been created by Stalinism. The door was left wide open for wholesale revisions of basic principles and a cynical adaptation to middle-class politics.

TROTSKY ON CHINA

It was possible to interpret Trotsky disloyally about the post-World War II events because he was dead. But he was alive during a parallel situation, the creation of "soviet governments" in the areas of China ruled by the Chinese Communist Party (CCP) in the 1930's. This presents a clear test of the deformed workers' state theory. What was the class character of these states? Were they workers' states, or in some sense destined to become so when the CCP conquered all of mainland China in 1949? And if they were, why did Trotsky not take note of so significant a fact?⁵²

In fact Trotsky did discuss the areas ruled by the CCP, and he rejected the idea that they could be considered proletarian or genuinely soviet,

52. Our argument in this section is taken from "Was Trotsky a Pabloite? Part 2," *Socialist Voice* No. 4 (1977). Similar reasoning from a different point of view can be found in Alan Westoby, *Communism Since World War II* (1981), pp. 377-387

because the working class was not involved. By the 1930's the CCP under Mao had abandoned its former proletarian base in the cities and staked its hopes on the peasant movement in areas ruled by the Red Army. Trotsky wrote:

"The Stalinist press is filled with communications about a 'soviet government' established in vast provinces of China under the protection of a Red army. Workers in many countries are greeting this news with excitement. Of course! The establishment of a soviet government in a substantial part of China and the creation of a Chinese Red army would be a gigantic success for the international revolution. But we must state openly and clearly: *this is not yet true*.

"Despite the scanty information which reaches us ..., our Marxist understanding of the developing process enables us to reject with certainty the Stalinist view of the current events. It is false and extremely dangerous for the further development of the revolution. ... "When the Stalinists talk about a soviet government established by the peasants in a substantial part of China, they not only reveal their credulity and superficiality; they obscure and misrepresent the fundamental problem of the Chinese revolution. The peasantry, even the most revolutionary, cannot create an independent government; it can only support the government of another class, the dominant urban class. "The peasantry at all decisive moments follows either the bourgeoisie or the proletariat. ... This means that the peasantry is unable to organize a soviet system on its own. The same holds true for an army. More than once in China, and in Russia and in other countries too, the peasantry has organized guerrilla armies which fought with incomparable courage and stubbornness. But they remained guerrilla armies, connected to a local province and incapable of centralized strategic operations on a large scale. *Only the predominance of the proletariat in the decisive industrial and political sectors of the country* creates the necessary basis for the organization of a Red army and for the extension of the soviet system into the countryside. To those unable to grasp this, the revolution remains a book closed with seven seals."⁵³

Trotsky's critique of isolated peasant Soviets was missed in a debate over Vietnam between two factions of Mandel's United Secretariat in the early 1970's. Replying to Pierre Rousset of the majority tendency, the American SWP wrote:

"Rousset tells us that the embryo of a workers' state was created in peasant liberated zones - where there were no workers. What was

53. Trotsky, "Manifesto on China of the International Left Opposition," *Leon Trotsky on China*, pp. 476-480.

actually created in embryo in Vietnam, as in China, was the skeleton of the bureaucratic hierarchy that would establish a privileged bureaucratic caste on the Soviet Stalinist model once it had state power."⁵⁴

The SWP's point was that such a bureaucratic caste would be ruling a deformed, not a "healthy," workers' state. There is ample reason to justify the term "deformed" but none to account for a workers' state in the first place. The usual Pabloite argument is that the Communist Party represents the proletariat, and in the Chinese case the CCP was the centralizing force that enabled the peasant-based armies to triumph over Chiang Kaishek and the bourgeoisie. This, however, contravened Trotsky's analysis that the Stalinist CP was a petty-bourgeois organ - above all in China, where the Party was rapidly losing its proletarian cadre. For example, he did not think that the "soviet regions" were proletarian because of the CCP's role. In 1932 he wrote to his comrades in the Chinese Left Opposition: "In order to express my ideas as clearly as possible, let me sketch the following variant, which is theoretically quite possible.

"Let us assume that the Chinese Left Opposition carries on in the near future widespread and successful work among the industrial proletariat and attains the preponderant influence over it. The official party [the CCP], in the meantime, continues to concentrate all its forces on the 'Red armies' and in the peasant regions. The moment arrives when the peasant troops occupy the industrial centers and are brought face to face with the workers. In such a situation, in what manner will the Chinese Stalinists act?

"It is not difficult to foresee that they will counterpose the peasant army to the 'counterrevolutionary Trotskyists' in a hostile manner. In other words, they will incite the armed peasants against the advanced workers. This is what the Russian SRs and the Mensheviks did in 1917; having lost the workers, they fought might and main for support among the soldiers, inciting the barracks against the factory, the armed peasant against the worker Bolshevik. ...

"The struggle between the two communist factions, the Stalinist and the Bolshevik-Leninist, thus bears in itself an inner *tendency* toward transformation into a class struggle. The revolutionary development of events in China may draw this tendency to its conclusion, i.e., to a civil war between the peasant army led by the Stalinists and the proletarian vanguard led by the Leninists.

"Were such a tragic conflict to arise, due entirely to the Chinese Stalinists, it would signify that the Left Opposition and the Stalinists ceased to be communist factions and had become hostile political

parties, each having a different class base."⁵⁵

An extremely farsighted analysis. Trotsky did not consider the Stalinist degeneration inevitable, but he was writing a year before the Comintern's capitulation to Hitler forced him to recognize that Stalinism was no longer a revolutionary proletarian current. As events turned out, the Chinese Left Opposition was unable to win leadership of the proletariat, but the Chinese Stalinist armies did confront the workers "in a hostile manner" when they took power in 1949.

The Fourth International expected, right up to Mao's victory, that he would forever capitulate to Chiang. (Not without reason: the CCP had appealed to the U.S. and attracted significant bourgeois support, because of the Kuomintang's banditry towards its own class.) The FI's misjudgment was due in part to Trotsky's underestimation of the strength of Stalinism, a strength rooted in its conquest and overthrow of the Soviet workers' state. The Pabloites concluded at first that the Mao regime represented a "workers' and peasants' government" in transition to a workers' state, analogous to their theory for Eastern Europe. (The American SWP could not make up its mind and held off deciding for several years.)

The Maoists' term for their regime was "new democracy," meaning a "multi-class" government under CP leadership capable of evolving peacefully into a full-fledged socialist state. This was a variant of the "democratic dictatorship of the proletariat and the peasantry," the slogan dropped by Lenin in 1917 but revived afterwards by the Stalinists with a very different class content. The CCP hesitated to proceed with statification of property until the last possibility of imperialist aid was excluded; that happened with the Korean war. Indeed, nationalization was more advanced in Chiang's Taiwan than on the mainland for some years. (Even after statification, many bourgeois were allowed to retain comfortable positions as managers of their former property.) The postponement of Stalinization had the same explanation as in Eastern Europe: it was first necessary to neutralize the working class.

Subsequently, while the CCP itself was still insisting that its state was not proletarian, the Pabloites decided that a workers' state *had* been created. They too, in effect, had adopted the Stalinist "democratic dictatorship" theory, allowing a peaceful transition from a workers' government (under a still-bourgeois state) to socialism. Trotsky and the Left Opposition had made more than clear that this was an impossible position for Marxists to hold:

"The Stalinists say that the democratic dictatorship, as the next stage

54. F. Feldman and G. Johnson, *International Socialist Review*, April 1974, p. 51

55. Trotsky, "Peasant War in China and the Proletariat," *Leon Trotsky on China*, pp. 529-30.

of the revolution, will grow into a proletarian revolution at a later stage. This is the current doctrine of the Comintern, not only for China but for all the Eastern [i.e., "third-world"] countries. It is a complete departure from the teachings of Marx on the state and the conclusions of Lenin on the function of the state in a revolution. The democratic dictatorship differs from the proletarian in that it is a *bourgeois-democratic* dictatorship. The transition from a bourgeois to a proletarian dictatorship cannot occur as a peaceful process of 'growing over' from one to the other. A dictatorship of the proletariat can replace a democratic, or a fascist, dictatorship of the bourgeoisie only through armed insurrection."⁵⁶

This is the same argument we raised above against the "deformed workers' state" thesis for Eastern Europe. The Chinese case makes clear not only that such a theory has no basis in Trotsky's thinking, but also that Trotsky had argued specifically against it! If China in the 1950's could "grow over" from a workers' government to a workers' state, why couldn't the Chinese Stalinist "Soviets" do the same two decades before? Trotsky had rejected the theory of deformed workers' states when the question arose during his own lifetime.

In the 1980's the American SWP abandoned its claim to Trotskyism and announced that Trotsky was totally wrong about countries like China: he had underestimated the revolutionary capacity of the peasantry (the old Stalinist slander). This gross misreading of Trotsky is implicit in any version of Pabloism; it is made explicit, unfortunately, not only by the rightward-moving SWP but also by some left Pabloites.⁵⁷

THE END OF THE FOURTH INTERNATIONAL

Once the theoretical leap out of proletarian Marxism had been made, practical adaptation was inevitable. Every petty-bourgeois nationalist, Stalinist or not, was deemed capable by the Pabloites of marching down the road towards a workers' state. Tito was first. When he broke with Stalin for reasons of Yugoslav nationalism, the FI not only declared Yugoslavia proletarian but invited the Titoists to join the Fourth International - as internationalists! (Instead, Yugoslavia soon allied itself with Western imperialism and supported the United States in the Korean War.) This was only the first time the FI leaders proved unable to

distinguish internationalism from nationalism.

The conclusive case was the 1952 revolution in Bolivia. Here the International had an influential working-class section, the POR, that could have set a crucial Bolshevik example: Pablo wrote of Bolivia and Ceylon that "power is within reach."⁵⁸ But the Pabloites' growing acceptance of non-proletarian nationalist revolutionary forces led them to capitulate to the "anti-imperialist" bourgeoisie, a policy that had already been prepared at the FI's 1951 Congress. The *Resolution on Latin America* called on the Trotskyists to participate, "free from all sectarianism," in mass populist-nationalist movements such as the Peronists in Argentina, APRA in Peru and the MNR in Bolivia. Specifically:

"In the event of a mobilization of the masses under the preponderant impulsion or influence of the MNR, our section should support the movement with all its strength, should not abstain but on the contrary intervene energetically in it with the aim of pushing it as far as possible up to the seizure of power by the MNR on the basis of a progressive program of anti-imperialist united front.

"... if in the course of these mass mobilizations, our section proves to be in a position to share influence over the revolutionary masses with the MNR, it will advance the slogan of a Workers' and Peasants' Government of the two parties on the basis, however, of the same program, a government based on committees of workers, peasants and revolutionary elements of the urban petty bourgeoisie."⁵⁹

This was an openly Menshevik strategy: a class-collaborationist two-class government of the workers' and bourgeois parties. It was opposed by no section of the FI - to our knowledge, only by one small faction in the American SWP. When the actual revolution broke out in 1952 along the lines predicted, the POR carried out the International's policy. Forsaking proletarian independence and ruthless criticism of all anti-working class forces, it chose instead to support the rise to power of Paz Estenssoro and his MNR - which then used its state power to pave the way for reaction. And the International did nothing to correct the POR's policy once it was seen in action; on the contrary, it encouraged it.⁶⁰

Lenin had renounced the Second International when it proved itself bankrupt in 1914; each of its sections supported its own nation in the imperialist war. Trotsky likewise determined that the Third International

56. "Manifesto on China of the International Left Opposition," *Leon Trotsky on China*, pp. 482-3.

57. For example, the Gruppo Operaio Rivoluzionario of Italy and the Revolutionary Workers Party of Sri Lanka in their joint *Guidelines for the Restoration of the Trotskyist Program and for the Rebuilding of the Fourth International* (1987)

58. Pablo, "The Building of the Revolutionary Party," *Fourth International*, Winter 1958. The majority of the FI later capitulated to bourgeois politics in Ceylon too

59. *Fourth International*, November-December 1951, pp. 211-12.

60. For documentary evidence see the *Proletarian Revolution* pamphlet *Bolivia: the Revolution the Fourth International Betrayed* (1987).

was dead in 1933 when it failed to protest the German CP's collapse in the face of Hitler's assault. In the same way the Fourth International perished as a revolutionary organization because of its inability to correct or even protest the POR's betrayal in action in Bolivia. (That several organizations still call themselves "the" Fourth International or some leading committee of it is irrelevant. Names are easy.)

While the Third International had been both a vanguard and a mass organization, the Fourth was largely restricted to a fragile vanguard. But Bolivia was an exception. Although the FI had capitulated to Stalinism and reformism before, this had been done mainly through resolutions, theories and ideas. Bolivia was a decisive test in practice, and for Marxists -materialists - practice is the decisive proof. Trotskyists above all must understand that working-class gains must be defended until every possibility is exhausted. That is why we date the restoration of capitalism in the USSR as late as 1939. Likewise we place the end of the FI as late as possible: when it was absolutely clear in practice that the proletarian character of the organization was extinguished.

Of course, Bolivia in 1952 did not have the same historical importance as Germany between the World Wars. The German defeat signified an immediate, massive smothering of the proletarian struggle on a world scale as well as the destruction of the International. The Bolivian debacle was a conclusive defeat for the International, and *in this sense* it was also an important setback for the world proletariat.

Imagine what a successful proletarian revolution would have accomplished. Mass upheavals were soon to take place in East Europe, Latin America, Asia and Africa; objective conditions existed for a major reversal of the history of working-class setbacks. A victorious workers' revolution even in a small country could have established the Fourth International as the revolutionary proletarian leadership so desperately needed in all these revolts. A state visibly controlled by genuine workers would have shattered the growing iron curtain of cynicism descending across the world. A workers' Bolivia would have stood as a beacon to the world proletariat like the revolutionary Soviet workers' state after World War I.

The Trotskyists' capitulation to Stalinism was an essential preparation

61. Our method contrasts with the idealism of ultra-leftists who date the end of the Third International to the introduction of a theory, socialism in one country. Similarly, some left Pabloites date the end of the FI to the "centrist positions" adopted in 1951 on Yugoslavia and Stalinism in general: see the pamphlet by the LRCI, *The Death Agony of the Fourth International* (1983), p. 35. An essentially identical position was taken by the U.S. Revolutionary Socialist League in 1983 on its road from Trotskyism to anarchism

for their debacle in Bolivia. After all, if the petty-bourgeois Stalinists could make the socialist revolution, why not radical nationalists like the MNR? In the 1950's the Trotskyists "discovered" workers' states emerging throughout East Europe and in China, Korea and Vietnam. Although they sometimes labelled them "deformed," the very notion of "workers' states" created without proletarian revolutions had corrupted the Fourth International's perceptions. It could no longer appreciate what a genuine workers' revolution would have meant, how differently it would have acted toward fellow revolutions, what a compelling image it would have presented to workers everywhere.

The collapse of the Fourth International does not mean that its program was rendered obsolete. On the contrary, its program was abandoned. The central task of Trotskyists today is to re-examine that program and the distortions made of it under the pressures of the workers' defeats - and to re-create the Fourth International with an updated program based on the foundations established in 1938.

THE PETTY-BOURGEOIS VANGUARD

The FI's capitulation was reflected in its break-up into a bloc of national groups, each finding its own particular brand of Stalinism or social democracy to adapt to. Its major split took place in 1953. The wing led by Pablo and Mandel, the International Secretariat, strove to bury itself indefinitely in the Stalinist and social-democratic parties; the rival International Committee (IC) of Cannon (U.S), Healy (Britain) and Lambert (France) declared its dedication to "orthodoxy" but its leaders carefully kept their own national satrapies independent. We use the terms "Pablo-ite" and "orthodox Trotskyist" interchangeably: the "anti-Pabloite" IC bloc maintained Pablo's deformed workers' state theory and drove it to consequences as bad as any of Pablo or Mandel's. Their orthodoxy can only be taken in the sense that Kautsky was an "orthodox Marxist": they left old formulas undeveloped and therefore could not cope with revolutionary changes in the world.

The crucial dispute in France, for example, was not over the Russian question nor *whether* to surrender the revolutionary party's independence

- but over *which* reformist trend to tail: the Communist Party and the CGT union federation for Pablo, versus the social-democratic SFIO and Force Ouvriere for Lambert. In the United States, the main disagreement between Cannon and Pablo was that Cannon would not permit the Euro pean center to tell the SWP what to do on its home ground. The sub sequent re-fusing of Cannon and Mandel only proved that the original break was not fundamental. Respect for national boundaries is also the key to the pact that keeps the openly anti-Trotskyist U.S. SWP of the 1980's in the same "international" with Mandel.

Further capitulations were outrageous but consistent. A resolution of the Fourth World Congress (of Mandel's wing) in 1954 distinguished China and Yugoslavia as non-Stalinist workers' states, noting that "We do not call upon the proletariat of these countries to constitute new revolutionary parties or to prepare a political revolution." The Fifth World Congress in 1957 hailed the new Gomulka regime in Poland when it gained control of the ruling party, asserting that "The political revolution in Poland had won a first decisive stage," - as if a populist-sounding nationalist Stalinist was a genuine workers' leader. The same resolution hailed Gomulka and Mao Tsetung for defending the right to strike, taking (at best) paper resolutions for reality. The underlying reason for this accommodation was that the Pabloites could not see the Stalinists as members of an alien class, but rather as fellow communists with unfortunate centrist tendencies.

Mandel, endeavoring as usual to provide a theoretical cover, declared that "The global policy of the bureaucracy can be characterized, as Trotsky did, by the notion of *bureaucratic centrism*: by its social nature the bureaucracy tends to pass from one extreme to the other."⁶² This was Mandel's analysis of the rulers of *all* the Stalinist states, not just revolutionary ones (in their time) like China and Yugoslavia. But as we showed in Chapter 4, Trotsky abandoned "bureaucratic centrism" once the Stalinists proved themselves consistently counterrevolutionary in the Spanish civil war. Mandel's cover is transparently thin.

Over the years not only Mao, Ho and Castro, but also Algeria's Ben Bella, Cambodia's Pol Pot and Nicaragua's Sandinistas have received the proletarian palm from most sections of Pabloism. As a rationalization for granting petty-bourgeois elements credit for proletarian tasks, the theory of permanent revolution was reconstructed - not as a strategy for the working class and its revolutionary party based on objective conditions but as a compulsion of history. Proletarian activity and consciousness was replaced by a purely objective historical process taking place behind the workers' backs: the pressures of imperialism forced nationalist leaders down the socialist path. In the words of Michael Lowy, a leading Mandel-ite theorist, "Trotsky, and classical Marxism in general, underestimated the revolutionary potentialities and the political importance of the radical sections of the intelligentsia in the peripheral capitalist societies."⁶³

It is the job of reformists to promote confusion between the workers' state and radical forms of bourgeois government in order to delude the working class and forestall revolution. The task of Marxists is to tell the truth and dispel all such illusions. But Trotskyists have repeatedly

"forgotten" that the change of one government for another is not a socialist revolution; the bourgeois state and its armed power have to be smashed. For example, Mandel's United Secretariat labeled the nationalist Algerian regime a "workers' and farmers' government" in the 1960's, thereby helping to disorient the masses in the face of the 1965 military coup. The militant Chilean workers' illusions in the "popular" or socialist nature of the Allende government of class collaboration - fallacies encouraged by a variety of pseudo-Trotskyists - set them up for slaughter at the hands of the 1973 counterrevolution.

An indication of the death of the Fourth International has been the failure of the large pseudo-Trotskyist organizations to construct cohesive international organizations (not to speak of the "world party of socialist revolution") during the opportunities provided by the revived working-class movement in many countries since the late 1960's. The Cliffites' approach is to wait until strong national sections exist, a policy that leads to a sort of "national Trotskyism," building a party in one country without an internationalist practice. In apparent contrast, the Mandelites have fabricated a multinational organization, with separate and often competing practices in different countries. This is linked to the theory of "objective permanent revolution," which interprets petty-bourgeois nationalist movements as sufficient substitutes for the proletariat so that no proletarian vanguard party is needed at all. In the last analysis all these notions are reflections of the post-World War II defeats of the proletariat and the impressive but temporary rise of Stalinism throughout the world.

PABLOISM SUMMED UP

Whereas Trotsky's "degenerated workers' state" was an analysis of a contradictory and highly temporary reality, the post-Trotskyists' notion of deformed workers' states embalms a historical moment for an entire new epoch. (Mandel frequently says that Stalinism is "frozen" halfway between capitalism and socialism - for half a century!) The degenerated Soviet state was moving backward from advances it had once made on the road from capitalism to socialism; its "deformed" companions are allegedly retreating from positions never achieved. They had to have been born dead: this accounts for the absolutely undialectical idea of societies fixed in place. It replaces the permanent revolution of the proletariat with the permanent counterrevolution of the bureaucracy.

The collapse of Stalinism has created a right-left division among the Trotskyist currents of middle-class Marxism. The most opportunist Pablo-ites and some Shachtmanites, for example, admire the Sandinistas who govern the Nicaraguan state and guide the economy. They see no need to bother with fine distinctions among workers' government, workers' state and socialism; after all, these are all stages in the society that results after

62. Mandel, *De la Bureaucratie* (1977), p. 35.

63. Lowy, *The Politics of Combined and Uneven Development* (1981), p. 159

the bourgeoisie is sent packing and we or people like us are in charge. "Post-capitalism" is a perfectly adequate term for them: it embraces the different possibilities while assuring the end of capitalism, without promising too many specifics to the masses.

The right-wing Pabloites retain all the old rhetoric about internationalism but identify it with a multiplicity of nationalisms, each seeking to unify and defend its national capital. They empathize with popular figures who echo mass outrage against oppression and exploitation and advocate wholesale changes in the system through increasing the power of the state. They have continually adapted to bourgeois and petty-bourgeois elements standing for statification of the national capital: not just the third-world Bonapartists but types like British Labourites Aneurin Bevan and Tony Benn — and now the Soviet populist Boris Yeltsin. (Some even tail open bourgeois demagogues like Jesse Jackson.)

Left-wing Pabloites, on the other hand, feel a stronger allegiance to the working class and a fear of the implications of deep-going market concessions by the Stalinists. But they fall into most of the same traps. For example, none of them (despite their political criticisms of the United Secretariat) have gone beyond the theoretical confusions contributed by Mandel.⁶⁴ The fundamental notions of which he has been the primary defender - the workers' state as a post-capitalist society, Stalinism's ability to overcome the law of value but not scarcity, and the petty bourgeoisie's capacity to replace the proletariat in making the socialist revolution - are retained by all pseudo-Trotskyist defensists.

A useful illustration is the League (formerly Movement) for a Revolutionary Communist International (LRCI). LRCI claims to have basic theoretical differences with Mandel.⁶⁵ In fact it holds all the above Mandelian notions, so its differences are not fundamental; even the differences it has are exaggerated, since Mandel is eclectic enough to assert somewhere or other most of the positions that the leftists claim for themselves. For example, LRCI argues against Mandel that "bureaucratism is not simply an inefficient fetter on the functioning of the planned economy. It actually blocks and threatens the existence of the planned economy." This is true, of course, and is the basis for LRCI's assertion that Stalinism is counterrevolutionary. But it is none other than Mandel's claim that Stalinism is a "frozen" society.

LRCI, like most left Pabloites, insists that the Stalinist revolutions that

created "deformed workers' states" were social and anti-capitalist but not socialist. They mean that the class nature of the countries was changed, but not by the proletariat. This reflects their self-identification with the proletariat, but it also reveals the essence of their world view. Shachtman had a similar position: the Stalinist takeovers were not socialist - but they were anti-capitalist because capitalism had obviously been abolished. To call a social system "progressive" at the same time that it is supposed to be "frozen" or blocked against progress toward socialism implies that it is really a third mode of production intermediate in progressiveness between capitalist and proletarian society.

Left-defensists' attempts to get around the contradictions of Pabloism inevitably demonstrate their similarity with Shachtmanism. One group insists there is a qualitative, not just quantitative, difference between the workers' state and the degenerated workers' state. Another refers to the need for the Stalinist state to be "smashed" by the workers as if it was an alien class structure. Yet another credits Stalinism with an "exploitation of its own kind."⁶⁶ All of these define the Stalinist states as proletarian, yet their theories belie their label and point in reality to a state with an unspecified new ruling dynamic. Indeed, Shachtman himself, at the start of his trajectory to the right after leaving Trotskyism, held that the Soviet Union was a third form of society, progressive with respect to capitalism. We will see in the next chapter that the logic of Pabloism is difficult to distinguish from Shachtman/Cliffism when it comes to political programs as well as theory.

64. The International Committee led by Gerry Healy included some prolific theoreticians writing on philosophical and economic questions. But in forty years they produced not one major work on Stalinism.

65. LRCI, *The Degenerated Revolution* (1982), pp. 92-3

66. Respectively: "The Programmatic Principles of the International Trotskyist Committee," *International Trotskyist Review* No. 1 (1985); "Twenty-two Theses in Defence of Trotskyism," by the LRCI (1987); "Not a True Workers' State," // *Comunista* No. 7 (1982), by the Gruppo Operaio Rivoluzionario. A similar view is held by the Spartacists.

Chapter 8

The Breakdown of Stalinism

1. PROGRAMS FOR REFORM

The contradictions of Stalinist society came to a head spectacularly in the 1980's. The collapse of one regime after another at the end of 1989 culminated a sequence of momentous events succeeding one another at an accelerating pace throughout the decade. As the systemic crisis deepened, it became increasingly clear that Stalinism could no longer rule in the old way. The ruling classes had lost confidence in their economic system and were searching desperately for alternatives. They debated how to reform while grasping for Western assistance - lest they have to deal with what rulers everywhere call "anarchy": social revolution.

The hurricane of revolution that swept across East Europe in 1989 forced the issue. The people of East Germany, Czechoslovakia and Romania drove out the leading Stalinists. Elsewhere the ruling parties escaped obliteration through preemptive renunciations of Stalinist policies: a deal with opposition politicians in Poland, a self-transformation to social democracy in Hungary, a CP housecleaning in Bulgaria. Looking on benignly was the Soviet regime occupied with its own crisis, a combination of economic disaster and disintegration of its internal empire.¹

Whether achieved by the masses directly or not, all the transformations were made under the threat of mass action - and in fact under working-class pressure. In East Germany, it was the hemorrhage of the CP's base in the factories that forced the hardline Stalinists to surrender; in Czechoslovakia, the workers' massive participation in a general strike; in Poland, the revival of nationwide strike waves. In the Soviet Union, the whole reform process had been triggered by the Polish working-class revolt of 1980-81, which forced the rulers to face the prospect of rebellion by their own workers and subjugated nationalities.

For Marxists the upheaval is a tremendous confirmation of the social power of the proletariat, despite the gloating by bourgeois ideologues over

the "end of Marxism" - and even though the workers are hardly conscious of their class role. The class conflict, of course, is by no means resolved. Governments have fallen; statified capitalism remains. One form of capitalism is being shunted aside; *political* revolutions are taking place. The *social* revolutions to end the underlying system of exploitation are yet to come. We cannot chronicle the full record of Stalinism's breakdown - especially since it continues and deepens as we write. But we can analyze the programs created to deal with the crisis. We start with the most prominent programs for reform: first Polish Solidarity's "self-management," then Mikhail Gorbachev's perestroika and glasnost. We then turn to the more drastic changes now being proposed in East Europe, which are still undergoing debate and change. Lastly we consider the necessary revolutionary program and those claiming the mantle of Marxism. The East European revolt provides a fitting conclusion to this book, since it puts to the test of practice the theoretical analyses we have been dealing with throughout.

SOLIDARITY AND THE MKS

The mass movement in Poland in 1980-81, where Stalinism's decade of collapse began, posed a head-on challenge to Stalinist power and raised the specter of proletarian revolution throughout the region. It illustrates both the workers' revolutionary capacity and their programmatic problems.

There had been eruptions in East Europe before: in the 1940's when the old bourgeois order ended; in the 1950's after Stalin's death, in Germany, Hungary and Poland; in the late 1960's and 1970's in Poland and Czechoslovakia, when the international crisis of capitalism made itself felt. In the late 1970's the ruling CPs tried to buy off the workers with consumer goods and industrial jobs by getting massive loans from the West. But a few years later, when their investments proved unprofitable and the debts had to be paid, the regimes turned to austerity. Poland was in the worst position, and the workers struck back.

After a two-month strike wave across the country, the Gdansk workers' occupations and general strike forced the regime to yield extraordinary concessions in August 1980. CP head Gierek was ousted, his government was forced to resign and its successor had to yield to the 21 demands of the Gdansk Interfactory Strike Committee (MKS). The MKS was a genuine central workers' council in the tradition of the Paris Commune of 1871, the Petrograd Soviets of 1905 and 1917 and the German and Spanish workers' councils of 1919 and 1936. Workers from all enterprises in the region sent delegates, debated and adopted their program, and decided which enterprises and services in the city would run and which would not.²

1. For fuller analysis of these events see *Proletarian Revolution*, Nos. 33-36

2. The flavor of the debates was captured for Western readers in Bernard Guetta's reports in *Le Monde* (Paris). See *Socialist Voice* No. 10.

The MKS's economic demands included equalizing the distribution of consumers' goods through rationing and abolishing nomenklatura privileges; maternity leave and child care; and special demands concerning retirement, pensions and housing allocation. There were political demands for freedom of speech and the press (including the dangerous demand for access to national television for the Church without similar guarantees for workers' organizations). There were trade union demands: the rights to strike and to organize unions independent of the state and ruling party. There were demands reflective of the Trotskyist Transitional Program (see below): the sliding scale of wages to counter inflation, workers' control of production and opening the books of enterprises to the workers.³

More important than the specific demands was the MKS itself, an instrument of dual power. The Stalinists knew that it was a threat to their class rule the longer it lasted and the deeper grew workers' consciousness of their own ability to run society. They could not deal with it by ordinary methods of promises and repression. That is why the regime was ready to yield to any concession, temporarily in its view, in order to get the MKS to vote itself out of existence.

The workers' only adequate response would have been to go further: to create a revolutionary proletarian party to contest for state power. It was a step backward to abandon the MKS in favor of a trade union, as was done through the Gdansk Accords. The union the workers formed, Solidarity, grew to national movement of 10 million workers and supporters, 80 percent of the workforce nationwide. But it was a major retreat politically, embodying illusion that an economic struggle, as opposed to a struggle for state power, was sufficient to win the workers' needs.

The Solidarity period was a Marxist textbook on the roles of the revolutionary and reactionary classes. On the one side, the workers fought as the tribune of the entire people for freedom and equality - a fulfillment of permanent revolution, despite their misguided and self-disarming rejection of their bosses' "socialist" terminology and their faith in the Church. The central role of the working class was established once again, since all the petty-bourgeois forces looked to the workers to solve their problems. The workers' movement opened the field to all political tendencies, inside and outside the working class. Some of Solidarity's middle-class supporters, notably the former Marxist Jacek Kuron, promoted a "self-limiting revolution" that would not challenge Stalinist rule. The Catholic Church took advantage of its social privileges and independence of the

3. The complete set of demands, along with other programs, is in *Labour Focus on Eastern Europe*, Spring-Autumn 1980

party to play a similar treacherous role. Both of these capitulatory forces were accepted as trusted advisers by the workers' leadership under Lech Walesa, who himself reflected the outlook of the petty-bourgeoisified sector of the working class, the labor aristocracy.

On the other side, the Stalinists joined in an unholy alliance with the Church as well as Western statesmen and businessmen to keep the movement within safe bounds. Despite assertions of enthusiasm for the workers' achievements, what they all wanted was moderation. For the fifteen months of Solidarity's legal existence, its leaders wavered in the face of the government's provocations and sheer inability to run the economy. The union demanded a share of power through a tripartite arrangement with the Church and party; the party hesitated and temporized, encouraging mass discouragement to build up against the incessant strikes and also allowing time for military preparations. In December 1981 the regime took advantage of Solidarity's disarray to smash the "counterrevolutionary" threat. Far better prepared than the alleged counterrevolutionaries, the military swept up the leadership and outlawed the union.⁴

"SELF-MANAGEMENT" PROPOSALS

Since its Congress in 1981, Solidarity has advocated an economic policy of "self-management" to solve the Polish crisis. The term had been used previously notably in Yugoslavia, but this time the program was advanced from within the working class, not just the bureaucracy. Self-management entails two things: independence of the individual enterprises so that the bosses are not directly beholden to the ruling party; and elected workplace councils representing the workers. The Polish regime put forward, and partially carried out, a similar policy under the same name, with a less independent role for the workers.

Within Solidarity there were two movements for self-management. One, the Network of Large-Scale Enterprises, was made up of factory delegates from hundreds of enterprises. The Network advocated a "Law on Social Enterprises" to be adopted by the Sejm, the Polish parliament. According to this proposal:

"The social enterprise manages its affairs in an autonomous fashion on the basis of an economic calculation. It is endowed with a juridical personality that embraces all its employees. The latter manages that portion of the national wealth which has been entrusted to them, and

4. For ongoing analyses see the *Socialist Voice* articles "Poland: Solidarity Forever?", No. 13 (1981); "Polish Workers Under Siege," No. 15 (1981); "How Solidarity Snatched Defeat from the Jaws of Victory," No. 16 (1982). The last refutes the regime's claims of counterrevolution.

administers it through their self-management body. ... The entire body of self-management employees disposes of the property of the enterprise, lays down the general lines of its activity and development and decides on how profits should be redistributed."

The self-management council would exist separately but side-by-side with a trade union (preferably Solidarity, not the government-sponsored union). According to one sympathetic observer, "While the latter had the job of defending the interests of the workers as producers, the council represented the wishes of the personnel as employers."⁵ This would be a highly contradictory situation, especially since the independence of the enterprises as advocated would inevitably pit the workers of one factory against those of another in competition for markets and investment funds. State planning would be mostly "indicative," not compulsory. Just how the separate enterprises would be coordinated was not settled. Some advisers promoted a free market, others combinations of planning with the market. The regime denounced all such plans as "anarcho-syndicalist." The Network replied that nothing decentralist or revolutionary was involved:

"We are accused of wanting to prevent society from influencing the definition of economic objectives and the means of attaining them, and to deprive the socialist state of any power in the running of the economy and the attainment of social objectives. ... However, our project has nothing to do with group property or with the idea of transforming Solidarity members into shareholders in the workplaces. ... We do not want to change the system, but we do want to go back to a working-class version of socialism. ... How could we accept the idea that the workforce of an enterprise should play a role analogous to that of a capitalist property owner? The Network's project clearly declares that the enterprise must meet overall social objectives because it belongs to the whole people."⁶

However, a proposal that stresses the autonomy of the separate enterprises is not "a working-class version of socialism" - and it inherently raises the idea that at least the self-management council of a firm (if not the workers as a whole) would operate like a capitalist property owner.

The reformist character of the proposal is also clear from another Network notion, that the self-management councils should be represented in the Sejm in a new chamber. Many saw this as a device for assuring the authorities that "we do not want to change the system," a kind of power-

sharing whereby the workers and the bosses would each have their separate houses of parliament. But the rulers understood that their power would be threatened by a separate economic chamber, especially one that was seen by workers as an independent institution of working-class state power. (Recall Trotsky's comment about nationalized property as a tempting object for the proletariat.) As a reform demanded of the bureaucracy, this was doomed to be rejected.

Others in the Network regarded the parliamentary proposal as a call for dual power, an arrangement that would sooner or later undermine the bureaucrats' control of the state. The current CP/Solidarity coalition might be taken as a close approximation of this idea, and the result has been to incorporate the "workers' representatives" into the bosses' state, not to give the workers a share of power. As Marx and Lenin long ago pointed out, workers' power can only come into existence by smashing the ruling-class state apparatus, not by trying to nibble it away.

The second movement for workers' self-management was known as the Lublin group. Their proposal was more radical than the Network's in that it excluded management from the enterprise councils and also called for regional and national coordination of councils, including a permanent national organ of coordination. As well, the Lublin group expected to adopt self-management not through deals with the regime but by direct workers' action. In the fall of 1981, workers in Lodz, one of the group's strongholds, used "active strikes" (in which the workers stay on the job but distribute their products as they, not the bosses, decide) to compel local authorities to step aside. The Lodz workers succeeded in taking control over food distribution and the rationing system. This was indeed an element of dual power.⁷

On the other hand, the Lublin group's "Ten Commandments for Workers' Councils" repeated the Network's notion of a second chamber of parliament. Their hope was that sharing the power would counter the state's ability to intervene in industrial disputes on the wrong side. But by trying to establish workers' power in the framework of the existing state the Lublin leftists also contributed to reformist illusions.

SELF-MANAGEMENT IN PRACTICE

On the eve of the Solidarity National Congress in September, the CP drafted a self-management bill of its own, based on the "three S's" (in Polish): enterprise autonomy, self-financing and self-management. The bill

5. Jean-Yves Potel, "Solidarity and Self-Management," *Labour Focus on Eastern Europe*, Summer 1982.

6. Adam Swinarski, quoted in Zbigniew Kowalewski, "Debate over Workers' Self-Management," *Poland: The Fight for Workers' Democracy* (1988)

7. Zbigniew Kowalewski, "A Polish Petrograd," in *Poland: The Fight for Workers' Democracy* (1988). See also Timothy Garton Ash, *The Polish Revolution: Solidarity* (1983), p. 254.

specified that the workers were to be "consulted" on appointments to management positions, but the power to decide would remain with the party. In response, the Solidarity Congress affirmed its acceptance of workers' self-management in reformist form. Its program read:

"Genuine workers' self-management will be the basis for a self-governing republic. The system which binds together political and economic power and is founded on continual interference of Party activists in the functioning of economic enterprises, is the main cause of the crisis in which our economy finds itself. It is also the cause of an absence of equality of opportunity in professional life. The Party 'nomenklatura' system makes any rational staffing policy impossible, and makes millions of non-Party personnel into second-class workers. Today, the only possible way of changing this situation is the creation of genuine workers' self-management councils, which would make each workforce into an authentic manager of the enterprise."⁸

The idea of "unbinding" political and economics is an impossibility that reflects illusions in the Western economies. The program again called for a second economic chamber of the Sejm, adding that parliament "should have the role of the highest authority in the land returned to it and, by changes in the law, regain a genuinely representational character." The proposal left the state apparatus intact - but by this time its specifics were secondary. Events - taken in hand, ironically, by the overlooked state apparatus — did not wait for the resolution of policy debates.

After the military coup, the regime kept denouncing the union's self-management ideas while at the same time espousing its own. Jaruzelski's plan was similar to programs already carried out in Yugoslavia, Hungary and China, involving material incentives and increased privatization of the economy at the small business level. This scheme demanded further dependence on foreign investments and loans, hence making Poland even more debt-dependent and a source of cheap-labor goods for the world market. So the unstated requirement was severe repression or a reserve army of the unemployed to keep wages low, serious wage cutbacks and higher consumer prices so the workers don't eat up what they produce.⁹ "Self-management" or not, this has been the story of Jaruzelski's Poland.

But the Stalinist regime could not hold its own against the economic crisis and the masses' non-cooperation. In 1989 the Solidarity leadership came to the rescue of the beleaguered Stalinists. After the party agreed to partly free elections and then lost them disastrously to a parliamentary

group of Solidarity advisers, Walesa brokered a coalition government under a Solidarity prime minister, Tadeusz Mazowiecki. General Jaruzelski assumed the presidency, and Stalinist ministers remained in charge of the army and police — people who will not flinch when it came to using armed force against workers.

The massive electoral defeat of the Stalinists was no real victory for the working class itself, although it reflected the continual class struggle. Walesa's faction of Solidarity, backed by the Church and Western authorities, took responsibility for holding back the workers' struggle in order to guarantee the state's economic interests. The Polish governmental bloc amounts to a classical popular front designed to save a hated and weakened ruling class from mass opposition. Most of the Solidarity parliamentarians have abandoned any idea of self-management and have turned to bourgeois liberal economic theories (many had had such views all along). That the "social democrats" as well accept the anti-worker program that the bloc promotes shows that the fundamental logic of "self-management" is not workers' control but enterprise independence. And from that base, a market free for exploitation is not a surprising conclusion.

One organization that still defends self-management is the Polish Socialist Party/Democratic Revolution (PPS/RD), which split from the social-democratic PPS in 1988. The PPS/RD supported the 1988 strikes when the PPS leaders opposed them, and it appealed for a boycott of the 1989 election because of the pre-arranged bloc between Solidarity and the CP. But despite its radicalism the PPS/RD lacks a revolutionary program. When the Jaruzelski/Mazowiecki regime was installed, the PPS/RD issued a statement warning that Solidarity in government "does not mean that the society has taken power" — but adding that "nevertheless, the establishment of this government opens up the possibility of realizing social aspirations." In this spirit the statement advocates such programs as "putting the economy under the direct control of the producers" and "setting up of social control over production exercised by self-managing councils of workers, agricultural workers and artisans organized in self-managing chambers regionally and nationally." The implication is that the new cabinet could be instrumental in carrying out such ideas. "Tadeusz Mazowiecki's government," the document says, should empower workers' food commissions created by Solidarity and "in agreement with Solidarity, must undertake a radical reform of the wage system."¹⁰

Such notions reveal great illusions in the intentions of a regime that was created to incorporate the working class into an austerity program. But

8. Colin Barker and Kara Weber, *Solidarnosc: From Gdansk to Military Repression* (1982), p. 67.

9. See *Socialist Voice* No. 16 (1982), p. 8

10. "Declaration of the Wroclaw Regional Workers' Committee of the PPS/RD," *International Viewpoint*, October 16, 1989.

that is again the logic of self-management. The problem is deepened by the fact that middle-class left-wing formations that have sprung up in the other post-Stalinist East European states are producing similar reform programs. The common theme is workers' self-management of the economy combined with a "democratic" state structure.¹¹ What is never proposed is a specifically *proletarian* state based on workers' organizations in power — the only guarantee of genuine mass democracy. On the other hand, the workers' impulsion to class struggle against super-exploitation will inevitably break them from the middle-class leaderships that lead to disaster.

THE NOVOSIBIRSK REPORT

Solidarity was suppressed in 1981 but its impact was widely felt. When Soviet chief Leonid Brezhnev died in 1982, he was replaced by a bureaucratic reformer, Yuri Andropov, who had to contemplate the image of a crisis-racked USSR in the cracked mirror of Poland. And although Andropov himself died a year later after accomplishing little, his protégé Mikhail Gorbachev gained the top post in 1985 and set about on an earth-shaking program of domestic and foreign policy reforms. These loosened the reins of power and paved the way for the explosions of 1989. What the working-class movement sowed it now has a chance to reap.

In order to understand the Gorbachev reforms, we turn to the secret "Novosibirsk Report" of 1983. Written by Academician Tatyana Zaslavskaya, a Soviet sociologist who has been one of the most consistent advocates of reform before and during the Gorbachev years, it was issued by a leading economics institute and leaked to the West. It provides a key theoretical foundation for perestroika. Because of its historical and theoretical importance we summarize its proposals and ideology.¹²

Zaslavskaya begins by denouncing the bureaucratic mismanagement rife in the Soviet system, even making her main point in apocalyptic Marxist-cal language: "The present system of production relations has substantially fallen behind the level of development of the productive forces. Instead of enabling their accelerated development, it is becoming more and more of a brake on their progressive advancement."

These words are a direct echo of Marx in the *Preface to the Critique of Political Economy*: "At a certain stage of their development, the material forces of production come into conflict with the existing relations of production ... within which they had been at work before. From forms of development of the forces of production these relations turn into their

fetters. Then begins an epoch of social revolution."

Zaslavskaya's Marxism, however, is empty verbiage. She uses "relations of production" only in the narrow sense of personnel management relations — how to discipline the workers; in no way is she challenging the existing class relations. Thus she goes on: "One outcome ... is the inability of production relations to provide modes of conduct for the workers in the socioeconomic sphere that are needed by society."

In the guise of blaming the system for the workers' faults, Zaslavskaya's purpose is to blame the workers for the system's faults. She lists the problems: part-time effort, absenteeism, passivity and disinterest in work, alcoholism, even "stoppages" - in general, a lack of discipline. But from these ills she exonerates the elite of Soviet labor, "the main nucleus of skilled workers," who "work honestly." Clearly she believes that the great majority of Soviet workers are less than honest.

What she is really saying - and here of course she avoids using Marxist terminology - is that the underlying reason for Stalinism's crisis is its inefficient exploitation of the working class. Zaslavskaya does not grasp or wish to acknowledge that the problems she lists are just manifestations of the class struggle, the day in and day out resistance that workers put up against the impositions of their bosses. Whether or not the bosses' demands are made in the interest of efficiency, the workers fight back. It is not dishonesty that makes them do it, but capitalist relations.

Why should the situation be so bad? Why can't the workers' "dishonesty," their lack of cooperation with the needs of the system, be controlled? Zaslavskaya recalls the old days under Stalin, when workers were disciplined not only by a strong police state but also by concealed economic pressures:

"Although formally speaking there was no unemployment in the country, in many areas and branches there were hidden structural labor surpluses. Fear of losing his job and difficulties in finding a domicile hampered the workers's mobility and firmly bound him to the enterprise. Migration of the rural population to the towns was limited by the in-existence of passports ... Therefore the main body of workers did not have a choice between work and leisure: the majority strove to work at full capacity." But now things are different. In an interview in *Izvestia* she explained: "The overall level of well-being in the country has risen significantly. This has lessened the economic necessity of working hard in order to earn one's living. Many people have the opportunity to choose: if they want to, they dedicate themselves to their work, and if they don't want

11. See, for example, Boris Kagarlitsky's version in *International Socialism* No. 45 (1989), p. 104.

12. We use the English translation published in *Survey*, Spring 1984

to their participation in social production is very limited.¹³

But what is needed is not just more and better discipline, order, regulation and control — although the Novosibirsk report advocates all of these. The real situation is worse than simple malfeasance by the workers. Discipline as it has been applied, through orders from above, does not work. Central regulators are ignorant of specific, local conditions; arbitrary rules that obviously don't apply are flouted both in letter and in spirit; the proliferation of contradictory rules gives malingerers the choice of which ones to obey.

Above all, it seems that the bosses also undermine the economic discipline needed by the system. Here Zaslavskaya is on treacherous ground. Whereas under capitalism, she argues, the conflict between productive forces and productive relations leads to an intensified class struggle; under socialism, on the other hand, there is nothing of the kind — yet things are pretty much the same. Citing the prevailing view "developed in political economy textbooks" that improvement of outmoded production relations can take place "without social conflict," she responds carefully: "we must express doubt."

"The process of perfecting production relations under socialism runs a more complicated course than is commonly suggested, to the extent that the reorganization of the existing system of production relations is given over to social groups that occupy a somewhat more elevated position within this system and accordingly are bound to it through personal interest."

There are no privileged classes, of course, just a few groups in "a somewhat more elevated position within this system" - who have the power, moreover, to organize production in their own personal interest, and if necessary even prevent the "perfection" of the productive methods. The way to get around the obstacles created by self-interested bureaucrats, she says, and at the same time to enforce economic discipline on the workers, is to make discipline itself a matter of workers' self-interest. It should be regulated not by distant officials but, on the one hand, by local managers whose individual interests will in theory coincide with the need to make their own enterprises work productively; and, on the other, by the central state planners who genuinely have the interests of all of "socialist society" at heart. The tools these layers are to be given are called "economic methods of management" or "incentives" - both carrots and sticks. What Zaslavskaya proposed concretely was 1) to eliminate layers of intermediate bureaucrats in the ministries and departments ("which patently suffer from hypertrophy"), officials whose squabbling and

interference get in the way of efficient planning and production; and 2) to set up forms of economic incentives for workers. In her *Izvestia* interview she spelled this out, again paraphrasing Marx:

"First of all, most of [the forms] are in full accord with the economic laws of socialism. That's the most important thing. When things are organized efficiently, people receive remuneration according to their work. In the process, of course, pay differentiation increases, as a rule. But that is a direct and natural result of the rising labor productivity of active people." However, the formula "to each according to his work," implied by Marx in his *Critique of the Gotha Program*, has nothing in common with increasing pay differentiation (see Chapter 3). It entailed the revolutionary abolition of classes, money, wages and the other remnants of capitalism. It described the distributive methods of the lower stage of communism, a classless society based on common ownership and collective production in which the ultimate of "bourgeois" equality would be achieved: if you work eight hours you receive goods equivalent to eight hours' work, *without* differentiation.

In echoing Marx's words Zaslavskaya was really echoing Stalin's lying translation of the early 1930's, when he tried to expunge the Bolshevik goal of reducing inequality. Under a labor-commodity system, the formula "to each according to his work" is an essential part of the law of value, a means for one class controlling another. The only thing "natural" about increasing pay differentiation is that it naturally occurs in capitalism, under whose economic laws workers are compelled to compete against one another. The virtue of Zaslavskaya's report is that it reveals the class-based nature of the reform program - through a thinner layer of veils than we get from the reformist politicians themselves. The bureaucracy has to be streamlined in order to more effectively employ the law of value — for stricter discipline and deeper exploitation of the working class.

GORBACHEVS PERESTROIKA

As it has developed over the years, Gorbachev's economic restructuring is hardly a scientifically worked-out package. Nevertheless its general direction has been clear, along the lines drawn by Zaslavskaya. There has been obvious resistance within the bureaucracy - even within the Politburo, given the frequency of shake-ups at the top. In mid-1987 measures were announced that represent a victory for the radical wing of the restructuring spectrum; but by late 1989 the changes had been carried out in limited fashion only. We summarize its chief elements.

Most enterprises are no longer to be subject to directive planning but instead will have to meet profitability criteria. Abel Aganbegyan, Gorba-

13. Zaslavskaya, *Izvestia*, June 1985; translated in *Current Digest of the Soviet Press*

chev's adviser and an advocate of Western-style management techniques, said that "the state-controlled sector of the economy will be reduced from 60% of the total to 25%, leaving little but military production under central control." As well, firms were promised financial autonomy and will therefore face an end to state subsidies and control; they will have legal freedom to trade in producer goods.¹⁴ Gorbachev spelled it out:

"The new economic mechanism means fundamental changes in the system of material and equipment supplies to factories - transition from centralized material and equipment supplies to wholesale trade in means of production goods. Factories should be able to buy with money they have earned anything they need for manufacturing, construction and modernization schemes, and social services."¹⁵

This speech came at the Central Committee plenary meeting in June 1987. The major result of this session was a new law on state enterprises which formally strengthened the independence of firms as "juristic persons" (reminiscent of the U.S. legal system's extension of Constitutional rights to corporations); they are no longer bound but now only guided" by the state plans:

"Guided by control figures, state orders, long-term scientifically substantiated economic normatives and ceilings, as well as consumers' orders, the enterprise independently works out and confirms its own plans and concludes contracts. ... Enterprises operate in conditions of economic competition among themselves, a highly important form of socialist competition, for the fullest possible satisfaction of consumer demand for efficient, high-quality and competitive output with the smallest possible outlays. The enterprise which ensures the production and sale of the best output with the smallest possible costs obtains a large economic-accountability income and an advantage in its production and in pay for its employees."¹⁶

This reads as if Gorbachev and his allies were trying to make clear that state ownership is no barrier to operation according to capitalist principles. Of course, these measures represent not a return to law of value but a more direct application of it. The Gorbachev changes are intended to get the competitive drives to work more effectively. Proposing them is significant evidence of the rulers' intentions and needs - even though they have been very incompletely carried out.

A significant symbolic gesture was the rehabilitation of Nikolai Bukhar-

in, executed in 1938 by Stalin as a criminal spy and wrecker of the economy. Bukharin's reputation is being resurrected in order to give historical legitimacy to NEP-like policies of encouraging individual incentives and perhaps individual farming. Bukharin's favoring of openings to the world market, in opposition to Stalin's national autarky, is also admired.

The USSR has indeed made changes in the sphere of foreign trade. It reduced its oil exports, crucial for obtaining Western currency, in order to avoid undercutting OPEC's oligopolistic but decreasingly effective price controls; it has offered to join GATT, the capitalist trading group; and has called for joint production arrangements with Western firms interested in operating in the USSR. Most startling was the announcement in 1986 that 20 ministries and 70 large industrial firms will soon have the right to trade directly with foreign firms - in effect cancelling the state-centralized monopoly of foreign trade. This partial opening is an attempt to force internal reforms upon the reluctant wings of the bureaucracy through foreign competition.

Gorbachev has dismissed hundreds of high-level officials, ranging from Brezhnev's cronies in the Politburo to party and state leaders of national, regional and local bodies. In theory he is carrying out the Novosibirsk plan of eliminating unnecessary and inefficient middle bureaucrats, in the interest of the national capital as opposed to localism and parochialism. But he has not targeted only the exalted. Zaslavskaya's incentive wage schemes have been officially promulgated as well, although it is too early to tell how deeply they can be carried out in the face of working-class opposition and resistance. According to the Soviet news agency Tass, echoing Zaslavskaya's Stalinistic distortion of Marx:

"The main aim is to enhance the entire pay system, to create a direct dependence between the amount and quality of work and pay, and to make the growth of pay dependent on the increase of labor productivity. The restructuring of the pay system is aimed at insuring that the wages of each person are strictly in accordance with the volume of his or her contribution to national wealth."¹⁷

Gorbachev promised that the reforms will allow workers to increase wages to whatever they can earn; but this is a cover for introducing unemployment and inflation, leading to a *reduction* of the average worker's real wage. Along with the greater wage differentiation promised through perestroika comes the prospect of shutting down enterprises deemed to be unprofitable - although the arbitrariness of prices means that such a determination would be grossly inaccurate. In any case, Aganbegyan has proposed "restructuring" hundreds of obsolete firms out of business, and

17. *New York Times*, September 2, 1986.

14. Aganbegyan, interviewed in *Le Monde*, June 28, 1987.

15. Gorbachev, *Moscow News Supplement*, July 12, 1987.

16. The Law on State Enterprises I, *Izvestia*, July 1, 1987; translated in *Current Digest of the Soviet Press*

Prime Minister Ryzhkov announced that 13 percent of enterprises might be forced to close. Another economist predicted that 13 to 19 percent of all non-service jobs might be eliminated by the end of the century.¹⁸

Gorbachev and his allies do not wish to restore traditional capitalism or even to decentralize the economy in the interest of local bureaucrats or managers. On the contrary, their purpose is to weaken the ministerial satrapies in the interest of the national ruling class as a whole. Inefficient local managers will be made to modernize or get out of the way. The state will increasingly come to serve the particular interests of the strongest firms as most representative of the general interests of the ruling class. Indeed, the epochal trend toward economic concentration and centralization applies under Stalinist reformism: even though central administration is reduced the monopolies will still grow at the expense of their rivals.

As an example of an enterprise operating under the new reforms, consider the Nevsky Works in Leningrad which the author visited as part of a group of visiting economists and trade unionists in 1989. This machinery factory with 10,000 workers had been removed from ministerial control under perestroika, but it had quickly joined an association of 16 enterprises, Energomash, which now monopolizes Soviet production of oil pumping machinery. The director claimed that the association operates similarly to an American corporation. "We now produce our equipment to order, in contrast to before when we had to follow Gosplan's orders. We deal directly with customer-enterprises; we have our own foreign trade firm and export-import operations." A workers' council elects the manager every five years; in addition, it has the right to control investments from the firm's domestic sales, which it uses mainly for increasing housing and leisure facilities. But the firm's foreign sales, which supply hard currency, are invested at management's discretion, mainly in the expansion and modernization of productive equipment.

Despite occasional success stories, perestroika has not had a positive overall impact. In breaking the ministries' monopoly of economic power, the center has created, in effect, independent economic statelets throughout the country. Republics and regions use the widespread shortages to reserve local output for themselves - a practice which only intensifies shortages. By the end of 1989 living standards had declined perceptibly, supplies of food and consumer goods were worsening, and as a result strikes, absenteeism and job turnovers were up. Published reports showed "a failure to meet targets in almost every major economic sector."¹⁹ The systemic crisis that engendered perestroika has only been exacerbated.

PERESTROIKA AND GLASNOST

Efforts are being made to enlist sectors of the working class, the upper layers especially, behind the reforms - along with the already enthusiastic intelligentsia. This is a major purpose of glasnost, the growing series of reforms that first removed restrictions on public activity like writing, speaking and meeting - and then allowed partially free elections to a new governing body, the Supreme Soviet. These measures give the illusion of mass participation in decision-making and are designed to win the population to support perestroika by methods of persuasion rather than force. Gorbachev is a master politician facing an unmasterable task. During the Soviet coal miners' strike wave in July 1989, for example, he announced that the miners were acting on behalf of perestroika, and he took the opportunity to eliminate a few more reluctant bureaucrats - but he subsequently gave the game away by proposing a ban on strikes. He clearly needs to open safety valves in the face of the developing and inevitable austerity measures. Aganbegyan supplied the ideological justification: "Perestroika is a difficult and painful process. Its success is determined by the socio-political climate of the society in which it occurs. ... Karl Marx wrote: 'An idea becomes a material force when it takes hold of society.' The idea of perestroika must come to grip society for perestroika to move into gear. But how can this transition to a new way of thinking and an understanding of new tasks be assured? Here the media of mass information are of inestimable help. Glasnost, truth, criticism and self-criticism are the instruments that will effectively prepare for the new consciousness."²⁰

That the reformers regard a degree of openness as a necessary accompaniment to their economic proposals is a victory for Soviet workers. But it is still necessary to be on guard: perestroika is a tool of exploitation, and glasnost, as Aganbegyan says, is its instrument. Tragically, this is not clear even to non-bureaucratic Soviet leftists in the Federation of Socialist Clubs, whose founding manifesto asserts that "the life and death of socialism in the USSR hang on whether perestroika succeeds."²¹ In this spirit, Boris Kagarlitsky, a leading figure in the Federation and the most widely cited and published Soviet leftist in the West, advocates a strategy of compromise with the reformers: "We don't want to destabilize the situation ourselves. We want to be loyal to the Gorbachev experience insofar as it remains progressive and brings more democratization."²² Such a strategy forgets that in reality it was the workers' struggle that created

18. Vladimir Kostakov, quoted in the *Economist*, December 26, 1987.

19. *Financial Times*, January 26, 1990

20. Aganbegyan, *The Economic Challenge of Perestroika*, p. 31.

21. Cited by Alexander Cockburn, *The Nation*, December 12, 1987.

22. Kagarlitsky, interviewed in *International Viewpoint*, November 28, 1988.

Gorbachev, not the reverse.

Gorbachev is plainly eager to win greater legitimacy for the ruling party by establishing recognized links with the population. It is not just a matter of currying popular favor but also of institutionalizing the regime's power through plebiscitary methods of mass approval. In this way he seeks to increase his own individual authority as Soviet president and that of leading local bureaucrats by placing them in top positions in the newly empowered parliamentary Soviets. If he succeeds, he will have laid the basis for a new Soviet Bonapartism with the potential of whipping recalcitrant sectors of the populace, notably the mass of workers, into line.

Despite their quotations from Marx, Gorbachev and his aides have welcomed viciously anti-working class ideas from some theorists in order to combat workers' resistance to the loss of hard-won gains. A leading and unusually frank liberal economist in the perestroika camp wrote:

"The real possibility of losing one's job, of being shifted to a temporary unemployment subsidy, of being forced to move to a new place of employment is not at all bad medicine to cure sloth and drunkenness.

Many experts believe it would be cheaper to pay unemployment compensation than to keep on loafers who can (and do) ruin any efforts to raise efficiency and quality."²³

It goes without saying that the reformers who bemoan Soviet economic performance also glorify Western capitalism. Shmelev for one regards the economic pressures operating under traditional capitalism as "natural laws of economic life" and "motives for work that are natural to the human being"²⁴ - ignoring the fact that humanity existed for centuries without the benefits of mass unemployment and enslavement to wages. Aganbegyan as well is said to think that Marx and Engels were overly idealistic in denying the bourgeois objection that "upon the abolition of private property all work will cease and universal laziness will overtake us."²⁵

But as Marx and Engels understood, under capitalism those who work acquire nothing and those who acquire property do not work. The notion that every worker can just work harder in order to become a small property owner is the central petty-bourgeois illusion refuted by the historical development of capitalism itself, which destroys small property. Aside from the temporary promise of a few material goods, the only "incentive" capitalism offers to workers is the threat of starvation. On the other hand, under communism, when property has become genuinely classless and col-

lective and the threat of scarcity is overcome, the incentive for work will not be "natural" starvation but the human need for individual and cooperative creativity and development. The fact that nothing of the sort ever occurs to people who are supposed to be formally trained in Marxism is a deep reflection of the anti-working class basis of Soviet society.

The cynicism of the intellectual bureaucrats is profound. In effect they are saying: We worked hard to create a productive, humane society and to educate the workers and peasants out of their brutish backwardness. But when they get a better life than under the Czar or Stalin, what happens? They get lazy, drunk and dishonest, and won't do a day's work for a day's pay. They deserve the lash of capitalist methods to whip them into shape. The "Communist" intellectuals' thinking is like that of pseudo-leftists in the Western intelligentsia, who also conclude that the masses have failed them and that communism is therefore Utopian.

2. POST-STALINIST CAPITALISM

Compared with the economic reforms in other Stalinist countries, the Soviet project has taken a long time to prepare and shows minimal results. Gorbachev's inability to achieve thoroughgoing "reform," despite all his adroitness and publicity, is fundamentally due to the resistance of Soviet workers. Their egalitarianism is a distinct achievement of the 1917 revolution; it was an obstacle to the brutal Stalinist accumulation drives in the past and it blocs the more sophisticated Stalinism of today. That is, the real barrier for Gorbachev is not the party conservatives but the proletariat in the land of the defeated but not forgotten proletarian revolution. The egalitarian resistance is not a heritage of Stalinism, as some bourgeois observers claim, but a legacy of the fight against it, an echo of the working-class struggle against Stakhanovism in the 1930's.

THE REFORMS ELSEWHERE

In the other Stalinist countries there is no direct revolutionary proletarian heritage. Nevertheless resistance there is growing as well, because of the stepped-up exploitation of the workers.

China after Mao's death went farther and faster than Gorbachev's Russia. Agriculture was quickly decollectivized and petty-bourgeois production encouraged in town and country, leading to a great income differentiation among the peasantry and an exodus of poor peasants to the cities. Industrial managers were granted great leeway over wages and investment. The combined effect was to create sub-proletarians with no guaranteed job stability, forced to sell their labor at minuscule wages. This

23. Nikolai Shmelev, cited in the *Economist*, December 26, 1987.

24. Shmelev, quoted by Daniel Ford in the *New Yorker*, March 28, 1988, p. 73.

25. Aganbegyan, quoted in Ford, p. 72; he is referring to the *Communist Manifesto*, Part

encouraged enthusiastic foreign investment.

Preserving super-exploitation, the only capitalist road available, was the main reason for the bureaucracy's massacre of unarmed workers and students in June 1989, to worldwide revulsion. The regime could not accede to demands for democracy, especially when expressed by growing numbers of workers and illegal independent workers' organizations. The workers were moved not just by a desire to vote or to support the protesting students, but by inflation, unemployment and poverty, all accelerated by the reforms. Deng & Co.'s dream of a new China, profiting on the world market and sharing the exploitation of its cheap labor, could not be realized in a state where workers had votes and a taste of their own power.²⁶

In East Europe likewise, open capitalistic methods have already been introduced but have not helped stem the crisis. Yugoslavia and Hungary have had the longest experience with reform; their free market policies have exacerbated social tensions and subjected their peoples to the austerity programs of the International Monetary Fund (IMF). In Yugoslavia, homeland of reformist Stalinism and "self-management," inflation reached over 1000 percent in mid-1989, unemployment hit 16 percent nationally and over 50 percent in some regions (not to speak of the 10 percent of workers employed as "guest workers" abroad). Hungary's temporary prosperity depended on a large per capita foreign debt and was highly uneven; it led to more available consumer goods but also greater inequality and a continuing decline in productivity. A report by the Hungarian trade unions' research institute summed up: "The rich ... are getting richer, the poor are getting poorer and the middle class is thinning out."

As a result of the failures of "market socialism" on top of the economic decay of Stalinism, even more far-reaching changes have been discussed and partly introduced. Since the overturns of late 1989, the CP's have been totally discredited, to the point where most have abandoned their party names and their countries' "socialist" or "people's" titles. New provisional governments have been installed to take advantage of the workers' hatred of Stalinism ("anything is better than this system") and subject them to "democratic" exploitation. Some of these regimes have simply dropped their pretensions to Marxism and socialism; others have openly announced their goals of establishing capitalism.

In Poland, draconian "reform" measures were introduced by the CP/Solidarity coalition government at the start of 1990, following the prescriptions of the IMF. Severe price hikes were combined with reduced subsidies for important consumer goods in order to drive wages down to bare subsistence. Unemployment will soar as state industries are shut.

26. See our analysis in *Proletarian Revolution* No. 34

The Polish "experiment" is being watched in the other East European capitals and in Moscow, as well as by Western imperialists. Marxists have every reason to expect that the Polish workers will overcome their illusions in "free market" capitalism. As an editor of a Warsaw business magazine said, denouncing the workers' opposition to capitalism's so-called efficiency: "Our people hate Communism, but when you start talking about privatization, many of them act like Communists."²⁷

Whereas the Soviet reforms have not yet left the realm of Stalinist capitalism, in East Europe devolution is now accelerating at a breakneck pace. New bourgeois elements have sprung up, and alongside them state firms are being privatized through sales to foreign investors or their own managers. One feature of privatization, whether with bureaucratic or independent owners, is that the workers lose their limited trade-union rights.

An interesting example of the union of the two sectors of capital is the man who was minister of industry in the last Polish CP government in 1988-89, Mieczyslaw Wilczek. This gentleman is a millionaire private factory owner who, according to an admiring Western account, "lives in a 'small house in the English style,' with, as you would expect, swimming pool, tennis court and peacocks."²⁸ Wilczek said: "We now recognize that Western countries have achieved high living standards using certain methods, and it is just a matter of coincidence that these methods are called capitalist."

The self-buyout phenomenon is especially significant. Layers of the bureaucracy have found a way to keep their economic power even with the state yielding its commanding economic authority. In Poland and Hungary, managers have bought at bargain rates the factories they previously ran for the state. Since one category slides easily into the other, the bureaucrats and bourgeois are proving themselves elements of the same ruling class who exploit the same workers, even though they draw their compensation differently. The post-Stalinist ruling class is being reorganized to center not just on the bureaucracy and managers but on the big bourgeoisie as well.

THE FUTURE OF POST-STALINISM

The bureaucratic buyouts illustrate the weak, regent-like character of Stalinist statified capitalism. Real though its property ownership has been, the bureaucracy's lack of legal title to the means of production means that its power rested ultimately on the suppression of the working class. Now that the workers are in motion, the bureaucrats are fleeing to individual property titles, taking advantage of the workers' illusions in democracy and

27. *New York Times*, November 30, 1989.

28. *Economist*, December 3, 1988.

private property. Keeping property out of the hands of the proletariat is what is sacrosanct to the bureaucrats - not state ownership.

The rulers' overall solution, already being proposed in Hungary and Czechoslovakia, may be to approximate the situation of 1945-48, when the Stalinists ruled in collaboration with social democrats and bourgeois forces. At that time economic Stalinization had yet to reach full force: "mixed economies" were the rule. All-out nationalization of industry had to await the defeat of the workers, as we saw in Chapter 6. Only when the proletariat was finally crushed could the new CP rulers oust the weak bourgeoisie and exploit the workers solely on their own account.

The Stalinists today are deepening their interpenetration with the rising bourgeois elements to form hybrid regimes. They hope that this will lead to something like the social-democratic societies in the West: mixed state and private economies dominated by private capital, with a strong welfare component to pacify the workers and to socialize the costs of maintaining critical but backward firms. Given the economic crises of the East, of course, such a future is out of the question. There is little fat to be distributed and no basis to believe that the rulers will soon find any.

That leaves the East European rulers few options. They are hopeful of obtaining Western economic aid and political support. All the East European rulers have in effect suggested subordinating their countries to imperialism; it will eventually be the strategy for the USSR too. Through both privatization and further decentralization, enterprises in the East will be made hospitable to capitalist intervention and control. But with the postwar boom long over, the West will look carefully at the risk of even larger Eastern debts and restive working classes before signing on.

Meanwhile the mass upsurges have brought to the fore intellectuals and middle-class democrats, comparable to the popular-front combinations of intellectuals, technicians and politicians in the West; they share power with the nomenklaturists and the few private capitalists. The combination of market reforms and pseudo-democracy is unlikely to fool the workers for long. Sooner or later the bureaucrats and their middle-class allies will have to change their line from democracy to discipline. As upheavals intensify and social revolution threatens, the "democrats" will turn increasingly to Bonapartist methods in order to shield the state and private capitalists from the masses. They will have to end the emerging workers' institutions, legal and illegal, and crush the daily resistance to intensified exploitation. Their most workable solution is not democracy but strong-man rule.

One portent of the rulers' future direction is the simmering of national chauvinism and even fascism. In the USSR, the Russian fascist organization Pamyat, openly hostile to the October revolution, has been nurtured by Stalinist bureaucrats. It defends one-party rule and state property and opposes Gorbachev's liberalization and workers' strikes. The heritage of

state promotion of capitalism under the Czars is one link between the nationalists and reactionary Stalinists; another is the populist, even "socialist," rhetoric adopted by fascism.

In East Germany, nationalism and racism have been used to promote unification with West Germany — in reality a form of semi-colonial subordination. Ultra-nationalist anti-Jewish forces are also growing in Poland, among Stalinists and anti-Stalinist clerical elements. There have also been vicious chauvinist incidents in Bulgaria and Yugoslavia. In Romania they were temporarily avoided by the universality of hatred for the old regime.

The fuel for the flames of chauvinism is not mystical "ancient prejudices," as the Western press explains, but material conditions - scarcity, poverty, repression - and the consequent search for scapegoats in the absence of Marxist understanding. Capitalism with its inherent nationalism and inequality fans the flames; the middle-class reformists demanding more capitalism add fuel to the fire. Unless overcome by working-class movements, the burgeoning nationalisms that momentarily express the liberation of countries from Stalinism will be transformed to subordinate the masses to capital. A positive sign is that the Soviet coal strike in 1989 extended across the USSR; the miners rejected attempts to divide them along national lines. In general, the key factor is that the workers' movement has not been beaten down by a succession of massive defeats like that suffered under Nazism and the rise of Stalinism in the postwar years.

Gorbachev and his backers have already taken steps to make Bonapart-ism possible. His reforms are not all democratic even in appearance. He has centralized party leadership and the state presidency in his own hands, and he has been granted extensive individual powers to bypass state and party structures. There are proposals for a new, more powerful "executive presidency." In Poland, the great democrat Walesa also has advocated a major abrogation of democratic rights: when the Sejm was debating the IMF's austerity measures, he asked that the Solidarity-CP coalition be given wide powers to promulgate its "reforms" by decree, in order to overcome opposition from the working class. In other countries where the CPs have more or less collapsed, the military may be the alternative which the post-Stalinist ruling class looks to for "stability."

We stress that the Bonapartist trend is toward political, not economic, centralization. It is not designed to restore the days of old under Stalin (which, as we have seen, already meant *de facto* decentralization of production despite political dictatorship) but to unleash the full force of the law of value against the working class. A reversion to Stalinism is not possible until the workers are defeated, that is, until fascism triumphs.

REFORMS AND THE NATURE OF STALINISM

The changes in the Eastern bloc add to our understanding of permanent revolution applied to Stalinist society. Recall Trotsky's point that the bourgeoisie hesitates to make its own revolution in the epoch of capitalist decay for two reasons: 1) the interpenetration of bourgeois property with pre-capitalist property forms, including the close ties and family relations between the bourgeoisie and old landowners; 2) the fear of stimulating the working masses in revolutionary periods; an attack on one form of property would be "too tempting" for the masses in motion and would endanger all private property. We have since seen that the Stalinists, too, feared to challenge bourgeois property except when the working class had been smashed or otherwise removed from the political arena.

A parallel concern is now evident among the Western bourgeoisie. It encourages privatization and joint ownership in the Stalinist countries, but it is now clearly interested more in preserving social stability than in abolishing nationalized property. After the Bush-Gorbachev summit in Malta in late 1989, the U.S. emphasized discouraging both the centrifugal nationalist movements in the USSR (despite ritualistic words for the Baltic "captive nations") and the radical pro-capitalist politicians in Moscow. Overtures were made to military leaders across the region who could serve as stabilizing forces. The most notorious move was Bush's diplomatic concessions to the Chinese rulers, in the face of raw public memories of the Beijing massacre. All the Western rulers endorsed Gorbachev's military invasion of Azerbaijan, even though it was clearly meant not to save lives but to prevent national self-determination. And Bush's arms control proposals envisioned the Soviets' keeping two hundred thousand troops in East Europe (with a similar number of U.S. forces in the West) - against the clear wishes of the popular movements he supposedly respects.

The reasons for these accommodations are first, that the West is increasingly interpenetrated with the Eastern bloc and China - not via direct ownership (although that is growing), but in trade, contracts and joint investment projects. Above all, undermining state property in the East would threaten property in general. The bourgeoisie is still frightened of the working classes in revolutionary periods - even in the homelands of its Stalinist "mortal enemy." The mass revolt brought the rival ruling classes together and further demonstrated the common interest in exploitation that in the final analysis transcends their national and property-form differences.

The collapse of Stalinism illuminates the debate over the nature of the system. First, the economic breakdown and the rulers' obvious loss of confidence in their "socialism" raise the question: how can this system be socially progressive in comparison with capitalism? If it is a fundamentally different system it is clearly retrograde. Defensists will not be able to

defend their "socialist" or "workers'" states for very long.

Secondly, the eagerness of the state apparatus to adopt open capitalism places the question of "capitalist restoration" on the agenda, as most workers' state theorists are warning. Indeed, if the post-Stalinist rulers have their way, the establishment of open bourgeois relations without a civil war cannot be precluded. When this happens it would establish not that capitalism has peacefully been restored but that the system has been fundamentally capitalist all along.

The workers' state theorists have a serious problem: when and how do they decide that workers' states no longer exist? The post-World War II Trotskyists' criteria for a workers' state were central planning and the state monopoly of foreign trade - plus, of course, state property in the means of production. Of these, the first two have been abandoned across East Europe, while state property remains an increasingly hollow form without a shred of proletarian content. The inability of enterprises to buy and sell factories and producers' goods has been another justification for denying the capitalist nature of Stalinist economy; now that too is disappearing as state property becomes increasingly decentralized and privatized.

We really do not expect the orthodox rationalizers to be able to offer any criteria. After all, their ancestors in the 1940's did not recognize the "social revolutions" that created "workers' states" until years after the alleged fact. One key problem is that the overthrow of a workers' state requires the workers' defeat in a civil war between the new ruling class and the proletariat. As we showed in Chapter 4, there was such a war in the Soviet Union in 1936-39; Trotsky called it a "preventive civil war," although he did not recognize its capitalist-restorationist conclusion. If a state becomes capitalist without a civil war, can it really have been non-capitalist to begin with? By the same token, in the one country where there was a violent if brief civil war in 1989, Romania, defensists ought to have sided with the last-ditch defenders of nationalized property. Unfortunately that meant the Ceausescu dynasty and the murderous Securitate. The understandable refusal of leftists to sign up only shows that their common sense belies their inadequate theory.

Mandel, unlike more left-wing defensists, rejects the possibility of capitalist restoration by the ruling bureaucracy. Some in the nomenklatura, chiefly the industrial managers, might be able to transform themselves into private capitalists, he says, but not the army of bureaucrats in its entirety.²⁹ What he overlooks is that many of these lower officials would keep their state posts in the coming transformation (which would not return to the 19th century by eliminating the bulk of the state apparatus); others

29. Mandel, *International Viewpoint*, October 30, 1989.

would indeed be defeated in the tumultuous upheavals that are taking place. Above all it is the hybrid nature of the new regimes and systems that he ignores. His refusal to see the bureaucracy as exploiters of the proletariat makes him deny the changes actually occurring.

The disintegration of Stalinist rule has produced one new line of reasoning by workers' state theorists. We take a version by the United Secretariat during the Polish struggle of 1981:

"The Polish events confirm that the bureaucracy in power in the bureaucratized workers' states is not a new ruling class. There is no common measure between the resistance that the bourgeoisie is capable of putting up against the rise of socialist revolution in capitalist countries as deeply industrialized as Poland, and the extreme weakness which the Polish bureaucracy has exhibited faced with the rise of the mass movement."³⁰

This is a poor argument. The characteristic of a revolutionary situation is that even a strong ruling class becomes weak. When Stalinism was confident of its power it was perfectly capable of smashing workers' uprisings, as in the USSR in the late 1930's and in East Europe in the 1940*s. Conversely, witness the feebleness of the Russian bourgeoisie in 1917. There is a great deal of "common measure" between Kerensky in 1917 and Jaruzelski in 1981. The difference is that the latter took advantage of the workers' reformist leadership and found the police strength to put down the movement when it wavered. Today the post-Stalinist ruling classes will do the same, backed by both Western and Soviet imperialism, if the workers fail to find their revolutionary course. The claim that the system has no alien ruling class because Stalinism has disintegrated paves the way for supporting the new reformers as the heralds of genuine revolution.

The very possibility of a transformation toward traditional capitalism destroys the deformed workers' state theory. It also refutes Cliff's "state capitalism." Cliff in fact has long held that there is no possibility for internal forces to restore individual capitalism.³¹ Theoretically this forecast was false from the start, as we have explained; practically it has been plainly disproved. Cliff's position, parallel to Mandel's, follows logically from his conception that Stalinism's class relations are different from those of capitalism. It again shows the underlying similarity of all the theories

30. Resolution published in *Intercontinental Press*, December 21, 1981.

31. "Before the experience of World War II, it was an understandable if incorrect assumption that private capitalism could be restored in Russia without its occupation by an imperialist power. But the victory of the concentrated, statified Russian economy over the German war machine silenced all talk of such a possibility." (*Russia: A Marxist Analysis*, p. 141; *State Capitalism in Russia*, p. 326.)

that fundamentally describe "third systems."

The changing reality also annihilates the open third-system theories. If Stalinism were really a new mode of production, it would have lasted more than half a century without collapsing into capitalism. More specifically, the latest events refute Shachtman's explanation (common to many third-systemists, conscious or not) that the bureaucracy owns the means of production because it runs the state.³² Today the bureaucrats are abandoning control of their states while tightening their hold on property. This establishes beyond question that the bureaucracy's ownership of the means of production is what makes it the ruling class, not the other way around.

The theoretical significance of the 1989 upsurges is that they have brought out the possibility of hybrid bureaucratic/bourgeois regimes. We show in the next section that the refusal to recognize this alternative leads directly to a reformist stance toward the post-Stalinist states.

3. PROGRAM FOR REVOLUTION

Revolutionaries are interested in theory not for its own sake. Marxism is a guide to action, and the aim of theoretical work is programmatic conclusions. As the *Communist Manifesto* says,

"The Communists are distinguished from other working-class parties by this only: 1. In the national struggles of the proletarians of the different countries, they point out and bring to the fore the common interests of the entire proletariat, independent of all nationality. 2. In the various stages of development which the struggle of the proletariat against the bourgeoisie has to pass through, they always and everywhere represent the interests of the movement as a whole."

Under the present circumstances the question of the revolutionary program that addresses "the interests of the movement as a whole" under Stalinism is of great urgency. Our work is based on Trotsky's Transitional Program of the 1930's, the first major programmatic document to deal with the problem. It needs updating both because of the immense historical changes since that time and the theoretical errors in Trotsky's analysis of Stalinism. The mass struggles of the proletariat against Stalinist rule are an inspiration for and a test of all programmatic proposals.

SOCIAL VS. POLITICAL REVOLUTION

In the 1939-40 struggle in the American Socialist Workers Party, Trotsky challenged Shachtman: "Let us concede for the moment that the

32. Shachtman, *The Bureaucratic Revolution*, p. 44.

bureaucracy is a new 'class' and that the present regime in the USSR is a special system of class exploitation. What new political conclusions follow for us from these definitions?"³³

We do not know whether the Shachtmanites replied directly. In practice their program for the Stalinist states was democracy, little different from that of today's "orthodox" Pabloites despite superficially counterposed analyses. Our answer to Trotsky's challenge begins, of course, not from Shachtman's position that Stalinism is a new system of class exploitation but that it is an old one, capitalism, bearing the scars of its destruction of the short-lived workers' state.

Trotsky, first of all, saw the need to overthrow the ruling bureaucracy of the Soviet Union through a political revolution. Today we call for a revolution that is social and not just political: it has to destroy the Stalinist state and its apparatus, not just reform it. Although our program goes beyond Trotsky's, we use the method inherent in the Transitional Program. Here is how Trotsky described the political revolution:

"In order better to understand the character of the present [1936] Soviet Union, let us ... assume first that the Soviet bureaucracy is overthrown by a revolutionary policy having all the attributes of the old Bolshevism, enriched moreover by the world experience of the recent period. Such a party would begin with the restoration of democracy in the trade unions and the Soviets. It would be able to, and would have to, restore freedom of soviet parties. Together with the masses, and at their head, it would carry out a ruthless purgation of the state apparatus. It would abolish ranks and decorations, all kinds of privileges, and would limit inequality in the payment of labor to the life necessities of the economy and the state apparatus. It would give the youth free opportunity to think independently, learn, criticize and grow. It would introduce profound changes in the distribution of the national income in correspondence with the interests and will of the worker and peasant masses. But so far as concerns property relations, the new power would not have to resort to revolutionary measures. It would retain and further develop the experiment of the planned economy. After the political revolution - that is, the deposing of the bureaucracy - the proletariat would have to introduce in the economy a series of very important reforms, but not another social revolution."³⁴

Today to call for a political revolution makes little sense. The only way to achieve a *proletarian* revolution - the establishment of genuine workers' rule over the state — is now through *social* revolution. A proletarian

revolution would have to not just regenerate the workers' Soviets but recreate them — as class-based organs of the proletariat, they were gutted by the Stalinist counterrevolution and officially abolished under the Constitution of 1936. Calling for their regeneration cannot now awaken a living heritage within the Soviet working class as it still could in the 1930's - and it strikes no chord at all in the other Stalinist states. Moreover, Gorbachev's reformists have re-established the Supreme Soviet as a parliament; "restoring democracy" in this ruling-class body is not at all what Trotsky meant by his proposal.

The revolution would also need to smash the officer corps and the secret police, which have nothing in common with the Bolshevik Red Army finally destroyed in the purges of 1937-38. (In East Europe the old secret police are already under attack from below.) As Lenin wrote in a polemic against Kautsky, "The point is whether the old state machine (connected by thousands of threads with the bourgeoisie and completely saturated with routine and inertia) shall remain, or be *destroyed* and superseded by a new one."³⁵ With "bourgeoisie" replaced by "bureaucracy," this is exactly the question facing the proletariats under Stalinist or post-Stalinist rule today.

Nationalized property in the Stalinist states has become a shell concealing an anarchic, unplanned structure. Today we can see plainly that a new proletarian revolution would face the task of transforming the economy. A centralized, planned economy has to be created from the start - not "retained and further developed" (or even "drastically changed," as the Transitional Program says). The reforms proposed and carried out by the bureaucrats show that even the vestigial workers' gains embodied in the state property forms are already on the verge of destruction. The only way to save or recover them is to overthrow the state that defends nationalized property only to the extent that it can be used against the workers. That Polish workers have had to strike to protest the government's privatization of the Gdansk shipyards confirms the Marxist understanding that nationalized property is inherently a proletarian form, not an inherent interest of the bureaucracy.

The final proof that a workers' "political revolution" is not on the order of the day has been the movement of the workers themselves in four decades of class struggle against Stalinism. They have fought to create new institutions, independent of the ruling bureaucrats, not to reorganize the old ones. Sometimes these new institutions have been genuine proletarian ones: Soviets. But always their actions point to smashing the state apparatus, not reforming or even purging it. They have risen up against exploi-

33. Trotsky, "The USSR in War," *In Defense of Marxism*, p. 4.

34. Trotsky, *The Revolution Betrayed*, pp. 252-3

35. Lenin, *The State and Revolution*, Chapter 6.

tation at the point of production, not just against inequalities in distribution; it has been a revolt against the law of value. Unfortunately the programs of their leaders have not matched the workers' actions.

The task of Marxists is to demonstrate that the necessary program is for a *workers' state*, the alternative both to the bosses' reforms and reformist self-management. Trotsky devoted much effort to elaborating programmatic methods to win masses of working people to the revolutionary cause through a direct connection with their experience. His Transitional Program of 1938 is built around a system of transitional demands "stemming from today's conditions and from today's consciousness of wide layers of the working class and unalterably leading to one final conclusion: the conquest of power by the proletariat."³⁶

TRANSITIONAL DEMANDS

We outline how the method of the Transitional Program applies to the class struggle in the pseudo-socialist countries. We do so to show what the advanced workers, the embryo of a revolutionary party, can do on the tactical level to build their party. This problem is rarely addressed. On the one hand, Cliff and his followers deny the applicability of transitional methods to capitalism in general. On the other, workers' state theorists see no need to apply demands written for capitalist states to the Soviet-model countries. Our approach is to show that transitional demands raised by Trotsky for bourgeois countries are applicable to present-day Stalinism. Other demands in the Transitional Program are omitted here, not because they do not apply to the Stalinist world but only because their application would be in all fundamentals the same as under traditional capitalism.

Because of the inflation that is wracking the Soviet bloc, the demand for a *sliding scale of wages* is critical; it was raised by the Polish workers in their spring 1988 strike wave. It means that labor agreements should include an automatic, proportional rise in wages with respect to prices of consumer goods. Since official statistics on prices are suspect, all the more so in Stalinist countries where statistics are often treated as state secrets, prices have to be monitored by local committees of unionists and unemployed working-class people.

36. This quotation comes from "The Death Agony of Capitalism and the Tasks of the Fourth International," the full name of the Transitional Program. The only edition widely available in the United States is in the SWP's book, *The Transitional Program for Socialist Revolution*, whose title is very misleading. Although the Transitional Program is indeed designed to bring about the socialist revolution, it is not "the program for socialist revolution." See our article "Myth and Reality of the Transitional Program," *Socialist Voice* No. 8 (1979)

The "reform" programs in the Stalinist countries reawaken the need to defend the interests of workers in enterprises that are scheduled to be shut down for lack of profits. The Transitional Program raises a series of demands for such situations. One is the *sliding scale of hours*: to end unemployment, all the necessary work would be divided among the available workers in accordance with a standard workweek, the average wage of every worker remaining the same. In the Stalinist countries the hours of women workers have notoriously been lengthened by the "double burden" of wage and domestic labor. To solve this problem requires at least the construction of facilities for the *socialization of housework*.

The Program also advocates "opening the books" of the corporations through the slogan of *workers' control*. This term might better be understood as "workers' supervision," since it does not refer to workers' replacing the bosses in the management of enterprises. In Trotsky's words,

"The immediate tasks of workers' control should be to explain the debits and credits of society, beginning with individual business undertakings; to determine the actual share of the national income appropriated by individual capitalists and by the exploiters as a whole; to expose the behind-the-scenes deals and swindles of banks and trusts; finally, to reveal to all members of society that unconscionable squandering of human labor which is the result of capitalist anarchy and the naked pursuit of profits."³⁷

Anarchy and unconscionable squandering are certainly no less under Stalinism. Is there any reason why this analysis would not apply to the Polish government's shutdown of the Gdansk shipyards? The fact that the Stalinist rulers cannot continue to produce needed ships (they are sold mainly to the USSR) proves again that their economy is governed not by use value but by ordinary, crass, value. The decision to shut down the Gdansk shipyards was opposed through strike action by the workers whose jobs were at stake - and they demanded opening the books! The workers were perfectly right to seize on a demand from the Transitional Program, consciously or not. The Transitional Program expresses the logic of the workers' struggle - under capitalism of every form.

As under traditional capitalism, some enterprises will willingly bare their financial souls and "prove" to the masses that they are indeed operating at a loss and must therefore shut down - whatever the cost to their employees. That requires investigating not just individual enterprises but the economy as a whole. Trotsky therefore added:

"The workers cannot and do not wish to accommodate the level of their living conditions to the exigencies of individual capitalists,

37. Trotsky, *The Transitional Program* ..., p. 120.

themselves victims of their own regime. The task is one of reorganizing the whole system of production and distribution on a more dignified and workable basis. If the abolition of business secrets is a necessary condition to workers' control, then control is the first step along the road to a socialist guidance of the economy."

That is, workers' control is a demand transitional to workers' power in a workers' state. However, the Soviet bosses like those in the West may be forced to shut down operations. So the Transitional Program continues:

"The socialist program of expropriation, i.e., of political overthrow of the bourgeoisie and liquidation of its economic domination, should in no case during the present transitional period hinder us from advancing, when the occasion warrants, the demand for the expropriation of several key branches of industry vital for national existence, or of the most parasitic group of the bourgeoisie."³⁸

The aim of the *expropriation of key industries* demand is to force the ruling class as a whole, through its state, to take responsibility for the well-being of its working people - despite the inconvenience for profits this may entail, or the disruption of capitalist equilibrium. There is no contradiction in demanding expropriation by a bourgeois state, as long as revolutionaries openly explain to our fellow workers that this is no lasting solution, and that the demand and its fulfillment are linked with preparing the proletariat for revolution.

In the case of the Stalinist countries the equivalent of the expropriation demand is to call for removing enterprises from the hands of their local bureaucratic managers and make them the direct responsibility of the state. Such a call places the responsibility for social needs on the ruling class as a whole through its state, and exposes the state's unwillingness and inability to accept this duty. This implies as well canceling the requirement that individual enterprises be run along strict profitability criteria. It also may mean re-equipping factories with up-to-date machinery to continue production. As for the major state industries privatized by the reformist Stalinists and their allies, it means re-nationalization through expropriation without compensation. Further, the fictional structure of costs must be overhauled through close working-class supervision so that much more accurate values of every commodity can be calculated.

In sum, whenever the state demands that workers' sacrifice for the national good, it is proper for workers to demand that they see the books and have the right to control whatever measures the regime takes. The workers' direct intervention into economic management is an excellent exposure of the true operation of a class society, an incitement to fight for

38. Trotsky, *The Transitional Program* ..., p. 122

their own workers' state, and a preparation for running it.

In the common case where an enterprise is producing wasteful or dangerous products, it makes little sense to continue operations unchanged. Further transitional demands should be raised - for example, to reemploy workers in rebuilding obsolete enterprises rather than leave them jobless. In a similar context Trotsky called for *public works*. (Under statified capitalism, of course, almost all works are "public")

"Public works can have a continuous and progressive significance for society ... only when they are made part of a general plan, worked out to cover a considerable number of years. Within the framework of this plan, the workers would demand resumption, as public utilities, of work in private businesses closed as a result of the crisis. Workers' control in such cases would be replaced by direct workers' management." This reasoning leads to the demand for *workers' management* of enterprises that the ruling bureaucracy proves unable to operate effectively. It is one way to counter the anticipated objection from many workers that expropriation of industry is too reminiscent of returning the economy back to the way it was under pre-reformist bureaucratic rule. Workers' management, however, cannot be interpreted as the autonomous functioning of factories envisioned by "self-management" schemes (and certainly not as the "team concept" and other arrangements advocated by capitalist bosses to make workers take part in their own exploitation). Workers' management in our sense only works in the context of society-wide decision-making by the central workers' councils, combined with total control of each enterprise by the workers.

It is also necessary to come to grips with workers' illusions that the methods of Western bosses are to be desired because anything is better than Stalinist management. To this end it will be necessary to raise demands covering workers in the growing number of private shops and enterprises. For example, workers have hesitated to leave jobs in the state sector for fear of losing their pension, housing and other rights attached to the specific job or ministry. A *national program for pensions, housing, etc.* would apply to workers in both state and private industries, and would allow them to move without hindrance, should they choose, between jobs in either sector.

These economic demands all point to economic centralization, not the decentralization raised by the democrats. Without them there will be working-class people lacking jobs, wages or leisure. There is no other way to guarantee true democracy, whereby every worker has the time and resources to engage in political life.

39. Trotsky, *The Transitional Program* ..., p. 121.

WORKERS' SOVIETS

The question of *Soviets* has particular force in the Gorbachev period, especially because the current rubber-stamp Soviets are being revived as decision-making bodies. The original revolutionary Soviets of 1905 and 1917 were councils of delegates from every stratum of working-class life, reflecting all the struggles of the class; the Stalinist counterrevolution replaced them with fictitiously democratic parliamentary bodies.

Now Gorbachev and his allies see the need to incorporate the working masses, to allow them a say in deciding how to come up with the required economic sacrifices. In fact the slogan "All power to the Soviets," an echo of 1917, has gained wide appeal because of its democratic ring: it symbolizes an end to the arbitrary power of the ruling Communist Party. But the revived official Soviets have nothing in common with 1917, or the Gdansk MKS. They are at best arenas for debates between factions of the ruling class, with an occasional voice of opposition allowed as a safety valve.

Soviet workers can take advantage of the openings provided by Gorbachev by raising the call for genuine Soviets (workers' councils), soviet congresses and a permanent central soviet. This is a demand not on the ruling bureaucrats but on the workers' leaders. It would present to the working class the need for its political and organizational independence from the rulers. It would also expose the fraudulence both of Gorbachev's democratization and of the localist self-management schemes.

The workers of East Europe have begun the formation of independent trade unions (as distinct from the government unions under Stalinism). But unions are no substitute for workers' councils that take up all questions vital to the working class, political as well as economic. Unfortunately the workers so far have acted *en masse* but not as a working class. Decades of Stalinism have convinced many that politics is a sphere fit only for opportunists and the corrupt. Economic conditions will undoubtedly force them, however, into mass strike activity. Demands for *strike committees* to run *general strikes* against austerity will help workers in struggle organize themselves as a class and become aware of the conflicting class interests of the middle-class leaders.

In addition to the coal miners who began the building of genuine Soviets in action in 1989, other Soviet workers have raised the demand for workers' Soviets. An interesting example is the letter by a group of Soviet workers from the Urals already mentioned in Chapter 5:

"The local bureaucrats [are] opponents of the revolutionary renewal, in whose hands, unfortunately, the real political power rests. This is a treacherous class of exploiters of the toilers which uses as a cover that which is most sacred to the working class - Marxism - and passes itself off as the true representatives of the party of the working class, of Soviet power, of the people; and against them one must fight skill-

fully with our own arms. Of course, after this deception of the workers, unprecedented in the history of humanity, it will take a certain amount of time for the course of democracy and glasnost to yield fruit: the dictatorship of the working class, its full power through its own institutions - the Soviets, in their Leninist understanding."⁴⁰

One of the remaining gains of the 1917 revolution is that some Soviet workers still know Lenin as the revolutionist he was rather than the icon the "bureaucratic bourgeoisie" has made of him. Judging from this excerpt, these workers seem to trust Gorbachev's glasnost and "revolutionary renewal" and to think that only the *local* bureaucrats form an alien capitalist class. If so, these are errors they will have to learn to correct. Their overall lack of illusions will be of immense value in doing so.

The inherent tendency of proletarian Soviets is to drive for state power, as in 1917. A state ruled by such Soviets would give the workers a predominant representation - even above their proportion of the population, in states where the proletariat is still a minority. Such a structure was incorporated in the first Soviet constitutions and was formally abolished by Stalin in the 1930's. It is a violation of pure (bourgeois) democracy but is necessary because the proletarian dictatorship is a higher goal and the only way to achieve the most fundamental democratic tasks.

Under the conditions created by the 1989 revolutions in East Europe, the posing of a genuine workers' state through the empowerment of workers' Soviets is necessary to counter the democratic appeal of the various post-Stalinist governments that have been erected by the reformists. In the meantime a critical slogan is *no support to the provisional governments*; they are instruments of the ruling class for reconsolidating its own power. The Soviet miners' strikes brought to the fore another key slogan from the Transitional Program: the formation of *workers' militias*. During the strikes workers patrolled the streets of the mining towns, and the regular police practically disappeared. As so often happens in times of revolutionary action by the masses, "criminality sharply diminished." As in Gdansk in 1980, there was a sharp reduction in alcohol consumption, even a prohibition against it.⁴¹ Clearly this display of muscle and control by the workers helped dissuade the regime to bring in the armed forces to stop the strike. The further development of organized and armed detachments of workers to defend their strikes and sit-ins would be a signal of

40. *Socialist Register* 1989, p. 126. We note also that some Russian nationalist "Workers' United Fronts" with demands for workers' Soviets have been formed by bureaucrats to counter national minority movements and entrap workers.

41. Information from Bernard Guetta's reports in *Le Monde*, July 18, 1989 and surrounding days.

recognition that the states' armed forces are not the workers and, as Trotsky put it, an "imperative concomitant element to [the proletariat's] struggle for liberation."

It is critical to win the support of the peasants. Therefore in specific countries Marxists will call for a *workers' and farmers' government* in the workers' state. Demanding the division of the land by the peasants may also be necessary in some countries. In others, worker-peasant control over genuinely collectivized agricultural units would be possible. In Poland, where the Stalinist regime allowed small-peasant farming to predominate, the newly unleashed capitalist markets will wipe out many peasant holdings. Giant corporate farms aided by Western imperialist financing will increasingly dominate. Revolutionaries must defend the dispossessed peasants lest they remain tied to reactionaries like Cardinal Glemp and become tools of a fascist revival.

INTERNATIONALISM

An important demand not in the original Transitional Program is to *renounce the debts* owed to imperialist banks and governments. The Eastern bloc countries, just as much as those of Latin America, Asia and Africa, are subject not only to the imperialist world market in general but also the direct supervision of imperialist institutions like the IMF, because of their massive debts. The Bolsheviks repudiated the debts of the Czars, and a revolutionary workers' state today would do likewise with the obligations of their former exploiters. That principle does not exclude subsequent diplomatic agreements to pay the debts in whole or in part in return for concessions by the imperialists (if dire emergency requires).

Debt renunciation means defying capitalist principles and their imperialist enforcers. The depth of the economic crisis in the Stalinist countries and the misery of the working people shows that such action is necessary for economic survival. It would also help resolve workers' illusions in the beneficence of the West. An avalanche could be loosed if a workers' movement stood up to its rulers and demanded that the bloodsucking payments cease. That would ignite explosions throughout Eastern Europe (and Latin America), and governments' hands would be forced. The result would be to disrupt the bourgeois world economy and inspire anti-capitalist actions everywhere.

Such a step would in reality only be carried out by genuine workers' states, but it must still be demanded of Stalinist and third-world nationalist governments. The Jaruzelskis will never repudiate their debts in principle (they will do so only if broke); that would mean attacking the principle of property. It would threaten their national capitalist base in state property just as much as the private property of the West. (For the same reasons the Western powers hesitate to press for denationalization in the East

except slowly and under controlled conditions.) The spectacle of "socialist" states lining up at the bank to hand over cash sweated out of their workers is a standing insult to the memory of the October revolution.

The debt question, together with the supra-nationality of the crisis of Stalinism, necessitates a further demand: *federations of socialist states*. A similar demand, the "socialist united states of Europe," was raised by Trotsky and other revolutionists during the First World War; it was initially supported but later opposed by Lenin on the grounds that it seemed to call for holding back national revolutions in order to await a simultaneous Europe-wide upheaval.⁴² Today, however, national revolutions are held back by the fear that they will remain isolated. On the other hand, the existence of simultaneous crises and simultaneous struggles in East Europe, although at different levels of intensity and consciousness, calls for an internationally coordinated movement and system of demands. There is also every reason to expect the crisis to intensify in the West, and sooner or later the level of class struggle; this will also have the beneficial internationalist effect of puncturing illusions among workers of the East. Naturally German workers must be assured that a unified German workers' state is theirs to choose under a socialist federation.

To counter the poisons of racism and great-power nationalism, communists demand all *rights for immigrant workers* and *self-determination for all oppressed nationalities*. And to end the great-power threat that overshadows the Eastern revolutions, it is necessary also to *abolish the Warsaw Pact* and *remove Soviet troops* from East Europe and the non-Russian republics in the USSR. Even though they may be seen as a benevolent presence because of illusions in Gorbachev, these occupying armies will be used to crush workers' movements against the provisional governments, in the interests of Western imperialism as well as of the local ruling classes. A campaign for these demands would help puncture illusions in the West as well. (Likewise Western revolutionists must demand the abolition of NATO and the removal of all U.S. troops from Europe - which would also undermine the Warsaw Pact and the Soviet forces.) As Trotskyists called for an independent Soviet Ukraine in the 1930's, today we stand for *independent workers' republics* united in a socialist federation.

There are other key demands besides those appropriate for a transitional program, which we will not elaborate here. For years, the democratic aspirations of workers, intellectuals, women and oppressed nations have been crushed. The proletarian revolution stands for the liberation of all the oppressed and is the only way to win it. ***Freedom for all parties*** of the

42. Lenin, "On the Slogan for a United States of Europe," *Collected Works*, Vol. 21, p. 342.

working class and oppressed peoples, the *right to organize unions, free speech* — all the democratic demands are part of the revolutionary program as well. If they are not taken up by revolutionaries and the working class as a whole, the democratic slogans will be detoured demagogically into props for the stabilization of capitalist regimes.

In the course of the East European revolutions of 1989 it became clear that particular strategic demands were crucial: "no support to the provisional governments" and "end the Warsaw Pact." Without them revolutionists cannot fight the rulers' attempt to corral the masses into support for capitalism and *de facto* alliances with imperialism. With them workers can see that their allies in the West are those fighting to end NATO, not the ruling classes seeking ways to preserve it. The powers of both East and West would prefer to see Soviet troops ready to suppress any sign of "instability" - that is, independent working-class uprisings.

The intensifying movement for mass empowerment throughout the East China makes much more of Trotsky's Transitional Program applicable directly or in closely parallel forms. In raising these demands it is irrelevant whether the system can afford to grant them. Trotsky noted: "If capitalism is incapable of satisfying the demands inevitably arising from the calamities generated by itself, then let it perish. 'Realizability' or 'unrealizability' is in the given instance a question of the relationship of forces, which can be decided only by the struggle. By means of this struggle, no matter what its immediate practical successes may be, the workers will best come to understand the necessity of liquidating capitalist slavery."⁴³ The worsening conditions and decisive struggles facing the workers of the Eastern bloc make this revolutionary program all the more urgent. The absolutely necessary condition for the victory of the working classes over capitalism, war and barbarism is the building of revolutionary proletarian parties throughout the region. As Trotsky wrote, "the present crisis in human culture is the crisis in the proletarian leadership." How right he was! Today there is not yet a visible alternative to the middle-class dominated left and the right-win*r populists appealing to the working class. Nor is there an internationalist pole of attraction against the flames of nationalism. The solution can only be the re-creation of the world party of socialist revolution, the Fourth International.

DEMOCRACY VS. REVOLUTION

To clarify the revolutionary program under Stalinism we contrast it with the programmatic views of the Mandel and Cliff tendencies. Mandel's

writings on the subject cover many years and illustrate his commitment to reformism in the guise of "political revolution." First, in a particularly explicit example he comments on the problems faced by bureaucratic reformers who favor restoring market mechanisms in order to modify the Stalinist model of planning:

"As soon as the problem is seen from the standpoint of an efficiently functioning socialist workers' democracy, the dilemma in which the majority of the 'reformers' in the East and their apologists in the West are trapped ... is vitiated at its base. From the point of view of the mass of workers, sacrifices imposed by bureaucratic arbitrariness are neither more nor less 'acceptable' than sacrifices imposed by the blind mechanisms of the market. These represent only two different forms of the same alienation. Even when certain sacrifices are objectively inevitable, they lose their bitterest edge only when they are the result of free debate and majority vote, that is, when they are freely consented to *by the proletariat as a whole*.

"The real answer to this false dilemma then is neither overcentralized and overdetailed planning on the Stalin model, nor too flexible, too decentralized planning along the lines of the new Yugoslav system, but democratic-centralist planning under a new national congress of workers' councils made up in its large majority of real workers. (This should be assured by setting a maximum income for the great majority of the members of this congress so as to prevent the workers' councils from being essentially represented by bureaucrats.) This congress would choose among different planning variants and the majority of its debates would be public and with an opposition present. The planning authorities would be strictly subordinated to it."⁴⁴

Mandel situates himself here as a critical adviser to reforming bureaucrats, not as a class enemy dedicated to overthrowing their state. His argument exposes the true meaning of "democracy" - even when embellished as "workers' democracy." Why are workers' congresses a good idea? Because they sweeten the sacrifices the rulers demand of the workers; they give the workers the opportunity to "freely consent" - to what the rulers have already decided for them, as always happens in mass democracy in class society. Like Shachtman and all liberal capitalists (and in contrast to reactionary national capitalists, including "hard-line" Stalinists), Mandel understands that an economy works more efficiently if workers are given a say in production and feel that they have a stake in the system.

Mandel's program mimics the bureaucrats' goal of a socially engineered

43. Trotsky, *The Transitional Program* ..., p. 116

44. Mandel, "Economics of the Transition Period," in Mandel, ed., *Fifty Years of World Revolution* (1968), pp. 285-6.

society; he adds a left twist only to incorporate the workers. He accepts the "objective inevitability" of sacrifices, whether required by the market or by the planners; he merely suggests that they not be imposed but obligingly voted for. Like his plan for structurally reforming traditional capitalism (Chapter 6), this program is identical in spirit to Bernstein's anti-revolutionary revisionism. There is no reason why a liberal follower of Gorbachev could not adopt Mandel's teachings.

Significantly, Mandel explicitly permits the bureaucracy's continued existence; he only advises that it operate behind the scenes. Distorting Marx, who learned from the Paris Commune that officials must be paid no more than skilled workers, Mandel prescribes an unspecified maximum income for the congress *majority* only, leaving the minority of officials represented with their bureaucratic power and privileges intact. Rejecting Trotsky, who advocated expelling the bureaucrats from the workers' Soviets, Mandel allows them to stay. This was not a minor point for Trotsky; it is meant to ensure that the councils would be working-class organs independent of the bureaucrats.

There is another serious qualification to Mandel's "democracy." Not only would a fraction of the congress be non-workers, not only would they not have their incomes held to the workers' maximum, but only "the *majority* of its debates would be public and have an opposition present"! That is, the bureaucratic minority plus its supporting layer of aristocratic workers would be allowed to exclude the opposition from crucial decisions. Note finally that Mandel observes that the sacrifices demanded by market and bureaucracy "represent only two different forms of the same alienation." Although alienation of the laboring classes is a general phenomenon of class society, working-class alienation is specific to capitalism. It arises along with the existence of private property held separate from the proletariat; it is a product of the capitalist form of exploitation that "frees" the worker from the means of production. Rather than seeing alienation coming from a capitalist production process, Mandel ignores the significance of his own observation in order to advance a democratic program. The general propositions advanced by Mandel in the past are brought to fruition in his recommendations for Gorbachev's USSR. Taking up the revived Soviets, for example, Mandel writes:

"Real Socialist democracy, real exercise of political power by the working masses, genuine soviet power are incompatible with the single-party regime. The Soviets will become sovereign and real organs of 'popular power' only when they are freely elected, only when they are free to decide on political strategy and political alternatives. All of this presupposes the existence of as recognized legal opposition It also presupposes the right of workers and peasants freely to elect those whom they wish to elect... without the party, not to speak of the KGB,

having the right to veto candidates."⁴⁵

Mandel ignores the reality that Gorbachev's Soviets are parliamentary bodies for the privileged classes, not workers' organizations of struggle. By stressing the legalities of democracy, he in effect promotes "structural reforms" (Chapter 7) and denies the need for revolution. His absurd method even assumes that real workers' power would allow the continued existence of the KGB, the Stalinist secret police!

Similar programs have come from Mandel's United Secretariat in practice. During the Polish upheaval of 1980-81 it maintained a line of uncritical support for the reformist Walesa leadership. But we will look most closely at its recipes for the Chinese movement in the revolutionary spring of 1989. To start, the Hong Kong journal *October Review* wrote:

"Political revolution means the overthrow of this parasitic bureaucracy, the abolition of its privileges, and its replacement with true people's power - meaning the working class, small peasants, independent traders, and the honest rank-and-file elements of the party."⁴⁶

But if the "political revolution" means power to a multi-class melange of workers, peasants, petty-bourgeois and "honest" party officials, then it has little to do with *proletarian* revolution. Workers' power requires not an abstract democracy for all classes but a state built on political privileges for the working class. In China above all, where the peasantry is still 80 percent of the population, a classless democracy - "people's power" - would give electoral domination to the petty bourgeoisie. And real power would rest in the hands of the bureaucratic capitalists.

The Hong Kong-based Chinese Revolutionary Communist Party had the same line: "We call on the people of all classes to form a self-governing organization against the bureaucratic suppression and to seize political power for the advancement of socialism in China."⁴⁷ This conscious avoidance of *workers'* revolution comes right after urging the workers to form committees for a national general strike. A general strike was necessary as a defensive action and a step toward increasing workers' consciousness of their strength and capacity to run society. But to call on workers to simply strike and on "people of all classes" to take political power is a recipe for using the working class as a battering ram for non-proletarian social forces.

In the same spirit, the Mandelites' own statement called for "the replacement of the bureaucratic regime by revolutionary democratic insti-

45. Mandel, *Beyond Perestroika* (1989), p. 82.

46. *Socialist Action*, July 1989.

47. "Letter to All Citizens of China," May 21; *Bulletin in Defense of Marxism*, July-August 1989.

tutions, designed to guarantee the self-organization of the masses and democratic planning of the economy" - with no concrete mention of the need for revolution or of seizing state power. The slogan "Down with the bureaucratic dictatorship!" and the call for "replacement" of the bureaucratic regime were vague enough to be acceptable to party reformers.⁴⁸

Further confusion was added by the "Letter to Members of the Chinese Communist Party" written by the Chinese Revolutionary Communist Party: "We call on all CCP members who are real fighters for communism to resign from the CCP, to join in the people's struggle, to assist in the organization of the people, and in this way to build a new political party which will lead China toward the advancement of socialism."⁴⁹ Here not only are the workers forgotten but members of the ruling party are called upon to lead the way. (And not just toward socialism but toward its "advancement," as if socialism already exists.)

The United Secretariat also backhandedly supported the various provisional governments in East Europe by tailing oppositional bodies (the Polish PPS/RD, the East German United Left, the Left Alternatives in Hungary and Czechoslovakia) which, however critical of the post-Stalinist regimes, refuse to openly oppose the provisional governments.⁵⁰ Like the Stalinists whose economy produces no goods to offer rebellious workers, the pseudo-Trotskyist loyal oppositionists have but one suggestion: Let Them Eat Democracy.

It has always been true that the notion of deformed workers' states has nothing to do with the real working class, either as the maker of the revolution or as the ruler of the state. Now that these regimes are foundering and the question of what replaces them is immediately on the agenda, the "orthodox" conception of a political revolution is also in question. For Trotsky it was intended to overthrow the bureaucracy and transform the degenerated workers' state into a genuine one. But today the "antibureaucratic revolution" turns out to mean no revolution at all but a replacement of bureaucrats at the top by new ones with a greater popular mandate. All that is demanded to overcome bureaucratic degeneration is a democratic reform - whether the workers achieve power or not.

The theory of permanent revolution says that proletarian socialist revolution is the only way to carry out the democratic tasks left undone by the ruling class. It is profoundly suggestive that this theory, designed for capitalist and pre-capitalist societies, should apply perfectly well to the "post-capitalist" regimes - and should be so blatantly overlooked by the

orthodoxists. "Post-capitalism" isn't so "post" after all.

RANK AND FILISM VS. REVOLUTION

The Cliffite International Socialists' strategy against Stalinism, based on its rank and filist method (Chapter 7), is oriented towards backward consciousness within the working class. As with the Mandelites, the Polish workers' movement of 1980-81 posed a programmatic test.

There was a crucial juncture in the fall of 1981, when Poland was on the edge of economic collapse and a giant strike wave was under way. Walesa searched desperately for a compromising way out. The British SWP warned that the masses might look to the ruling party for a strong-man regime, and countered with a proposal for the "radicals" in Solidarity: "The alternative ... is for the radicals to start pressing for the structure of direct workers' delegates that makes up Solidarity to take over the running of society." The delegates could then adopt an urgent program to stop the drain of resources to the bureaucrats, Moscow, and Western bankers. However, local control was no answer; more was needed:

"[The program] could not be implemented without a complete transformation of society. At the local level it would require the most thorough-going struggle for what the Solidarity radicals call 'self-management' - in each plant and office, the workers would have to seize power and impose tight controls on the operations of all levels of management. But it would also require something that the radicals have hardly spoken of yet - a struggle at the national level, to overturn the hierarchies of control in the police, the army and ministries, replacing them with direct representatives of the workers organizations."⁵¹ This agenda accepts the radicals' leadership and their notions of "self-management," not their illusions in a second house of parliament or market regulation of the economy. But, typically, the IS's "revolutionary program" suggests that the crucial revolutionary measures can be *added, not counterposed*, to the petty-bourgeois decentralization notions of Solidarity. None of the radical leaders took a clear stand in favor of replacing the Stalinist regime with working class power. For that matter, they didn't even stand for replacing the Walesa leadership at the head of the workers' own Solidarity. The only way to consolidate a solid revolutionary current would have been to sharply distinguish the revolutionary proletarian program from the radicals'. If indeed some of the radical leaders had revolutionary potential, a principled fight would have been the only way to win them from their decentralist illusions - as opposed to an appeal based on those very illusions. The Cliffites failed this task because they themselves

48. *International Viewpoint*, June 26.

49. *Bulletin in Defense of Marxism*, July-August, 1989.

50. For a sample, see *International Viewpoint*, December 11, 1989

51. Chris Harman, *Socialist Review*, November 15, 1981.

conceive of the revolutionary party as an organizational network uniting separate struggles rather than a political alternative challenging all existing leaderships of the working class. This method would subsequently guide them to endorsing workers' leaderships far to the right of the 1981 Solidarity radicals.

In the late 1980's the IS tendency, like the Mandelites, applauded the revival of the Polish Socialist Party as "a major victory for the left."⁵² The Cliffites recognized that "the PPS does not see itself as a revolutionary party, but as a reborn Polish social democratic party." Indeed, initial documents of the PPS identified with the pro-bourgeois Second International and noted that "the social teachings of the Catholic Church, and above all the teaching of John Paul II, are closer to us than Marxism."⁵³ The PPS also endorsed the economic proposals of the regime as well as Solidarity's self-management.

The IS justified its support by citing the PPS's devotion to class struggle and the existence of its left wing, which cohabited as a centrist faction within a predominantly social-democratic body before breaking away. The IS's uncritical attraction to "rank-and-file" leaderships led it to endorse an openly reformist development and then a centrist one, a policy having nothing in common with building a revolutionary party that "always and everywhere represents the interests of the movement as a whole."

The IS's distorted version of the revolutionary party is a left version of Mandel's centrism. They appeal not directly to reformist bureaucrats as do the grosser Pabloites, but indirectly, through the rank and file workers under their influence. As with the Pabloites, the Cliffites' accommodation to reformism in the East is a reflection of their policy at home. In Britain the SWP condemns the reformist Benns and Scargills for not going far enough - but does not counterpose an alternative.⁵⁴ A genuine revolutionary party has to be able to campaign relentlessly for a political line sharply challenging the reformist leaders.

Perhaps the most egregious instance of the IS tendency's capitulation to reformism through non-confrontation is its attitude towards the Solidarity/CP coalition government in Poland. When the Mazowiecki cabinet was already in office so that there could be no doubt of the Solidarity leaders' class-collaborationist character, the SWP wrote:

"The Solidarity leaders are attempting to do deals with the Communist Party, but this can only make their old enemies stronger. In the

process they have called for a strike moratorium which will weaken the working class. Solidarity should be trying to strengthen factory organization in order to build a real power base."⁵⁵

The last thing any proletarian Marxist could want is for Walesa, Kuron & Co. to have deeper base in the working class. The workers already have too much faith in parliamentary Solidarity, or at least too much willingness to give the new government the benefit of the doubt. It is not just the Solidarity leaders' deals with the CP that are betrayals, as the SWP suggests, but their own reformist program. For communists, the necessary strategy must be to separate Solidarity's base from its leaders. Imagine Lenin calling on the Mensheviks to strengthen their factory base!

As if to prove that this backhanded endorsement of the middle-class opponents of Stalinism was no fluke, the IS adopted the same attitude in Czechoslovakia, where the opposition was not even linked to the working class as in Poland. They called on the opposition to "win the loyalty of workers" and to "press its advantage" by deepening its links with the workers."⁵⁶ Just as this was published, the same Civic Forum entered the government, promoting the familiar package of Thatcher/Reaganite "reforms" to force the workers to sacrifice further. To find an analogy to this piece of advice you have to imagine Lenin urging the bourgeois Cadets to build their base in the proletariat.

Thus IS finds itself not just enthusing over workers' militancy but now formulating strategy for the non-Stalinist partners in the new provisional governments - all capitalist regimes. This conclusion is a logical if not inevitable consequence of rank and fileism: tail the masses, no matter what political illusions they may have. It also follows from Cliffs theory that no internal change is possible under Stalinism. Since restoration of private capitalism is ruled out and since workers there have nothing to defend, any challenge to the existing system is good as long as it goes far enough.

IN CONCLUSION

The bourgeois politicians and pundits who are crowing about the downfall of Marxism will sooner or later have to eat their words. Victorious mass struggles are the best teachers of the true nature of class society, and the crises that triggered revolutions in the East are inevitable as well in the West. There remains the question of revolutionary leadership.

Mandel's and Cliffs are not the only tendencies to defend pseudo-democratic provisional governments. Judging from their records, it is safe to say that few of the present left leaderships will have the capacity to

52. "Poland: The Left Emerges," *Socialist Worker Review*, June 1988.

53. "Political Statement of the PPS," *International Viewpoint*, March 21, 1988.

54. See *Proletarian Revolution* No. 22 for a critique of the SWP's strategy during the great miners' strike of 1984-85

55. Andy Zebrowski, *Socialist Worker Review*, September 1989.

56. *Socialist Worker* (U.S.), December 1989.

counter opportunism and the dedication to the proletariat that it takes to stand firm.

A useful analogy presents itself. Few Bolshevik leaders in 1917 could resist supporting the class-collaborationist Provisional Government; it took a fight by Lenin and his allies, along with the workers' struggle, to set the party straight. In Lenin's place the opportunists would have tailored the Bolshevik line to fit the Martovs and Kautskys; the sharp demarcation, the absolutely necessary hostility, between reform and revolution would have been buried. Without it the fighting workers would have been left to follow well-meaning but treacherous vacillators — and the Russian revolution would have been drowned in blood.

It will take a similar fight to defeat the misleaders and win potential proletarian communists today. All the would-be revolutionary tendencies in the working class are being tested, under revolutionary conditions in countries where the working class is the majority of the population. The crucial demarcation is the class independence of the proletariat, the refusal to drown working-class interests in the swamp of United Lefts, Left Alternatives and Democratic Revolutions. Those who cannot choose the side of the workers against all their enemies and false friends - those who still see salvation in the petty pressures of the market, the benevolence of liberal democrats or the dedication of concerned intellectual planners - will find themselves on the wrong side of the barricades.

As we pointed out in the Introduction, middle-class "Marxist" theories boil down to the idea that the day of the proletariat is ended. New people, uncorrupted by the heritage of capitalism, have to lead the way to liberation and even socialism. The enlightened middle class provides the revolutionary consciousness that socialism requires; the working class is simply the battering ram for social change. Today, as the revolution against Stalinism unfolds, middle-class elements are brazenly asserting their right to dominate. The central task for Marxists everywhere is to assist the working classes (and individuals from the middle classes who break from radicalism and learn to see the world from the proletarian vantage point) in creating their own independent organizations and leaderships.

The masses of the East are going through fundamental transformations in their lives and world views. As "The Internationale" proclaims, the Earth is rising on new foundations. Human creativity is being reborn in the factories and mines, the squares and streets of the East. The producers will be soon forced to battle their new rulers. Before long they will also create the leadership they need - a internationalist vanguard party dedicated to authentic communism. Theirs will be the new battle-cry of our epoch: "The old 'Marxism' is dead! Long live Marxism!"

