

KIDRON MANDEL HARMAN



**DEBATES IN
STATE
CAPITALISM**

Debates in State Capitalism

**Michael Kidron
Ernest Mandel
Chris Harman**

International Socialism (1st series)1969-1970
International Socialism (2nd series)1990

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Note on This Edition

This ebook brings together debates in Marxist economic theory, particularly concerning the class nature of the Soviet Union, which took place in the pages of *International Socialism* in 1969 and 1990, and in a separate 1969 pamphlet.

The first debate was initiated by Michael Kidron's 1969 review of Ernest Mandel's *Marxist Economic Theory* with a subsequent response from Mandel in pamphlet form. Chris Harman's response to Mandel's pamphlet followed the same year.

The second debate took place in 1990 following Chris Harman's review of Mandel's *Beyond Perestroika*. The ensuing exchange between Mandel and Harman occupies a defining place in the debates surrounding the theory of State Capitalism.

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Michael Kidron
Maginot Marxism: Mandel's Economics
(April 1969)

From *International Socialism* (1st series), No.36, April/May 1969,
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Mandel's *Economics* [1] is a Marxist failure. It is unsure of the central capitalist dynamic. It evades the essentials of the system as it operates today. It is more concerned with defending Marx's categories of analysis than with applying them. In consequence, it does little damage to the system intellectually or, by derivation, in practice.

1. The Central Dynamic

If capitalism is peculiar among class societies, it is not because a surplus product is systematically pumped from the mass of producers – this happens in any class society – nor because a small section of society, the ruling class – organizes that pumping and benefits from it – that too happens in any class society – but because there is no central, public arrangement to ensure that the process will go on in an orderly, continuous and predictable way. Key

choices about the deployment of resources are left to individual capitals, big and small, public and private.

Within nation states the doctrine of *ultra vires* holds, permitting individual capitals to do anything not expressly forbidden by laws whose scope and content they themselves determine to a large extent. Beyond, in the world shared between national capitals or the states with which they are more or less identified, positive constraints scarcely exist. Not even the largest state is coextensive with the system, so there are no overriding institutions that can make binding decisions for it. Yet a sort of order emerges from the chaos.

That it does so is because the behaviour of individual capitals is narrowly determined by the competition between them. Simply in order to exist over any length of time each capital must grow as fast as it possibly can, by reinvesting the major part of its share of surplus-value (accumulation) or by absorbing and taking over other, less successful capitals (concentration), or by doing both. If an individual capital did not grow, it would ultimately be unable to afford the rationalization and innovation with which to meet those that did, or unable to ride as successfully the sudden changes in market conditions which are part of the system. For an individual capital growth is the ultimate compulsion.

Growth does not come about automatically. Since capital is not a being but a systematic relationship between beings, somebody has to decide to make growth happen, to devote the freely-disposable resources as they become available to investment rather than consumption. That somebody, whether an individual or a group, must be able to measure its performance against very clear criteria. It must also be very strongly motivated to make the right decisions, for primordial Adam has still not been gorged, not even by affluent late capitalism.

The precise forms these criteria and incentives take are unimportant. Historically the former have been as different as the amount of money profits and the volume of gross physical output; and the latter as different as material privilege or superior status at one end of the spectrum, and material loss or physical punishment at the other. What is important is that the criteria measure consistently

the contribution of an individual, or group's, decisions to the growth of any single capital; and that the incentives elicit as consistently the decisions that promote such growth.

This distinction between the behaviour of capital and the social and psychological mechanisms which ensure that behaviour, between the rules and the players of the game as it were, is obscured. It is nonetheless real, and of prime importance analytically. For the behaviour of capital – its blind unconcerted compulsion to grow – derives directly from the central peculiarity of the system – its fragmentation into more or less autonomous competing units – while the mechanisms whereby the ruling class organizes itself to promote that behaviour do not. These are common to all class societies.

The distinction does not exist for Mandel. On one page he concedes “the *accumulation of capital*” as “the great driving force of capitalist society”. [2] On, another it is “the capitalists’ thirst for profit” [3] and on yet another money is “the initial and final form of capital, towards which the whole of economic activity is directed”. [4]

2. The Essential Model

The primacy of growth is essential to Marx's model of the system at work. Each capital is driven to jack up productivity by coupling its workers with more, and more costly, machinery, while simultaneously trying to hold down wages. As this rationalization spreads, labour power becomes a smaller component of total capital (the ‘organic composition of capital’ rises) and smaller even in absolute terms (the ‘reserve army of labour’ grows); the value added in production and surplus value become smaller in relation to total investment; and so the average rate of profit *falls*. Booms become progressively less profitable and shorter; slumps more lasting and severe. Stagnation threatens and the system becomes increasingly restrictive.

The model is a closed system, in which all output flows back as inputs in the form of investment goods or of wage goods. There are

no leaks.

Yet in principle a leak could insulate the compulsion to grow from its most important consequences. If 'labour-intensive' goods were systematically drawn off, the overall organic composition of capital would rise faster than in a closed system. However, if 'capital-intensive' goods were drawn off, the rise would be slower and – depending on the volume and composition of the leak – could even stop or be reversed. 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. Capital exports have diverted and frozen other quantities 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 in the overall organic composition and the fall in the rate of profit. But since their size and composition have been spontaneously arrived at and not tailored to attaining these results their impact at any given time has been unpredictable except in broadest outline.

3. The Historical Perspective

Arms production has clearly provided the largest and most effective normal drain since the second world war. Being a 'capital-intensive' drain it will have had a restraining effect on the tendency of the organic composition to rise. Without separating out the organic composition of the arms-producing industries and firms from that of the non-arms-producing ones and then carrying the exercise through all the backward linkages to their suppliers, their suppliers' suppliers and so on – an exercise which has yet to be undertaken – there is no way of measuring the effect directly, but it must have been considerable. For the expected immediate consequence of a rising organic composition, namely a fall in the average rate of profit, has

not occurred. If United States figures are any guide, the rate of profit has kept more or less level for the entire post-war period, as the accompanying table shows.

US: Corporate Profits Before Tax and Net Working Capital, 1948-1967 (\$ billion)

Year	Pre-tax profits	Net working capital	Profit rate
1948	32.7	68.6	47.7
1949	26.2	72.4	36.2
1950	40.0	81.6	49.0
1951	41.2	86.5	47.6
1952	35.9	90.1	39.8
1953	37.0	91.8	40.3
1954	33.2	95.0	34.9
1955	44.9	102.9	43.6
1956	44.7	107.4	41.6
1957	43.2	111.6	38.7
1958	37.4	118.7	31.5
1959	47.7	124.2	38.4
1960	44.3	128.6	34.4
1961	50.3	148.8	33.8
1962	55.4	155.6	35.6
1963	59.4	163.5	36.3
1964	66.8	170.0	39.3
1965	77.8	180.1	43.2
1966	85.6	189.4	45.2
1967	81.6	200.1	40.8

From *Federal Reserve Bulletin*, relevant years.

There having been no long-term slide in profit rates, there has also not been a series of ever-deepening slumps or signs of growing restrictiveness. In fact output has seldom fallen from one year to the next since the war and then never by more than 2 per cent, and the tendency throughout the system has been *generally* away from inconvertibility, tariff barriers, resale price maintenance and so on. Nor has there been a steady increase in unemployment. Despite the evidence that has accumulated this last year or so of growing instability, the system has been kept open.

Mandel will have none of this. He does not so much as hint at the stringency of Marx's assumptions or at the extreme abstraction and simplicity of *Capital's* theoretical construct. Marx said, therefore it must be. Models turn into the real thing; and the real thing becomes as simple as the model.

We are told, quite rightly, that "increasing organic composition of capital ... is the basic tendency of the capitalist mode of production". [5]. But then tendency is assumed to be fact and the next tendency in Marx's logical sequence – that of the average rate of profit to fall – is quickly tagged on as fact too: one table shows it to have dropped by two-fifths *between 1889 and 1919* [6]; another that net accumulation of capital fell catastrophically *between the 1860s and the 1930s* [7]; and two others that, depreciation has claimed more and more of gross output *between the 1880s and the 1920s and between the 1880s and the 1940s (to 1948)*. [8] Since nothing beyond the forties could sustain Mandel's thesis, the facts are suspended then.

On to "the inevitable slump". Since the key fact here – the mildness of post-war recessions – is too public and obtrusive to be suppressed, it is conceded and even explained. [9] But, incredibly, it is not allowed to affect the larger analysis: the elusive inevitability is still announced at regular intervals [10]; slumps still punctuate a trend towards stagnation. [11] The uncomfortable fact is, attached, not incorporated.

The same is true of the drive to restrictiveness, immobility and decay. One by one they come: the "absence of fresh fields for investment" [12] (as if interest rates were not constantly pressing upwards to attract scarce money capital, or were not now at a historically high level); the decline in trade relative to production [13] (as if trade in manufactures has not gone up at twice the rate of output since 1948) [14]; the growth in the rentier class [15] (as if it has not been nearly euthanased since World War II by the combination of high profit retentions and high personal taxation); the march of cartellization in Britain [16] (as if competition for and from world markets were not increasing, or Resale Price Maintenance were still with us). There is even the quaint assertion, based on a

crude misunderstanding of what insurance is about, that “the chief preoccupation (of the capitalist regime) has become *security*, that is, conservation, and is no longer *expansion*”. [17]

But since this sort of statement and others about “monopoly capitalism” limiting and fettering “the development of the productive forces” look hairless even to Mandel, we are given a sop: it “does not mean that world production, or even that of the leading countries, sinks into stagnation; but it falls even further short of the possibilities offered by modern techniques”. [18]

But once again, the admission is not allowed to affect the argument. The magpie goes gathering on, and we are left wondering what to make of non-stagnating stagnation, slumpless slumps and similar Mandelania.

4. State Capitalism

Nothing in Stalinist (including post-Stalin) Russia defies analysis in terms of Marx’s model. The process of pumping our surpluses from the mass of producers is as vulnerable in Russia to wild and random encroachments from other capitals as it is anywhere else. The people, that organize and benefit from it, are under as oppressive a compulsion to fast economic growth as is any similarly placed class elsewhere. They need to be as clearly motivated to ensure growth as their counterparts abroad; and if their criterion of success has been the volume of gross physical output rather than money profits, the distinction is one of detail not essence – output has served the bureaucracy perfectly well as a success indicator, at least until very recently.

Some of these signals do get through. Mandel does concede that the deployment of resources in Russia is determined by its competitive relations with the outside world. As he puts it:

International competition with capitalist economy also necessitated an increased shift of emphasis to the quality of

products, the productivity of labour and the rationalization of investment, the volume of which moreover necessitated the maintenance of a high rate of growth even on the purely quantitative plane. [19]

He even recognizes that with an “excessive rate of accumulation” “the bureaucracy becomes the regulator and chief (sic) director of accumulation” [20], that the “central political, economic and military administration” has *exclusive* “controlling power over the social surplus product” [21], and that the “Soviet leaders” “deliberately chose to base themselves on the interests of privileged minorities rather than those of the mass of the workers, in order to give the necessary impetus to industrialization”. [22]

Typically, none of this means anything in terms of the analysis as a whole. Within fourteen pages of reading that “international competition” determines the “emphasis ... on quality ... productivity ... rationalization ... high rate of growth”, determines in other words the content of the Plans, we are told that on the contrary, “Soviet planning ... is real planning, insofar as the totality of industrial means of production is in the hands of the state, which can thus centrally decide the level and rate of growth of production and accumulation”. [23] In even less space we make the transition from a bureaucracy organized as “regulator and... director of *accumulation*”, which is nothing if not a productive role, to a bureaucracy whose key characteristic is “bourgeois norms of distribution”.

Part of this sloppiness derives from Mandel’s original confusion about capitalism. Part from his determination to cast Russia as a ‘transitional’ society, neither capitalist nor yet socialist, a “contradictory combination of a non-capitalist mode of production and a still basically bourgeois mode of distribution”. [24]

Russia is not capitalist, he writes, because the bureaucrat is not “subject to the tyranny of profit” [25], (true, the tyranny is of plan fulfilment); because there is no tendency for the rate of profit to fall (untrue, the tendency is there but checked as in the West); because there is no internal competition nor unimpeded operation of the law of value (true, nor is there – by definition – within any single capital);

no flow of capital from low-productivity to high-productivity sectors (untrue, how else do the planners ensure growth); little exporting of capital to backward countries (true, but there is little of that from the West too); no overproduction (untrue, Mandel himself draws attention to the billions of rubles of unsold retail stocks of unwanted, socially unnecessary consumer goods [26]); no bourgeoisie (true, but a bureaucracy with – remember – “controlling power over the social surplus product”); no free contractual relations between (less true as economic reform embraces a growing part of industry); no crisis (true, but not highly significant given the situation in the West). And so on.

But Russia is not socialist either: there is “extensive social inequality, bureaucratic privilege, lack of self-determination for the producers, etc.” [27] For, you see, “the Bolshevik Party did not understand in good time the seriousness of this problem (of bureaucratic management), despite the many warnings sounded by Lenin and by the Left Opposition”! [28]

So Russia is transitional. But what is a transitional society in Mandel’s context other than a verbal convenience? Is such a form possible between capitalism and socialism? True, there have been transitional societies in the past. For centuries after the Renaissance individual capitals were growing within feudal society. gathering economic power, weakening the host, becoming more able and willing to seize political power. They could do so because the dynamic of capitalism – accumulation – does not and never did require centralized control over the whole of society in order to function. It is a dynamic that operates within autonomous units, small or large, and for that reason it could coexist with the localism, the traditionalism and subsistence-orientation of feudalism.

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? How does self-determination and consumer sovereignty (‘production for use’) coexist with the external compulsion and blind accumulation that results from capitalist dispersal? There may be room for transitional

forms in distribution, but at the level of production and control over production the only possible transition is a sudden, revolutionary one.

5. The Politics of Confusion

It is useless to look for independent or critical thinking in Mandel. Nowhere in the two volumes is there a sense of fresh exploration or the feel that capitalism is posing old problems in new ways, and that the explanations need to be worked afresh out of the loose body of analysis written in the Marxist tradition. On the contrary, doctrine is first, its use secondary: “we seek to show”, he announces in his *Introduction*, “that it is possible, on the basis of the scientific data of contemporary science, to reconstitute the whole economic system of Karl Marx”. [29] And in his final chapter we find him still waving the truncheons of uncritical orthodoxy: “Marxism rejects ... it readily admits ... Marxism explains”. [30]

Here at least Mandel is consistent. In the defense of orthodoxy the medium becomes the message. Since facts are to be paraded as so many defense witnesses rather than used to explain what is actually happening, only the most docile, old and used ones are selected. Since precision might entail a critical inspection of the doctrine, it is drowned in irrelevant detail. And since there are other Marxists who do better as critics of the system, because they think rather than intone, they are swept under the text into a footnote and their ideas passed over. [31]

Vagueness and sloppiness swamp everything: parallel to that bureaucracy which is only the “*chief* (sic) director of accumulation” there is a working class whose “conquest of power” and whose “socialization of the major means of production and exchange ... fail of their purpose *to some extent* (sic) if they are not accompanied by radical changes in the *atmosphere* (sic) in the enterprise”. [32] Crude philosophical idealism suffuses every thought, whether it is about the individual unconscious still harbouring “echoes from the primitive

communist past” of 7,000 years ago, or about the amazing triumph of disembodied Marxist theory “capable of inspiring, and not unsuccessfully, the economic policy of states both large and small”. [33]

Behind it all lies a confusion between social power and its packaging, between control and its forms. It is a congenial confusion for Mandel because it allows him to practise his unique fugitive accent – the easy shift from urban workers, to ‘third world’ peasants, to students as the revolutionary focus; the rapid transitions from reforms to ‘structural reforms’ to direct action as the current tactic; the indiscriminate loving-up to the only fixtures in his political world – the dissident and not so dissident bureaucracies of both Social-Democracy and Stalinism.

In the realm of theory it places him plumb in the centre of “the school of ‘vulgar’ economics – a school characterized by the abandonment of all attempts to systematize and synthesize”. [34]

Notes

1. Ernest Mandel, *Marxist Economic Theory*, translated from the French by Brian Pearce, London: Merlin Press, 1968, two volumes 4 gns.

2. *ibid.*, p.706 (emphasis in the original).

3. “... the totality of production ... is urged onward only by the capitalists’ thirst for profit. The private form of appropriation makes profit the only aim and driving force of production” (p.171); “Profit remains the purpose and driving force of capitalist production” (p.561); and so on.

4. *ibid.*, pp.568-9.

5. *ibid.*, p.166.

6. *ibid.*

7. *ibid.*

8. *ibid.*, p.167.

9. *ibid.*, pp.529-34.

10. See pages 168, 171, 346, 437, 529 for a fair sample.

11. *ibid.*, p.531.

12. *ibid.*, pp.511, 520-1.

13. *ibid.*, pp.488, 489.

14. Alfred Maizels, *Industrial Growth and World Trade*, Cambridge University Press, 1963, p.80.

15. Mandel, *op. cit.*, pp.436-7.

16. *ibid.*, p.492.

17. *ibid.*, p.516.

18. *ibid.*, pp.437, 437n.

19. *ibid.*, p.575.

20. *ibid.*, p.584.

21. *ibid.*, p.631.

22. *ibid.*, p.592.

23. *ibid.*, p.561.

24. *ibid.*, p.565.

25. *ibid.*, p.561.

26. *ibid.*, pp.571-2.

27. *ibid.*, p.564.

28. *ibid.*, pp.572-3.

29. *ibid.*, p.17.

30. *ibid.*, p.726.

31. Three out of a “number of sociologists (sic!) who try to make use of the Marxist method of analysis” are mentioned by name in a footnote to *The Social Character of the Soviet Economy*, a key section (p.560). The one whose ideas on the subject are most developed and who has succeeded in implanting them in an active, revolutionary organisation – Tony Cliff – is not mentioned in the extensive *Bibliography* nor referred to in the *Index*. The one whose ideas are of an earlier vintage and less commanding, but who can still claim something of an organised following in Italy – Amadeo Bordiga – makes the *Index* but not the *Bibliography*. And the third – D. Danin – with few, and reactionary, ideas and no following – makes both.

32. *ibid.*, p.643.

33. *ibid.*, p.13.

34. *ibid.*, p.707.

Ernest Mandel

The Inconsistencies of “State-Capitalism” (1969)

International Marxist Group Pamphlet
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Introduction

A few words of explanation are necessary in introducing this pamphlet. Michael Kidron, a leading theoretician of the “state capitalist” tendency wrote a review of Ernest Mandel’s *MARXIST ECONOMIC THEORY* in issue number 36 of *International Socialism*. The review was extremely factional both in its language and its distortions.

Normally one tends to ignore shallow and vulgar criticisms, particularly when they give the appearance of being hurriedly written (possibly without having read the entire book). However crude though it was the review had a thread running through it: a thread of assumptions, vulgar concepts, and economic deterministic prejudices which represent the ideology of the theory of state capitalism. In replying to Kidron and in analyzing his arguments. Mandel was, therefore, able to examine the economic basis of the theories of the *International Socialism* group as a whole in a

comprehensive manner. Mandel does more than this: he demonstrates how it is impossible to isolate theory from practice and how, in fact the Menshevik theories of *International Socialism* to a very bad political practice.

Such an examination is long overdue. Among the many peculiarities of the British political scene is the existence of a fairly large and active group whose leadership believes in the theory of state capitalism. This is both a historical and political anachronism. With rare exceptions, those who have deserted the revolutionary Marxist position by refusing to adopt the class line of unconditional defense of the workers states against imperialism have long since lost any claim to be considered as Marxists. In many cases, some of these groups have quite openly denounced Marxism and renounced the dialectic. In most countries the tendencies which have, at various times, come out in support of the James Burnham-pioneered “third camp” position have decomposed into their component parts: social democracy and anarchism. Others have become small sects constantly splitting about such profound questions as the actual date the Soviet Union became “state capitalist”.

In Britain owing mainly to the extreme sectarianism and ultra leftism of the leadership of the *Socialist Labour League*, the state capitalist tendency has been given a renewed lease of life. By adapting themselves to the “fall-out” from the SLL, principally by proclaiming the “easy regime” of their organization, they have tended to pick up former members of the SLL who wished to remain active in left-wing politics but who had suffered a series of traumatic shocks in the face of the SLL version of democratic centralism. The absence until recently, of a viable section of the *Fourth International* in Britain has been, of course, another important reason for the relative success of *International Socialism*.

Some of us predicted that its looseness would soon begin to catch up with it and that I.S. would be faced with organizational and political crises. That this has happened is abundantly clear. But a considerable number of young revolutionaries have been made sour and cynical as they passed through this organization and in the building of a revolutionary party these casualties cannot be afforded.

Because the building of such a party is an important and urgent task which faces the revolutionary left in Britain.

The task of combating the theories of state capitalism is, therefore, a vital one. This pamphlet examines and demolishes these theories in a systematic manner and from the viewpoint of revolutionary Marxism. At the same time the pamphlet should be seen as a creative contribution towards the theory of bureaucracy and the transitional forms between capitalism and socialism. *The International Marxist Group* is proud to publish it.

Michael Kidron's "*Maginot Marxism*" [1] cannot be considered a serious criticism of "*Marxist Economic Theory*". It takes up only three chapters out of eighteen and even these in an unsystematic and haphazard manner. It does not try to understand, let alone refute, the internal logic of the book, or any of the contributions it makes to the development of Marxist theory. Nevertheless it denies that any such contributions are contained in the book at all. But if it does not represent a serious critique of contemporary Marxist economic theory, it strikingly reveals most of the contradictions into which adherents of the theory of "state capitalism" enmesh themselves, when they have to tackle problems of economic analysis on a larger historic scale. A discussion of Kidron's article is therefore useful, less as an "anticritique" than as a starting platform for a critique of the "state capitalist" theory.

"The Central Capitalist Dynamic"

Kidron starts out with an amazing accusation: *Marxist Economic Theory* is "unsure of the central capitalist dynamic". This would be indeed an unforgivable sin for a Marxist, because "the central capitalist dynamic" is precisely what Marxist economic theory is about.

So in order to teach us a lesson, Kidron starts explaining what this "central capitalist dynamic" is in his opinion. First he says that

what is peculiar to capitalism, among class societies, is the fact that “there is no central, public arrangement to ensure that the process (of pumping a surplus product systematically from the mass of producers) will go on in an orderly, continuous and predictable way. Key choices about the deployment of resources are left to individual capitals, big and small, public and private”. Then he continues to say that under capitalism “growth is the ultimate compulsion,” “the primacy of growth is essential to Marx’s model of the system at work”.

Unfortunately for Kidron, both “definitions” of the “central capitalist dynamic” get him immediately into trouble if considered in the light of economic history. In most class societies, there is no “central public arrangement” to ensure that the process of accumulation goes on “in an orderly, continuous and predictable way”. On each medieval *demesne*, it is true, a serf was forced to deliver say half of his output to the noble lord. But what was sowed and reaped on each *demesne*, what (if any) surplus was left over after the lord’s consumption needs were covered, how much local, regional, national, or international trade was made possible as a result of this surplus, how much (if any) development of productive technique took place, was not only not “ensured” in an “orderly, continuous and predictable way” but was even much more disorderly, discontinuous and unpredictable, than under capitalism. To think that Alexander the Great (slave society), the Emperor of China (Asian mode of production) or Charlemagne (feudalism) were in possession of some mysterious “central, public arrangement” to ensure that the process of surplus product extraction went on in an “orderly, continuous and predictable way” in the societies they dominated, is a complete misreading of history. In fact, under precapitalist class society, interruptions in this process were much more numerous and much more disastrous for all involved than under capitalism (one has to think only of the regular recurrence of famines).

With his second definition, Kidron has no more luck than with his first one. The “primacy of growth” is not only true for capitalism; it is true for several other historic formations. The transition from dry to

large scale irrigated agriculture, sometime between the 35th and the 30th century B.C., triggered off a tremendous process of growth which led us in the course of no more than 400 years from small isolated villages to large cities, extended international trade and the building of empires. The victory of the socialist world revolution tomorrow will also trigger off tremendous economic growth (and, perish the thought, even large-scale “accumulation”), unless of course we conceive of world socialism with two-thirds of mankind condemned to the miserable standard of living they are “enjoying” today.

So the very charge raised by Kidron against us boomerangs against him with a loud bans, right at the outset of his article. It is Kidron who quite plainly shows himself unable to define the’ specific characteristic of the capitalist mode of production. It is Kidron who is unable to define any “central dynamic” of capitalism which sets it apart from all other social formations in the history of mankind. And this is all the more amazing, because “*Capital* ” and all Marx’s economic writings are built upon precisely that *differentia specifica* which, in all modesty, we claim to have fully understood and made the cornerstone of *Marxist Economic Theory* as well.

It is sufficient to open “*Capital* ” and to read chapter I of the first vol. to understand what constitutes this “central dynamic” of the capitalist mode of production. Capitalism is the only form of class society in which *commodity production becomes generalized*, in which all elements of production (land, labor power, labor instruments. etc.) become commodities__[2] Generalization of commodity production creates a constantly growing but also constantly uncertain and changing anonymous market, and this implies in turn universal competition. It is this universal competition between separate capitals (owned by separate capitalists) which is the main driving force for the accumulation of capital, the only means to systematically reduce production costs, because any individual capitalist who stays behind in this race will be pushed out of the market through being forced to sell at a loss (or at too small a profit). Capitalism is therefore a mode of production in which the generalization of commodity production unleashes a historic process

of accumulation of capital, which is in turn a constant (be it discontinuous) growth of *commodity* production, of production of *exchange values* and reinvestment of surplus value.

Starting from this definition we can easily distinguish capitalism from previous class societies “with no central arrangement to ensure that the process will go in an orderly, continuous and predictable way,” as well as from other societies where there is a primacy of growth”. Capitalism is the only society in which economic growth takes the form of a general growth of commodity production, whereas economic growth in the period in which irrigation agriculture became generalized was essentially growth in the output of use-values (as it will be under socialism). Disorders, discontinuity in accumulation, and unpredictable developments in pre-capitalist class societies arose essentially from sudden decline in production, i.e. *underproduction of use-values* (famine, epidemics, population decline, decreasing fertility of the soil, wars, etc.); whereas disorders, discontinuity in accumulation and unpredictable developments under capitalism arise from *overproduction of exchange-values*, i.e. from the contradictions of commodity production (which most of the time are caused not by a decline but by an increase in the production of use-values).

Competition, Economic Compulsion and “Psychological Mechanisms”

It is true that Kidron uses, in passing, the concept of “competition” which would normally imply the notion of commodity production. He writes: “The behavior of individual capitals is narrowly determined by the competition between them ... If an individual capital did not grow, it would ultimately be unable to afford the rationalization and innovation with which to meet those that did, or unable to ride as successfully the sudden changes in market conditions which are part of the system. For an individual capital growth is the ultimate compulsion” (p. 33). We fully agree with this description. But a moment’s thought will show that this is true only if one assumes a

generalization of commodity production and competition between individual owners and sellers of commodities.[3]

“Competition” between different feudal landowners for the occupation of “land without a master” or the submission of free peasants; “competition” between Rome and Carthage; “competition” even between merchant cities (e.g. between Venice and Byzantium, or between the Dutch and the Hansa towns) *does not* lead to the results which Kidron just described. Under such conditions, the failure to “accumulate capital” does not make a feudal *demesne* “unable to ride as successfully the sudden changes in market conditions which are part of the system”, precisely because sudden changes in market conditions are *not* “part of the system”, as long as the means of production have not become commodities and are not submitted therefore to constant and unpredictable technological changes. Lack of growth of merchant capital is no barrier to success, when supply as well as demand are more or less narrowly limited, as a result of limited markets, traditional techniques, and relatively stagnant output. Under such conditions, “competition” does not lead to *productive* reinvestment of capital, and especially not to its reinvestment in industry. Accumulation of capital takes the form of hoarding, of usury capital, of buying up of land.

So the *rationale* of capitalism can be understood only under conditions of *constantly expanding commodity production*, of a constantly expanding and insecure market, and of firms, or producing units, facing that anonymous market independently from each other and competing for larger and more profitable shares of the market. If one abandons that specific form of *competition* — *capitalist* competition, that is — then any rational explanation of the drive to accumulate becomes impossible, and we are left with mystifying tautological formulas like “capital must accumulate because it is its function to accumulate”, or “the bureaucracy is the personification of capital in its purest form”. But if we assume generalized and constantly expanding commodity production, we assume also the absolute need to realize the exchange-values of these commodities, in order to accumulate capital. It is the specific nature of commodity production that a ship full of shoes cannot be

transformed into additional quantities of leather, and wages for additional manpower, if it is not sold, i.e., transformed into money. Innumerable capitalists have suffered a fate worse than death because they happened to forget that simple little rule which Kidron, curiously enough, seems to consider a special idiosyncrasy of Mandel's. Because capital is tied to commodity production, and to commodity production only, because no capitalist production is possible on the basis of producing use-values. Money is indeed the initial and final form of capital, towards which the whole of economic activity is directed. And for that same reason, capital accumulation, the final money form of capital, and the capitalists' thirst for profit, far from being distinctive from each other—the one “behavior of capital”, and the other “social and psychological mechanisms which ensure that behavior” are just different synonymous expressions of the same basic *economic compulsion*, determined by the structure of capitalist society.

There cannot be the slightest doubt that Marx understood the working of capital exactly in this way, and in this way only[4]. For Marx, “capital” could only exist in the form of different capitals[5]; otherwise, there was no more compulsion to accumulate. Consequently, capital could only exist in the form of “different capitalists”, i.e., a social class constituted so that each part of it was, by compelling economic interest, tied to the survival of “its” own unit of production or circulation. Consequently, the “thirst for profit” of each part of that class, and the “drive to capital accumulation”, are identical, the second one being only realizable through the first (the attempt at profit maximization of each unit or firm).

For Marx capital implies commodity production, i.e., the need to sell commodities before one can reconstitute and expand capital. “Returning to the money form of capital”, “thirst of profit” (i.e., drive to profit maximization) and compulsion to accumulate capital are therefore exactly identical expressions, which uncover the basic tissue of capitalist society and capitalist mode of production: a dialectical unity between a class structure (*based upon the interests of the ruling class*), a specific mode of production (*generalized commodity production, which, be it repeated again, implies that labor*

power has become a commodity, which implies therefore the existence of a proletarian class, forced to sell its labor power), and a specific set of laws of motion resulting from them (capital accumulation and its contradictions, among them, of course, the class struggle).

Kidron's attempt to unravel this tissue is based on semantic misunderstandings, which ultimately reflect lack of clarity of what capitalism really means. To say that the capitalists' "thirst for profit" (or the firm's tendency to profit maximization) is a "social and psychological mechanism" through which the behavior of a mythical abstraction called "capital", divorced from social classes, is assured, and that these "mechanisms" are common to all class societies, is committing a gross confusion between *individual psychological motivations-on* which much discussion is possible-and *economic compulsions*, to which social classes are ruthlessly submitted in a given social framework (under the impact of a given mode of production). The capitalists' "thirst for profit" is not a matter of individual psychological motivation at all; it is an economic compulsion, as Kidron should infer from his own description of capitalist competition. And it is just not true that this "thirst for profit" is "common to all class societies". On the contrary, all class societies in which the social surplus product took essentially the form of use-values produced ruling classes which had no "thirst for profit" whatsoever, but only "thirst" for luxury consumption, and which went so far as to systematically destroy the very sources of "profit" (i.e. of *capital* accumulation) in their thirst for consumption.

According to Kidron, Mandel confuses "social control" and its "form". This argument is especially unfortunate, because Marx himself made explicitly the point that it is precisely the specific *form* of the social surplus product which implies the dynamic of the system[6]. Kidron seems to be under the impression that if precapitalist class societies did not know the kind of growth which capitalism witnesses, it was because the ruling classes had "everything under control". We were then presumably living under "economic law and order". The truth is of course quite different. Precapitalist ruling classes had no economic compulsion to capital

accumulation because the form of the social surplus product was essentially that of use-values, and unlimited accumulation of use values is economically irrational and meaningless: the limit to economic growth was more or less given by the limit of luxury consumption of the ruling class and its retainers (including of course conspicuous consumption, *vide*: the pyramids).

Acceleration of economic growth could start on a tremendous scale only when the social surplus product took the *form* of money, which could be used not only to acquire consumer goods, but also to buy land, means of production and labor power, and when the generalization of commodity production, the creation of an expanding market, and the appearance on this market of independent producers and sellers of commodities, made it not only profitable but indispensable to reinvest money in expanding production. It is this *economic compulsion for a social class to productive accumulation of the social surplus product*—which was only possible because this surplus product had taken the form of money, had become surplus value— which created capitalism. And for Marxists, the tremendous revolutions involved in these transformations are inconceivable without a social class whose interests must be served — and indeed were served — through them; because for Marxists, unlike for vulgar “economic determinists”, no economic transformations are possible without social forces imposing them, and no social forces impose such transformations if these are against their basic economic interests.

That’s what Marx taught about capital, capitalism, the capitalist class (and incidentally, more generally about historical materialism. That’s what we tried to illustrate, with new empirical data, and at least in the historical parts of *Marxist Economic Theory*, in a more extended way than Marx had found time to do. We don’t say of course: this is true, because Marx said so. We only say: Marx truly said this. Kidron can either claim to approve Marx’s analysis of capital — and then he has to withdraw his clumsy criticism of our dealing with the “central dynamic” of the system. Or he has the perfect right to challenge Marx — but then he must come up with an analysis which covers the whole history of capital, from its inception

till today, and which distinguishes this system from all other modes of production, either previous or ulterior, and that he hasn't done so far. Perhaps he is, after all, afraid that he will look a bit silly pretending to know better than Marx what is the real essence of "*Capital*"...

The Laws of Motion of Capitalism and the "Pure Model"

This is all the more important as Marx himself has clearly defined what method he used in his analysis of capitalism. In his preface to the second edition of "*Capital*", he quotes approvingly an article in a Russian magazine which states that the scientific value of his analysis lies "in the unveiling of the particular laws which regulate the origins, existence, development and death of a given social organism, and its replacement by another and higher one". Marx adds to this quotation that the author of that magazine article has most correctly ("treffend") defined his method, which is the dialectical one.

This means that no understanding of capitalism is possible without the understanding of general laws of motion, which explain both its origins, its development through its successive stages, and its final and inevitable decline and fall. To say, as all "fashionable" professors of economics do today, that Marx discovered laws of motion which were correct "only for 19th century capitalism", but that they don't apply any more today, means to say that Marx was completely wrong. His ambition was not at all to analyze and given limited period of the history of capital; his ambition was to explain its whole history, from its beginning to its death.

Kidron, under the obvious influence of "fashionable" (i.e. bourgeois) economics, moves around this hot stew, quite unsure of himself, and does not dare either to eat or to refuse it. The "solution" with which he comes up is that in Marx's "pure" system, the laws of motion apply, but that real life is quite different from this "pure" system, and in real life Marx's laws of motion do not apply

“completely” (or even not at all, which is at least implied in some of Kidron’s remarkable statements about contemporary capitalism).

Let us first state that Kidron’s way of summarizing the laws of motion of capitalism contains several “classical” oversimplifications, fashionable in academic circles and in the Kautsky — school of vulgarized Marxism; this is no accident, as we shall presently note. Kidron will have a hard time finding any evidence in Marx’s “Capital” that there is a tendency for labor power to decline in absolute terms under capitalism; that “booms become progressively less profitable and shorter: slumps more lasting and severe”[Z]. But be this as it may, let us now follow Kidron’s argumentation of how the absence of a “closed system” of capital upsets the workings of the laws of motion of capitalism discovered by Marx:

“The model is a closed system, in which all output flows back as inputs in the form of investment goods or of wage goods. There are no leaks.

“Yet in principle a leak could insulate the compulsion to grow from its most important consequences ... If ‘capital-intensive’ goods were drawn off, the rise would be slower and depending on the volume and composition of the leak-could even stop or be reversed. 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. Capital exports have diverted and frozen other quantities for long stretches of time.

“A lot, since World War II, filtered out in the production of arms. Each of these leaks has acted to slow the rise in the overall organic composition and the fall in the rate of profit.” (p.33).

A truly remarkable constant confusion between use-values and exchange-values, between physical goods produced (or destroyed) and their counterpart in form of value of commodities, appears throughout these lines. It is worthy of inclusion in a textbook simply to show what misunderstanding a lack of clarity on the dual nature of the commodity necessarily leads to.

What seems to lie at the basis of this whole conception is some vulgar theory of over-production, according to which it is a glut of physical goods which is at the basis of all capitalism's evil. Slumps result from too many consumer goods; increased organic composition of capital and declining rate of profit result from too many investment goods (too many machines). When there are "leaks", and other goods are produced instead of these, or, even better, when these goods are destroyed, then there is rejoicing in the sky of Capital, and laws of motion are magically put out of action.

Kidron forgets that what capitalism is about is the accumulation of capital (i.e., stored *value*) and not the disposal of the use-values of commodities. A certain proportion of these must, of course, fill physical needs and give production its needed physical material. But these physical conditions of reproduction are only material *preconditions* for the successful realization of capital accumulation. They don't guarantee in themselves either the realization of that process, nor its realization under conditions where the laws of motion of the system apply, apply only partially or, presumably for Kidron, don't apply at all. These conditions depend exclusively on the composition, exchange, valorization and reproduction of *capital as value*.

The example of slumps clarifies this easily. A slump is not primarily a destruction of "immense quantities of output" (of physical goods). Sometimes, this destruction does not happen at all; and even when it does happen, it is only a secondary side-effect of what is the real meaning of slumps (and, incidentally, also their objective *function* in the dynamics of capitalism): the *destruction of capital as value*, through massive depreciation of stocks of goods, or fixed capital (parts of which even lose all their value: machines are turned into scrap iron, etc.) and of 'fictitious capital'. Whether this essential

process is accompanied by physical destruction of goods is immaterial.

Because slumps are destroyers of capital and not of “output”, they tend to lower the organic composition of capital[8], and allow a rise in the rate of profit which sets off a new cycle of increased “Capital investment, boom, rising organic composition of capital, decline in the rate of profit, which eventually leads to a new decline in production, etc. There is therefore no need at all to discover any “leak” in the “closed system” to “explain” why slumps temporarily reverse the trend towards increased organic composition of capital and declining rate of profit. On the contrary, this “safetyvalve” is built-in in the “dosed system”, as Marx himself clearly stated and as we explicitly repeated in *Marxist Economic Theory*[9].

The same thing is true for (capital exports. This process can only be constructed as a “leak” from the “closed system”, if this “closed system” is viewed as being established in a single country, surrounded by a world outside of the realm of capitalism — a construction which is completely alien to Marx’s “model”. Once the “closed system” of capital is viewed as an international system (the capitalist world market), then capital exports are neither a “diversion” nor a “freezing” of output (?) for “long stretches of time”, but simply the manifestation of the *basic* law of motion of capitalism, the tendency of capital to flow from branches, regions, areas, countries with lower, to those with higher rates of profits. It is no accident that Kidron does not even mention this law of motion in his description of the model. And such a flow (be it “export” or not) of course counteracts the trend towards a declining rate of profit, inasmuch as it leads to capital investments with a lower organic composition of capital or (and) a higher rate of surplus value. Again, the counteracting tendency does not represent any “leak”, but is built-in in the “midel” as such, and clearly stated by Marx himself.

Kidron’s third “leak” is represented by wars. The same infusion between use-values and exchange-values, between physical goods and capital, occurs here. All wars destroy physical goods; but whether they destroy capital is not so obvious nor so automatic.

In order to destroy capital, they must not only destroy consumer goods, including durable ones like houses, but also destroy industrial equipment to a larger degree than is newly built. Wars, it should not be forgotten, not only can *destroy* capital but also can lead to a tremendous *increase of capital accumulation (as happened, for example, in the USA both during the first and second world war)*. Often the two processes occur side by side (*like in Britain during- the second world war*), and only if the first process is larger than the second one is there real capital destruction (*i.e., does overall capital accumulation become negative*). We have described the mechanics of this process of contracted reproduction under war economy in *Marxist Economy Theory*; incidentally one of the examples of “fresh exploration” which Kidron somehow managed to miss in the book. Kidron seems to labor under the impression that wars and war production are “unproductive” and “destroy capital” because weapons are “destructive goods”. He forgets that a manufacturer of tanks, munitions and fighter planes makes a huge profit, uses a large part of it to accumulate capital (*i.e. to buy new machinery and to hire new men*) and that this represents a process of capital accumulation identical to the similar steps embarked upon by a manufacturer of tinned milk or by a firm producing turbines.

We have now arrived at Kidron’s fourth “leak”: arms production. According to him, it represents a “drain”, and “being a capital-intensive drain, it will have a restraining effect on the tendency of the organic composition to rise” (pp. 33-34). Why arms production is a “drain”, and why it has a restraining effect on the tendency of the organic composition of capital to rise, remains an absolute mystery.

The whole construction is completely artificial and misses the main “law of motion” of capital accumulation altogether. For arms production is not conducted on some mysterious planet Mars, but on this wicked planet of ours; it is not conducted under conditions of some mysteriously unknown mode of production, but under “normal” and “classical” capitalism, with a constant flow of capital between *all* sectors of profitable investment, including arms production. So the calculation of an “organic composition of capital” in the arms industry, separate and apart from that of the “civilian sector”, is

completely meaningless to establish the trend of the average rate of profit, which results precisely from the *social average* between *all* sectors, including the arms sector. What Kidron would have to prove, to show that the effect of capitalist arms production is to weaken or to stop the tendency to a declining rate of profit, is that the average social organic composition of capital (including of course the arms sector itself) has become lower than it would have been if that arms production sector would not have existed. And that conclusion just does not make any sense, if one assumes that the organic composition of capital in the arms production sector is actually higher and not lower than the average organic composition of capital in the “civilian” production sector, because it is nearly entirely situated in the “capital intensive” sector of heavy industry¹¹[10].

Kidron’s assumption could only imply an element of truth if the average organic composition of capital would be actually lower in the armament sector than it is in the other sectors. In that case, of course, strong expansion of a sector with lower organic composition of capital would lower the social average organic composition of capital and thereby successfully counteract the tendency of the rate of profit to fall. But this hypothesis — which Kidron would be the first one to reject! — does not correspond to reality. And even if it would, it would not represent a “drain” but only a particular manifestation of the same basic law of motion of capitalist accumulation of the “pure” model, which we described above.

Kidron would have spared himself much confusion, if instead of talking about “leaks” and “drains”, he would have started from the key-difficulty which monopoly capitalism has encountered for three-quarters of a century. This is *not* the difficulty of disposing of *surplus goods* (thereby welcoming any turn in development which would lead to a sudden decline in the “surplus” of consumer goods and investment goods), but the difficulty of disposing of *surplus capital*, which derives from the very nature of *monopoly capital*[11]. Thence both the drive to increasing capital exports, and the drive towards arms production. The economic function of arms production is to provide additional fields of investment for capital surplus, not to reduce the increase in the organic composition of capital and/or the

declining rate of profit. Its overall effect-if it is large- will be to ensure a higher rate of overall growth (obviously. because the alternative would be not to use at all the capital invested in arms production) and to reduce the volume of investment and output fluctuations (because arms production. unlike “civilian” production, generally does not decline in phases of recession). But whether all this leads to a rise or to a decline in the average rate of profit depends on other circumstances (e.g., on the effects of arms production on the rate of surplus value), not on the nature of arms production as a “drain”.

Contemporary Capitalism and Vulgar Economics

So Kidron’s whole construction of “leaks” and “drains” collapses as an explanation of why the laws of motion of capitalism don’t apply today. He is faced with the same dilemma as all those who call themselves Marxists: either he has somehow to accept that there are “tendencies” which do not manifest themselves (*which is of course something different from saying that there are tendencies which don’t manifest themselves permanently or without counteracting tendencies*), or he has to have a fresh look at reality, try to shake off impressionism, and to find behind superficial phenomena and doctored “statistics” more fundamental economic processes which do, after all, correspond to Marx’s laws of motion.

That’s what we tried, in *Marxist Economic Theory* and subsequent writings, and we think we can prove our case. As we have shown, between 1869 and 1919, the output of producers’ goods increased more than twenty times in the USA, whereas the output of consumer goods only increased twelve times. Between 1919 and 1964, the output of machinery and instruments in the USA, rose from 14.1 % to 20.5’/6 of total manufacturing production. Again, the output of machinery increased threefold between 1947 and 1968, whereas total industrial production rose by 250 % in the same period. So one might infer that for one century the output of department I has indeed grown more rapidly than the output of

department II, which implies that there is a definite tendency for the organic composition of capital to rise[12], and that, from a long term point of view, this tendency is neither stopped nor reversed during the last decades (although it obviously slows down percent wise. when the *absolute* volume of department I reaches a higher and higher level. The same *rate* of growth of the organic composition of capital would require, starting from a certain absolute volume of constant capital and given the average rate of capital accumulation, an *absolute decline* in variable capital or in output of department II—which has obviously not been the case, and could not be the case given the existing relationship of forces between Capital and labor in the U.S.A.).

Now given the evidence of a long-term trend of rise in the organic composition of capital, given the complete lack, of evidence of any long-term rise in the rate of surplus value proportional to it, one can only conclude either that there has to be long-term decline in the average rate of profit, or that Marx's labor theory of value does not hold any more (*that constant capital is somehow mysteriously "producing surplus value"*), and in that case, the whole of Marx's economic theory collapses. Let us repeat again that we are not talking of a couple of years here and a couple of years there, but of long-term trends. Kidron makes a caricature of our analysis when he says that for us "the real thing " becomes as simple as the model [13]. But surely, a model which has no relation whatsoever to the "real thing" is a wrong model, I would presume ... And the denial of any longterm decline in the rate of profit leads Kidron smack into vulgar economics accepting the labor theory of value with one hand and denying it with another.

In studying capitalist statistics on "rates of profit", one has to take a whole series of precautions, in order to translate them into Marxist terms.

In the first place, the average rate of profit Marxist economic theory is concerned with the rate of profit on the flow of current production ($p/c+v$, in which c is the fraction of the total capital stock actually used up in annual output and not the rate of profit of the *stock* of total capital investment ($p/K+M$, in which K is the value of all

fixed capital invested and M the value of total circulation capital available in capitalist industry). Most statistics-and balance sheets of capitalist firms calculate profit rates on the stock and not on the flow-and the difference can be quite striking.

In, the second place. Marx's laws of motions are concerned with *value* production, not with *price* calculations. It takes a lot of analytical labor to deduct from national income and national expenditure statistics the sum-total of surplus value produced by industrial labor. Part of that surplus- value is appropriated by other sectors of capital (*banking capital, commercial capital, capital invested in the service industries, etc.*) through the market (*i.e., through the purchase of "services" by the manufacturing firms, which appears in the balance-sheets as "production costs", or through the sale of commodities below their prices of production*), is thus deducted from the income of industrial capital, and is not included in the category "profit of industry before taxes". If this part of surplus value, while increasing in absolute figures, is declining in relation to "industrial profits", then the rate of growth of surplus value as compared with the rate of growth of current capital expenditure might be in fact lower than appears from the statistical "series before taxes", and the average rate of profit might in fact be declining although the series "profit before taxes" does not show so.

In the third place, ever since corporation taxes became "burdensome", a whole new "service industry" for doctoring balance-sheets has arisen. Most Marxist commentators have insisted especially upon the profit-concealing function of this doctoring (e.g., camouflaging important part of surplus value as constant capital consumption, through the method of accelerated depreciation)[14]. They seem to have forgotten that this also implies a systematic under-valuation of capital itself, in the first place an under-valuation of the total capital stock-which is all the more formidable because it becomes cumulative-but also an under-valuation of current capital expenditure (part of which is marked down in the books as "current costs of repair", another part of which does not appear at all, because the value has already been "written off" before). Now if the real value of capital is much higher than appears in the balance

sheets, then of course statistical series which appear to show uncertain fluctuations of the rate of profit, or even an increase of that rate, can actually hide a long-term tendency of a declining rate of profit[15].

All this being said, do the statistical series really warrant any conclusion that the trend towards a declining average rate of profit has somehow been reversed by contemporary capitalism? Kidron's own series, whatever may be its serious shortcomings indicated above, actually prove the opposite. In order to interpret them, we have to understand that the rate of profit-oscillation works on two wavelengths, so to speak. They work within the span of each cycle, going up in the boom and going down under conditions of recessions; and they work in longer-range periods, tending to reach peaks, during booms, which have a tendency to become lower (*which does not mean naturally that each boom must have automatically a lower maximum rate of profit than the previous one had. Increases in the rate of surplus value can momentarily offset the effects of increases in the organic composition of capital*). One can dispute the first type cyclical decline only if one disputes the inevitability of cyclical variations of capitalist production at all; and one cannot dispute this inevitability neither in fact (*recessions have occurred in the USA economy in 1949, 1953, 1957, 1980, and one is starting right now*) nor in theory (*it flows precisely from the fragmentation of productive resources between different owners. i.e., from the existence of "different capitals", viz., from capitalist competition without which as we have seen above, capitalism cannot be conceived*).

But what about the long-term trends of the rate of profit? Kidron's statistics show that on "net working capital" the rate of profit declined from 49 % in the boom year 1950 to 43.6 % in the next peak boom year 1955. 38.4% in the next peak boom year 1959 and an average of 43.1 % for the three boom years 1965, 1966 and 1967. There is no "linear" decline, but the tendency towards decline is quite clear.

The same applies to the two main European capitalist countries, West Germany and Great Britain. In West Germany, net profits as a percentage of net capital worth declined for all industry from 20.9%

in 1951 to US 5% in 1955, 18.4% in 1960 and 14.9% in 1965 (each peak years of the cycle; the rates for the intermediary years are each time lower than the peaks). And for Britain, the *Financial Times*' "Annual Trend of Industrial Profit" series indicate a similar trend: for all industrial companies, the rate of profit as against net assets declines from an average of 9.3% for the 1952-1960 period to an average of 7.8% for the 1961-1965, and an average of 6.9% for the 1965-1968 period[16].

So Kidron is wrong when he assumes that "nothing beyond the forties could sustain Mandel's thesis ... "

It is true, that *Marxist Economic Theory* does not treat in a systematic way the problem of the sharp rise in the rate of growth of the capitalist economy after world war II, a rate of growth which is now declining — as we foresaw correctly since the early sixties, and as the very same issue of "International Socialism" which prints Kidron's critique also confirms (p. 31). The reason for this does not lie in our "maginot Marxism" (it is not difficult to explain that rise with Marx's analytical tools). It lies simply in the fact that most of *Marxist Economic Theory* was written in the late fifties, i.e. more than ten years ago, when many of the postwar trends were not yet clear.

The further development of what we believe to be the explanation of the peculiarities of contemporary capitalism" can be found in a few of our later writings[17]. Briefly, we think that what we have been witnessing is a third industrial revolution, similar in effect to the second one which ushered in the phase of monopoly capitalism in the last quarter of the nineteenth century. We believe that each of the three industrial revolutions which capitalism witnessed till now have had a similar effect of pushing the rate of investment and of growth upward during a first series of cycles, while inevitably preparing thereby the grounds for a later "long cycle" with a much lower rate of growth. We believe, in other words, that the cyclical movement of the rate of profit is three-fold: inside each 5 to 10 years cycle (first up, then down); between the peaks of several cycles constituting together a long-term period of 20-25 years (generally down); and between several long-term periods (more erratic, but

downward in the “secular” sense: obviously, the average rate of profit is today lower than it was in the first half of the 19th century).

Does this view of a new industrial revolution overthrow the classical Marxist-Leninist conception of imperialism as the final stage of capitalism? It does not, no more than the appearance of monopoly capitalism overthrew the classical Marxist conception of competition being the driving force of capitalism.

The third phase in the history of capitalism reproduces most of the basic features of imperialism on a higher scale, just as monopoly capitalism reproduced competition on a higher scale. But it does so in a changed framework. Whereas “free competition” capitalism was largely limited to a small part of the world, imperialism embraced the whole earth. “Neocapitalism” (or late capitalism) is again limited to only part of the world. But whereas early expanding “liberal” capitalism of the 19th century had only to face decaying older social orders, “late” capitalism is confronted with the formidable challenge of anti-capitalist forces and a post-capitalist social order which enjoys both a higher rate of growth and a much larger popular appeal to at least two-thirds of mankind.

One can also add that during the “long period” of stagnation of capitalist world economy (1913-1940) a great “reserve” of scientific and technological inventions had been built up, whose large-scale productive application was delayed as a result of the unfavorable economic conditions prevailing during that period. The dynamic of these inventions, accelerated by the results of the war economy boom itself, laid the basis for a real explosion of technological innovations, which could be widely applied under conditions of reconstruction, stepped up capital accumulation[18] and continued expansion of arms production, itself strongly determined by the conditions of “competition” with a non-capitalist economy in the Soviet Union.

In any case, the key aspect of this development is to understand the oversimplification of the assumption (of which even Lenin and Trotsky were at moments victim of) that the structural crisis of the world capitalist system, which undoubtedly began with the first world war and the Russian revolution, somehow is identical with an

absolute decline in the development of productive forces. There is no trace in Marx's "Capital" and his mature economic thought of such an idea.

The structural crisis of the capitalist world system means that the system begins to break up, that there is an uninterrupted chain of social revolution erupting, some victorious and some defeated, that the restriction of world capitalism to only parts of the world (and the challenge which the other part represents to it) put formidable supplementary constraints on to it, that the fundamental contradiction between the level of development which the productive forces have reached and the capitalist production relations, leads periodically to big social explosions, and that thereby the objective pre-conditions for victorious socialist revolutions exist, historically for the whole epoch, and conjuncturally at successive phases in various countries. This structural crisis of the capitalist mode of production is intertwined with the periodic crisis of overproduction, but by no means identical or synonymous with it. And each time when a period of revolutionary upsurge of the working class in the industrialized imperialist countries ends in defeat, this creates a situation in which an economic recovery is not only possible but inevitable for the imperialist bourgeoisie.

In other words: the basic notion here is that there are no "economic situations without a way out" for the imperialist bourgeoisie, as Lenin rightly stated. Capitalism cannot collapse simply out of its own inner economic contradictions. This Kautskyist conception — which, through the intermediary of English mechanistic "Marxists" of the Strachey type, has exercised a deep influence on Marxist thought in Great Britain — is the underlying assumption of much of Kidron's misplaced critique against *Marxist Economic Theory*. We don't share this conception, and Marx had nothing to do with it. The only thing he showed was that the inner contradictions of capitalism lead towards periodic economic crisis and social explosions. The fact that even in a period of accelerated investment and growth a tremendous inverted pyramid of monetary inflation and personal indebtedness had to be erected to keep the system going — a pyramid which cannot be expanded in an

unlimited way — clearly shows that *all* these contradictions are still very much with us, like in Marx's time. But whether capitalism collapses or not depends on the successful revolutionary action of the working class. And what happens when it does not collapse depends on a variety of factors, some of which we have just sketched.

We shall not take up Kidron's laborious attempts at irony, accusing us of pandering to the notions of "non-stagnating stagnation" and of "slumpless slumps"[19]. It is very significant that in *none* of the passages of *Marxist Economic Theory*, which Kidron cites as proof that we did not "incorporate the uncomfortable fact of the mildness of post-war recessions" into our general analysis, but continue to speak of the "inevitable slumps" (presumably on pages 168, 171, 346, 347, 529, etc.) in *none* of these passages does the word "slump" even so much as appear! The only "inevitability" we mention in all these passages is the inevitability of periodical downward fluctuations, of periodic declines in output, of periodic increases in unemployment, of periodic overproduction of commodities and excess capacity of equipment. That's what capitalist crisis means for Marxist economic theory. And these continued to occur regularly, after World War II as well as before.

Kidron does not understand at all the point we made about "recessions" and "slumps": that the difference is purely quantitative and not qualitative (and very often quantitative only after a certain stretch of time; the first manifestations of a recession are very often as violent as the first manifestations of the 1929 slump, as we statistically proved). Recurrent recessions prove precisely that, capitalism is *not* capable of regular, harmonious growth, is *not* capable of avoiding unemployment and is *not* capable of avoiding fluctuations of income; all this for the simple reason that it is generalized commodity production conducted under conditions of private property (of "many capitals") which *inevitably* implies irregular, spasmodic ups and downs of investment. A mild recession is a recession, i.e., a crisis, after all; and a million unemployed in a country like West Germany or Italy are, after all, a million unemployed' and not full employment. That they don't have the

gravity of the 1929 and the 1938 slumps, we concede willingly. But what does that prove? How about comparing them to the pre-1929 or the pre-1913 crises of overproduction (these were, after all, those which Marx wrote about)? What about determining their tendency? Will they tend to become “milder” and “milder” till they fade away? Or will they become stronger and stronger?

These matters are all connected with the very heart of Marxist economic theory. Is it possible to avoid fluctuations while generalized commodity production exists? Is it possible to avoid crises of overproduction (pardon me: “recessions”) when “key choices about the deployment of resources” are left to individual capitalists? If Kidron thinks it isn’t, he, too, believes in the inevitability of crises of overproduction under capitalism, and then, following his own absurd vocabulary, he too is a believer in “slumpless slumps”. And if he doesn’t believe in the inevitability of crises under “contemporary” capitalism, then he can in no way hide his complete and total break with Marxist economic theory, method, analytical categories and doctrine as a whole. His impressionist refusal to answer these questions is, in fact, a typical “refusal to generalize”, characteristic of vulgar economics.

Capitalism and “State Capitalism” — the Nature of the Soviet Economy

How does it happen that a trained and not talentless economist like Kidron, who has also read some Marx, can make such elementary blunders, constantly confusing use values and exchange values, physical goods and capital, absence of slumps of the 1929 type and absence of capitalist crisis of overproduction? The reasons obviously do not lie in his lack of analytical ability. They lie in his desperate attempt to cling to the myth of “state capitalism” existing in Russia, and to the need which flows from that attempt to show somehow that there is no “basic” difference between the functioning of “contemporary capitalism” and the functioning of the Soviet economy. That’s why he has to slur over or even deny fundamental

aspects of capitalism and fundamental laws of motion of the capitalist mode of production.

Ever since social-democratic opponents of the Russian October revolution hatched the theory of “capitalism” continuing to exist in the Soviet Union, supporters of that theory have been faced with a difficult choice. Either they consider that Russian “capitalism” has all the basic features of classic capitalism as analyzed by Marx, to start with generalized commodity production, and that it also shows all the basic contradictions of capitalism, including capitalist crisis of overproduction and then they have a hard time discovering evidence for this. Or they admit the obvious fact that most of these features are absent from the Soviet economy, and they then have to contend that these features are not “basic” to capitalism anyhow, which in the last analysis only means exploitation of wage-labor by “accumulators”. This then implies unavoidably that there are qualitative differences between the functioning of capitalism as it exists in the West and the functioning of the Soviet economy, and that “state capitalism” is a mode of production different (i.e., corresponding to different laws of motion) from classical private capitalism. Bordiga is the outstanding representative of the first current, Tony Cliff of the second current. The peculiarity of Kidron is to try to have it both ways: he intends to eat his “state capitalist” cake and have it too!

He starts by conceding that Soviet economy is not subjected to the tyranny of profit nor to internal competition nor to crisis (p. 35). The explanation is that in Russia we are living under the regime of “a single capital”. But if there is no competition, if there is only a single capital, then, obviously; there is a “central, public arrangement to ensure that the process will go on in an orderly, continuous and predictable way” (Kidron’s definition of what *does not* exist under capitalism) and this “arrangement” is called central planning. Obviously, too, if there is no competition, “key choices about the deployment of resources” are not left to “individual capitals” (which do not exist), but are centrally determined in a coherent way, and we have continuous growth. And then, equally obviously, there is no

capitalism, because all these “arrangements” are unattainable under capitalism.

But at the same time as he concedes all this, Kidron makes a series of statements which completely contradict this conception of the laws of motion of capitalism not applying inside Russia. We read that “nothing (!) in Stalinist (including post-Stalin) Russia defies analysis in terms of Marx’s model. The process of pumping out surpluses from the mass of producers is as vulnerable in Russia to wild and random encroachments (!) from other capitals as it is anywhere else. The people, that organize and benefit from it, are under as oppressive a compulsion to fast economic growth as any similarly placed class elsewhere” (p. 34). We wait for any substantiation of these breathtaking statements. There is none to come. And none can come because they are based on a crude conceptual sleight-of-hand. Here all the initial confusion between use-values and exchange values, between accumulation of machines and accumulation of capital, between conflicts of different social systems and capitalist competition, come finally into their own.

Let us take for a minute the concept of a “single capital” seriously and see where it leads us.

Inside *General Motors* there is of course no capitalist competition going on. The department producing car bodies does not “compete” with the department producing gear-boxes. Capital does not “flow” from one department to the other, when gear-box production is “more profitable” than car body production. *General Motors* normally can do nothing with gear-boxes in excess of cars produced (we leave aside the marginal case where a large corporation would actually sell parts to competitors; this does not change anything in the logic of our reasoning). Normally, the production of all parts is “planned” so that a maximum number of cars can be sold profitably.

Now if there is no “market economy” inside *General Motors* corporations; if the flow of goods between the departments of that “single capital” is not a flow of commodities but a flow of use-values, why then in *General Motors* a capitalist trust, why is the final product indeed a commodity, why are the owners of the corporation under the economic compulsion to exploit their workers and to accumulate

more and more capital? Obviously because they have to sell their cars on a market, in competition with other car manufacturing corporations. If the wages in their firm go up quicker than productivity of labor, cost prices go up and then *General Motors* cars would be priced out of the market. If the rate of exploitation goes down, capital accumulation goes down, technology becomes obsolete compared to that of competitors with higher capital accumulation, and again the firm not only would quickly lose its share of the market, but would even be in danger of finding no market whatsoever for its goods. It is through the fact that the final products of *General Motors* are commodities, have to be sold on a market, and are therefore subject to capitalist competition, that the inner organization of the plant which appears at first sight as “planned economy” is subject to “wild and random encroachments from other capitals”, and that anarchy of production, increased exploitation, capital accumulation, periodic crisis, firing of workers, inflow and outflow of capital from the auto branch to other branches, in brief, all the laws of motion of capital discovered by Marx; assert themselves.

Now let us presume that through some “miracle” called the October Revolution the workers of *General Motors* expropriate their owners and reorganize production in such a way that they do not have to sell any commodities on the outside market (later, after some soul-searching, they decide to divert 1% of their annual output for such a sale, but this does not change anything decisively in the set-up; even if this 1% were to be suddenly suppressed, no basic change in the organization of their would occur).[20] Diversification of production tends to cover at least the elementary needs of all the manpower of the firm. Would this still be “capitalist” production? Of course not, no more than that of the “communistic” colonies of 19th century America. Do the laws of motion of the capitalist mode of production apply to that outfit? Evidently not. There would be no capital accumulation, only an accumulation of industrial equipment, produced according to plan, in the form of use-values. There would be no flow of capital from less to more profitable areas.[21] There would be no cyclical movement of investment, income and output, no

periodic crisis, no periodic unemployment, but steady growth (provided the planning functions more or less adequately).

Would there be *threat* of encroachment by capitalism? Of course there would be such a threat; capitalism, by its very nature, is adverse to any part of the earth and any potential market being taken out of its grip. This threat would take the form of a threatening police action (or a military action) to restore private property and “free enterprise” in the domain of the collectivized outfit. It would take the form of trying to lure away the G.M. workers, by showing them at least that elsewhere they could enjoy a higher standard of living. These threats would, obviously, influence the behavior of whoever administers collectivized General Motors. Part of output would have to be diverted for arms production, for purposes of self-defense, and there would be a powerful incentive for technically more and more advanced arms production. Plans would also have to be drafted (and redrafted) in order not to fall too much behind capitalist production technique for consumer and investment goods too (or even for overtaking them). The division of total output inside the collectivized domain would be influenced by these challenges and the desired response to them. This would be true, incidentally, independently from the fact whether collectivized domain were administered under a perfect scheme of workers control and workers self-management, or whether it were administered by a hideous gang of foremen and engineers, who grabbed power inside the domain in order to reserve for themselves the cream of the output, achieving thereby a much higher standard of living than the modest average made possible by the given capacity of output, achieving thereby a much higher standard of living than the modest average made possible by the given capacity of output. And the possibility of political power and self-administration being taken away from the workers of the plant would in its turn depend on the degree by which general consumers needs would be satisfied (if they were, there would be no “incentive” for anyone grabbing power in order to satisfy consumer needs!), on the degree of political activity, awareness and socialist consciousness of the workers (in its turn depending at least partially on their standard of consumption, of leisure and of culture), and on

their class cohesiveness (in part a function of the existence and leading influence of a revolutionary organization) .

But by no stretch of imagination, and especially, by no clever word-play (first using “wild and random encroachments” instead of pressure or threat of encroachments; then using “encroachment” instead of “competition for shares of a market”: and finally substituting accumulation of capital for accumulation of use-values, could these conditions be pressed back into the categories of Marx’s model of the inner logic, the laws of motion and the contradictions of generalized commodity production, i.e., of the capitalist mode of production.

So the conclusion is inescapable. There is no “single capital” in Russia (capitalist production under “single capital” was ruled out by Marx anyway). It is absurd to assume that capitalist production was somehow reintroduced because of “competition on the capitalist world market” (i.e., that the tail of 1 % of output imported from and exported to advanced capitalist countries is wagging the dog of the Russian economy).

And it is even methodologically wrong to assume a mechanical and automatic identity between the fact of a country being submitted to “encroachments” of foreign capital and the fact of that country becoming capitalist. Only if and when these encroachments *change the internal mode of production* do they lead to introduction (or reintroduction) of capitalism.

Marx made the point that India and China, although gradually drawn into the capitalist world market, did not for several centuries become capitalist countries (i.e., acquire a capitalist mode of production), because of the strong resistance which the basic mode of production of these countries continued to oppose to the “encroachments” of international capital. And if such was the capacity of resistance of a decadent and decaying Asiatic mode of production, surely the capacity of resistance against encroachments by the world market of a superior mode of production, based on collective property of the means of production and planned economy, could be understood to be a thousand times stronger. History proves that it has indeed been so.

The Meaning of the Economic Reforms in the U.S.S.R.

All these questions become even clearer if one tries to fit the current economic reforms in Russia and Eastern Europe into this analytical framework. If we assume, as Kidron does, that Russia is a capitalist economy “accumulating capital” under pressure of and in competition with the capitalist world market, then these reforms become meaningless (indeed, any analysis of the Russian economy made by “state-capitalists”, cf. Tony Cliff’s *“The Nature of Stalinist Russia”* written in the fifties, completely failed to foresee anything of the kind). There is the need to “accumulate capital”. The bureaucracy is the “agency for accumulation”. Accumulation leads to “class struggle” like in the West. But because there is “fascist-type dictatorship”, this can only erupt violently (and not for reforms). That’s all they had to say.

If one starts however from the assumption that Russia’s economy is not capitalist; that it is a specific non-capitalist mode of production, then one has to analyze the specific contradictions of that mode of production, and then one can foresee the specific economic and social problems, conflicts and crisis, which will arise from these contradictions (completely different from those of bourgeois society). That’s what we tried to do in *Marxist Economic Theory* and events have shown us to be right. Indeed, the very contradictions which we laid bare were admitted by the leading economists there and used as starting points for the economic reforms being introduced in Eastern Europe and the USSR since the early sixties (these reforms, be it said in passing, will only temporarily provide solace and can in no way solve the said contradictions, which can only be overcome by a political revolution introducing democratically-centralized, i.e., planned, workers management).

We cannot here reproduce the whole argument; but let us concentrate on the main points. As we have said above, it IS simply not true that all ruling layers (classes and castes) in history have had

an urge to pump more and more surplus product out of the producers. And it is even less true that they all have an urge to “accumulate capital”. This “urge” is typical only for the capitalist class, under the concrete conditions of the capitalist mode of production (universal commodity production and private property of the means of production, i.e., the existence of “several capitals”, i.e., competition). Now the Soviet bureaucracy is *not* a capitalist class. It does *not* manage factories under conditions of universal commodity production. It is *not* in the process of competition for markets with other capitalists. *So it is under no economic compulsion to maximize output and under even less economic compulsion to optimize resource utilization.* In fact, it accepts the “tyranny of the plan!” (as Kidron states, without seeming to understand that this is a qualitatively different “tyranny” from that of profit) only because it wants to keep its managerial position, as a means of achieving the optimum standard of consumption available under the given conditions. In other words, the *consumption desires of the bureaucracy* (like the consumption desires of precapitalist classes) *and not the need to maximize accumulation and output*, are the motive force behind bureaucratic management. And this unavoidably clashes with the inner logic of a planned economy which calls for maximizing output[22] and optimizing deployment of resources.

How did Stalin solve this contradiction? Essentially through two means. On the one hand, “material consumer incentives” to the bureaucrats were greatly increased, and were made much more meaningful in the light of the miserable standard of living of the mass of the producers. On the other hand, the bureaucrat was trapped in a mass of orders which he had to fulfill, lest he lose not only his consumer privileges but also his liberty and very possibly his life. It was tacitly understood that among all these contradictory indicators, that of attaining or surpassing gross output figures had the absolute priority, and that he was allowed to disregard some other indicators to attain these. But from time to time he was harshly reminded, through violent sanctions, that he had to respect plan discipline as a whole, and not only parts of it.

Why did this combination of carrot and stick increasingly fail to deliver results starting with the fifties? From the point of view of the overall interests of the planned economy, because it had been geared essentially to the needs of an *extensive* industrialization (with large reserves of land, natural resources and manpower); in which cost calculations in relation to alternative investment projects were of less importance; this period was over and the Soviet economy needed urgently to grow from extensive into *intensive* industrialization, with much more closely calculated use of resources than before. From the point of view of the bureaucracy as a social layer, because both the carrot and the stick were rapidly losing their effects. The incentive effect of the bureaucracy's consumer privileges was dwindling, when the general standard of life in the country rose and in fact inequality in income declined somewhat: e.g. the salary of a director of the biggest machine-building plant, first category, was only five times the minimum wage of a cleaning woman, after the latest rise of minimum wages on January 1st, 1968, instead of eight times in 1966 or ten to twelve times under Stalin. The fear of violent repression was also receding as a result of the "liberalization" of the Khrushchev era and the general decrease in the use of arbitrary trials, deportation (not to say killings etc.), against individual bureaucrats.

Looking for a way to overcome the growing contradictions between the general needs of the planned economy and the material interests of the individual bureaucrats (which are pure consumer interests, be it repeated!) as the driving force of economic growth, the leaders and ideologues of the bureaucracy gradually evolved a system of economic reforms which would tie the income of the bureaucrats to an objective measurement of economic performance. Instead of these privileges depending only on the managerial position and carrying out the plan, they would henceforth increasingly depend on the performance of the factory the bureaucrat manages. And profit was partially "rehabilitated" as a faithful indicator of such overall economic performance. In this way, the bureaucracy's ideologues thought the managers would be forced to a higher degree of optimization in resource utilization than before.

The machine-building plant's director we referred to above would receive his "incentive" through bonuses tied to profit, instead of through a very high salary.

Contrary to what superficial Maoist and semi-Maoist critiques in the West assumed—these strange new "state capitalist" bedfellows of Kádár! — the reforms do not mean that capitalism is being reintroduced in the Soviet Union. They do not mean that profit becomes the motive force of economic growth, i.e., starts to direct investment "spontaneously" from branches where it is lower towards branches where it is higher. No real competition in the capitalist sense of the word (i.e., competition for selling on an anarchic market) occurs. Means of production have not become commodities. Rather, what has occurred is the use of a pseudo-market to optimize resource utilization quite along the lines which the late Oscar Lange postulated already in the thirties[23].

But do these reforms mean a smooth and rational use of the planned economy's resources, in order to achieve the maximum growth of output? By no means. They only substitute one set of contradictions for another. Income of the bureaucracy is now increasingly tied to the factory's "success" on the "market". But this "success" does not depend only, or even essentially, upon a rational utilization of given resources available to the factory. It also, and above all, depends upon the technology of the factory (i.e., new investment taking place) and upon a given relationship between the "prices" the factory has to pay for what it "buys", the amount of manpower it has to use and its wages bill on the one hand, and the "prices" the same factory receives for what it "sells" on the other hand. As long as these prices, the mass and form of investment, the amount of manpower and wages, are determined by the plan, the bureaucrat will quickly feel cheated by the new arrangements. He will say: "You want us to perform "optimally", but you fix things so from the start, that such a performance is, in fact, impossible"[24].

So the economic reforms *must* unleash a constant tug-of-war of a new type between the plan and the bureaucrats administering the units of output. The old tug-of-war was essentially about allocations (the bureaucrats systematically overestimated the factories' needs of

workers and material, while they underevaluated the productive capacity of the same factories). The new tug-of-war will be about power of decision. The factory managers will demand the right to hire and fire workers as they like. They will demand the right to “negotiate” wages (regionally, locally, or even by branch or unit) according to “market conditions”. They will demand the right to retain the major part of the “profit” of “their” factory to be invested there. They will ask for a rising (and specific) share in total investment to be realized autonomously by themselves, inside “their” factory. They will above all demand that they should fix the prices of the products they “sell” as they seem fit to do (i.e., as the “market” dictates). And the “planners” will of course stridently resent all these demands which run counter to the elementary principles and needs of central planning.

Let us assume for a moment that the factory managers were to be successful in their demands, and gradually conquer these supplementary rights (this is the actual formula used today in Soviet discussion: “increasing rights for the factory managers”). What would be the outcome of that process? Surely, we would have to drop the inverted commas around the words “market”, “buy” and “sell”. Surely, each factory making its own investment, trying to establish its own prices, negotiating its own wages, would have become an independent firm, and the market would then “arbitrate” between these firms and give birth to prices which would no more be determined by plan, but would result from the inter-play of market forces. Surely, in that case, capital would flow from less to more profitable branches. It would no more be the plan, but this flow of capital which would determine the general lines of growth of the economy. Surely, more and more firms would then find it profitable to export part of their goods instead of selling them in the inner market, and would establish direct connections with foreign firms which would increasingly also sell on the Russian market, as well as export capital to that country. Surely, the growth of individual investment would inevitably lead to overinvestment which in a market economy could only be corrected through periodic crises of overproduction

and unemployment (never mind whether “mild” as recessions, or “grave” as slumps).

In that case, of course, the Soviet economy would have become a capitalist economy, for everybody to see and acknowledge the fact, even the dogmatic and myopic Mandel. But would it be a “state capitalist” economy? The whole process started because the income of the factory manager being tied to the factory’s “profit”, the manager had received a strong economic incentive to determine this “profit” by his own decision (i.e., to establish control over most of the decisions on which that profit depends). But once he actually succeeds in doing this, he has an even stronger incentive to remain tied to “his” factory for the rest of his life, and to transmit these “ties” to his children and family. Imagine how cheated he would feel if, after having succeeded in making a factory a “profitable” concern, he would then be transferred to another factory which makes a loss (with the loss of income which this would entail for him!). So the process could only end by the reintroduction of private property. And when, even before this ultimate outcome, the ties with foreign firms become stronger, villas bought on foreign coasts and mountains, bank-accounts established in foreign banks and used for some “profitable investment” (e.g. the purchase of foreign stocks and bonds) would become additional stepping stones in this process.

One could say that all this is purely imaginary and only invented for argument’s sake. But is it indeed? Hasn’t that process actually begun in the Soviet Union? Have not the managers received the right to fire some “excessive workers”? Has not pressure to grant them the right to “fix their own prices” (i.e. to have them fixed by supply and demand on the market) already started, and isn’t it referred to in the Soviet press? Have not certain ideologues of the “managerial layer” (whose existence is now openly admitted and whose formation and education is surrounded with the greatest care by the leaders of the bureaucracy) claimed the right to decide upon the closure of “unprofitable factories”? Has not even Liberman raised his voice in favor of the enterprise becoming more and more “self-financing”? Isn’t there already an experiment with a whole industrial branch financing “its own” investment?^[25] Haven’t the trends

towards a disintegration of planned economy begun to assert themselves in Yugoslavia, since the “economic reforms” of 1965? Hasn’t even an open conflict arisen between “workers self-management” (in its distorted Yugoslav version) and “socialist market economy”, the most “aggressive” wing of the Yugoslav factory managers openly defending the idea that management should be freed from day-today “encroachments” by the workers’ councils, whose functions should presumably be reduced to one of “deciding income distribution”, e.g. to similar functions of a capitalist firm’s general stockholders meeting? And isn’t the possibility of this process going further and further in that direction conceivable today, with all the social forces and contradictions involved in it before our eyes, in broad daylight so to speak, in the Yugoslav case?

What we deny of course is that this process could lead to “gradual” and “imperceptible” restoration of capitalism. We do not believe that this restoration of capitalism can be achieved “behind the backs of society”, so to speak, in the first place behind the backs of the working class, which is already by far the numerically strongest class in the Soviet Union and in many other Eastern European countries. We are convinced that the workers will put up the strongest possible resistance to such a disintegration of the planned economy, especially when it entails a loss of job security, reappearance of large-scale unemployment, wage decreases and the strong increase in inequality of income[26]. We are therefore convinced that capitalism could be restored in the Soviet Union or in any Eastern European country only after breaking the fierce resistance of the working class. And we are likewise convinced that the state apparatus is tied in its majority to the perseverance of social ownership of the means of production and of planned economy, and that its resistance would have to be broken too on the road of capitalist restoration (that is the reason why we still call it a workers’ state, incidentally be it a very degenerate one), nay that it will have to be broken and shattered to pieces, and replaced by a state apparatus of another type, geared to the defense of private property and “free enterprise”. Given the present constellation of social forces, both nationally and internationally, we think it very

unlikely that this resistance *could* actually be broken under these conditions, and that capitalism *could* be restored either in the Soviet Union, or in Yugoslavia, or in any other bureaucratically degenerated or deformed workers' state.

But the beginning of the process is here, for everybody to see. And it reveals the inconsistencies and contradictions of the theory of "state capitalism" in a striking way. For Kidron will have to answer two sets of questions:

First, are all these contradictions, conflicts, trends and processes anywhere similar or identical to the laws of motion of capitalism, observed by Marx? Have they anything to do with what has been going on in the West during the last 20 years? Aren't they obviously contradictions, conflicts and laws of motion of a mode of production qualitatively different from capitalism? Aren't they precisely those conflicts between "the logic of the market" and the "logic of planning", which the late Preobrashensky analyzed as characteristic for the period of transition between capitalism become socialism, which is ushered in by the overthrow of capitalism? How could capitalism become restored under capitalism? Would Kidron deny that the above-sketched process, if it would unfold till its ultimate logic, would actually lead to the replacement of one social system by another? Would he then concede that "state capitalism" is different from "private capitalism", exhibiting different and specific laws of motion? But -what's the use of calling it then "capitalism"? And what becomes of the preposterous statement that "nothing in Stalinist Russia defies analysis in terms of Marx's model"? Would it indeed not be more correct to postulate the opposite: the *whole* development of Stalinist Russia follows other laws than those elucidated in Marx's mode of capitalism-

Second; if one presumes that the process of disintegration of planned economy proceeds till the bitter end, and that "classical" capitalism, based upon the private ownership of the means of production, is restored in the Soviet Union, what would Kidron call that process, and what would be his political attitude towards it? Would it be just the change of one form of "capitalism" into another? Would Kidron's attitude be one of indifference, or even of glee,

“liberal capitalism” replacing a “totalitarian” one? Would the change in the mode of production and in the nature of the state be a historical progression or a historical regression? If it would be a regression (and the more intelligent “state capitalists” tend to admit that), wouldn’t Kidron then be in the unfortunate position of having to call it a *social counter-revolution*, and to give a positive connotation to what he calls the “ruling class” in the Soviet Union, rehabilitating it and “defending” it against its “reactionary enemies”? And if he were “indifferent”, how could he reconcile this with the obvious economic and social regression encompassed in this process? If he were even to deny this regression, how could he reconcile this with his own admission that there reigns today in Russia “the tyranny of the plan” and not the “tyranny of the market”?

The Society in Transition Between Capitalism and Socialism

The most irresponsible of Kidron’s statements is the one that denies the existence and the very possibility of a society in transition between capitalism and socialism. (In all fairness, one must state that Tony Cliff does not agree with him on this point.) Calling such a society a mere “verbal convenience” is not only in opposition to the whole body of theory of Marx, Lenin and Trotsky and to more than a century of experience of the revolutionary labor movement (it is not Mandel who invented that category, after all), but also puts a question mark over the possibility of socialist revolution anywhere in the world today, to begin with in Britain and Western-Europe.

Kidron’s argument is again a typical example of his mechanistic and unhistoric thought. True, he says, there can be a transition between feudal society and capitalist society[27], because capitalism can grow piecemeal within the interstices of feudal society. Then he goes on: “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? How does

self-determination and consumer sovereignty ('production for use') coexist with the external compulsion and blind accumulation that results from capitalist dispersal? There may be (!) room for transitional forms in distribution, but at the level of production and control over production the only possible transition is a sudden, revolutionary one" (p. 35).

The first striking feature of this argument is Kidron's definition of socialism. We can hardly believe our eyes: Kidron appears here as a pupil of ... Stalin! For it was Stalin who first dared to introduce into Marxist thought the utterly revisionist and primitive notion that socialism = workers control over the means of production from capitalists, big and small. It is true that for Stalin, socialism equals nationalization of these means of production, whereas Kidron, loudly protesting, calls this a farce and claims that socialism = workers control over production. But when the smoke has cleared from the verbal battlefield, and all the epithets and insults are pushed out of the way, the notion is exactly the same in both cases, and it is exactly as wrong!

For classical Marxism, to which we continue to adhere notwithstanding all of Kidron's sneers, socialism means a classless society. It therefore presupposes not only the suppression of private property of the means of production, henceforth managed in a planned way by the associate producers themselves, but it also calls for a level of development of the productive forces which makes possible the withering away of commodity production, of money, and of the state. It is therefore a new social system having its own mode of production, its own mode of distribution, and its own economic automatism, which constantly reproduces basically socialist relations between men.

Now the working class is perfectly capable of overthrowing capitalism in a single country (it did so in Russia, Yugoslavia, China, Cuba, North Vietnam, and is busy doing so in South Vietnam right now). But it is not capable of building a socialist society in a single country, not even in the U.S.A. (not to speak of Britain or Western Europe). When it has taken power and has organized a planned economy it is not able to suppress commodity production completely

because output is not yet high enough to cover all social needs. If it tries to do this artificially, commodity production (with some “private” monetary standard) will re-emerge spontaneously from universal rationing, independently of the will of the “associated producers”[28]. Commodity production will therefore still prevail in the realm of consumer goods. Economic automatism will not reproduce “socialist” relationships in society; state coercion will be necessary to correct that. And we will therefore have a society in transition between capitalism and socialism, characterized (like the Soviet Union) by the basic contradiction and combination of a non-capitalist mode of production and essentially bourgeois norms of distribution[29]. It is no more capitalism, because there is no universal commodity production, no capitalist competition, no capital accumulation, no laws of motion of capital. It is not yet socialism, because there is still partial commodity production, not yet universal production for use, there is still money, there are still social conflicts, and there is still a state.

Kidron could object: “I admitted that there might be transitional form in distribution, didn’t I? But what about control over production?” Unfortunately, it is not possible to separate production and distribution in such a mechanistic and total way. If bourgeois distribution norms still reign, there is still some inequality of income. If there is still inequality of income, some social tensions subsist (the more so the more backward the country is from the outset, or the greater this inequality), and the state is still necessary and cannot wither away. True, if the state is administered by the workers themselves, this role of arbiter will function in the general direction of greater equality; if it is administered by a privileged bureaucracy, it will arbitrate in the sense of maintaining and consolidating these differences of income. But the inevitability of social tension and the survival of the state correspond to the survival of precisely these bourgeois norms of distribution, which in turn reflect precisely the degree of development of the productive forces: insufficient for an immediate and general introduction of free distribution of goods and services. And the concrete way in which the economy will be managed will again depend at least partially upon the effects which

the existing money economy and inequality of income will have on the activity and consciousness of the producers, on their class cohesion and political involvement, etc., etc.

If this is so, such a society still has the need for accumulation (not of capital, of course, but use-values in the form of equipment, etc.). The division of the social product between consumption and accumulation remains a problem, creating new social tensions. Whether there is workers control of bureaucratic management will make a lot of difference in the way this problem is solved: but it cannot make the problem disappear through magic. And all these problems and tensions are neither those of a socialist society, nor those of a capitalist society, but precisely those of a society in Transition from one to another (in the larger historical sense of the word, like Marx and Lenin characterized it: “the epoch of the dictatorship of the proletariat”, which is most certainly not the epoch of socialism).

Of course accumulation will not be “blind” (it is not in Russia either). But external compulsion will still very much be with us (except if one assumes simultaneous revolution in the whole world), and will lead to new distributions and allocations of the social product (not only between consumer goods and investment goods, but also between them and weaponry). And this will again create many problems, and increase social tensions all around.

So a society in transition from capitalism to socialism, far from being a mere “verbal convenience” of Mandel’s, is a basic historic category which maintains its fundamental significance for the whole epoch of world revolution. That’s what was built in Russia by Lenin and Trotsky. That’s what still will subsist in the Soviet Union when the working class will have overthrown the parasitic rule’ of the bureaucracy, through a political revolution, and when it will have restored full Soviet democracy. That’s what we shall have to build, when the workers take power and establish “genuine workers control”, in any country of the world tomorrow. That and not fully Hedged socialism and “production for use” without commodities, money, at state and — alas — weapons. Anybody who promises

otherwise is only creating meaningless illusions among workers, which will cause havoc and deception when reality exposing them. “A society in transition between capitalism and socialism (i.e., the historical epoch of the dictatorship of the proletariat, under whatever form this may appear) doesn’t exist”, thunders Kidron. “A society of transition between capitalism and socialism, i.e... . nationalization of all means of production under workers control, democratically planned economy, but still with commodity production of consumer goods, with the survival of money, with foreign trade and with a workers army the threat of strong bourgeois states subsists: that’s the only thing we can build immediately, when we overthrow capitalism tomorrow”, revolutionary socialist workers in Britain will answer

If Kidron wanted to be consistent —but can one ask an adherent of the theory of “state capitalism” to be consistent? — he would have to reply to them: “Back with you sons of Satan! You want to entice me to build not a society in transition between capitalism and socialism — because such a society doesn’t exist — but state capitalism. This I will steadfastly refuse. I will tell you that you are unable to overthrow capitalism anywhere, anytime, as long as it is not overthrown in all countries simultaneously, as long as long as there is compulsion to accumulate and to manufacture weapons. For socialism can only be born with one stroke, or it won’t be born at all”. Will Kidron dare draw this ultimate conclusion from his irresponsible denial of the existence of a society in transition between capitalism and socialism., and dare tell British workers they should wait before overthrowing capitalism even if and when conditions for this for this overthrow would be most favorable in their country, till they can do it simultaneously with the American and ... Soviet Workers, lest they themselves entangled unwittingly in the building of “state capitalism”?

The Politics of “State Capitalism”

Kidron might shrink back before this ultimate conclusion of his thinking but it is its logical conclusion. It shows the uselessness and danger of the theory of “state capitalism” for the working out of a revolutionary strategy in the present world.

If one starts from the assumption that capitalism to-day reigns supreme not only in Russia, but also in Yugoslavia, Eastern Europe, China, North Vietnam, Cuba —an assumption, incidentally, which you won't find a single capitalist in the world sharing — then it follows that world capitalism is today stronger than it ever was before in history. Then capitalism has ushered in a new and sensational phase of universal development of the productive forces, above all in backward countries like Russia and China, much more impressive even than anything Marx described for 19th century capitalism. Then Trotsky was deadly wrong with his *Theory of Permanent Revolution*, and his denial of any possibility for capitalism to solve the historic tasks of the bourgeois revolution in under developed countries. Then any suggestion that there is a “world crisis of the capitalist system” can only be so much empty talk.

In the best of cases, we would be faced with intensified international competition between two imperialist blocs, which eventually could lead to war, but with which revolutionists could have nothing to do. And it then follows that there do not exist today any objective conditions ripe for socialist revolution, anywhere in the world, As long as capitalism continues its triumphant march forward. Only after some major breakdown of the system (perhaps after a war?) could such a possibility arise. Strangely enough, a consistent “state capitalist” would thus arrive at a very similar conclusion as a pro-Moscow CPer (the pro-Peking CPers will in good time arrive at the same conclusion too): socialist revolution is not on the agenda anywhere just now.

The strategic conclusions which follow are concrete and very deadly. Kidron himself has spelled them out at least for two of the three sectors of world revolution.

In Western Europe, basing himself on his assumption of capitalism triumphant, Kidron, as late as 1967, while recognizing that

some slowdown of growth would probably occur, saw as the only possible strategy for the working class movement the perspective of ... “mass reformism” from below[30]. We, on the other hand, understanding, we believe, much more correctly the structural crisis of the world capitalist system, could make the prediction that notwithstanding the temporary increase in the rate of growth of the Western economy in the fifties and the early sixties, this remained a deeply crisis-ridden system, in which periodic social explosions, which would put the revolutionary conquest of power on the agenda, were unavoidable[31]. The French May 1968 events have shown who has been right and who has been wrong in that respect, and what Kidron’s analysis objectively leads to: to furnish a theoretical apology for all those reformist and neo-reformist tendencies in the Western labor movement — to start with the French CP! — who all claim that no more than a defense of workers’ real wages and the like is possible today.

For the colonial and semi-colonial countries, Kidron’s medicine is an even more bitter one. As the colonial revolution can only lead to capitalism in one form or another—a current exercise of the British adherents of the, “state capitalist” theory is to explain even the cultural revolution in China by reference to the need “to step up capital accumulation”; presumably, if tomorrow, after Mao’s death, most of the decisions of the “cultural revolution” were reversed, the same explanation would then be given for the reversal. We had better stop chattering about “permanent revolution”. Anybody who comes to power there, including through a popular uprising, can only submit himself to the laws of competition of the world market. As these laws evidently play against the poor countries (and poor classes), workers and poor peasants in these countries can only expect higher burdens, nothing else. It sounds unbelievable, but that’s exactly what Kidron has to say about the perspectives of the Ceylon “trotskyists”[32]:

“Ceylon is poor. She is terribly dependent on the export of plantation products, primarily tea, whose prices are steadily

falling. Unless she can break into new export markets for manufactured goods, she will simply become poorer.

“Exporting new goods is not easy, particularly in competition with speculators like Hong Kong, Taiwan and Singapore and it is made less easy by Ceylon’s relatively high level of social welfare expenditure ...

“If the transition is to be made at all — and it is undeniable necessary — productivity will have to be jacked up and wages held down. *There is no alternative.* All the LSSP can hope for is that the workers will make the sacrifice willingly.

“This then is their dilemma: they are a working-class party in theory yet much of their policy is directed at making palatable the sacrifices they intend demanding from the workers, they are ostensibly a socialist party, yet much of their program is concerned with making Ceylon competitive in a capitalist world.

“It is a cruel dilemma, and one that can become only crueler as, and if, the left-coalition implements its economic program. For as they do so they must become increasingly isolated — foreign capital will put on the squeeze, the coalition’s small business allies will take fright and the anti-coalition left will nibble successfully at their working class support” (*Socialist Worker* , July 3, 1969-our emphasis).

If all this were true, one should have to draw two conclusions. One that it is useless to try today to make a socialist revolution in Ceylon; things could only become worse, and a socialist should limit himself to fight for modest democratic and economic reforms, postponing “revolution” till some better age. Second, that it would be utterly irresponsible to condemn, not only the reformist LSSP of entering a bourgeois coalition government, but also and above all the various reformist CPs of supporting national bourgeois governments (as the Brazilian, Iraqi, Persian, Indonesian CPs have done and the Indian

CPs are doing now, one knows with what magnificent results!) Because they had no more choice than the reformist LSSP, and wasn't it preferable, after all, to have the capitalists do the dirty job of squeezing the workers' standard of living themselves, rather than do it for them under the false signboard of "socialist revolution"?[33]

So Kidron's politics lead to utter despair for a revolutionist. No revolution possible in the West; no revolution possible in the South; as for the East, insofar as the "objective conditions" are similar either to the West (in Russia, Czechoslovakia, East Germany) or to the South (China, Vietnam, etc.) why hope for revolution there? The only place to withdraw, for a revolutionist, in Kidron's universe, is to the study, where intelligent commentary can be made about the failures of past revolutions and perspectives of new ones, in the 21st century. The members of "*International Socialism*" should ask themselves whether that's what they joined their group for.

No wonder that Kidron scolds us for "shifting easily" from urban workers to "third world" peasants, to "Students as the revolutionary focus" (p. 3:0. If world revolution is some vague prospect for a distant future, then of course the only thing to do today would be — outside of studying — to involve oneself with the day-to-day economic struggles of the workers, meanwhile preaching socialism, as good social-democrats did around 1890.

But if world revolution is seen as the main *reality* of our epoch, drawing larger and larger parts of mankind in its orbit; as a result of the world crisis of the capitalist system, then the *objective shifts* of the process-whose main epicenter *did* pass in fact during twenty years (1948-1968) from Western Europe to China, Vietnam, the Arab world, Cuba, Bolivia, etc.— must be followed and evaluated with the greatest care, and the fact that the students *did* trigger off a general strike and revolutionary struggles in two industrialized countries, France and Argentina, within the same year, should be given all the importance it merits. This does not distract from the concept that the industrial proletariat remains, on a world scale, the decisive social force to overthrow capitalism and build a socialist world. But it leads back to the Leninist concept of "What is to be done?", that a truly revolutionary organization can only challenge Capital's power—here

on a world scale, and not in the framework of Russia—if it succeeds in integrating and orienting towards socialism all objectively revolutionary demands and movements of other social layers, be it “third world peasants” (nearly two-thirds of mankind by the way)—students in revolt.

The inconsistencies of “state capitalism” do not stop there. The adherents to “state capitalist” theories were at least consistent when they refused to back North Korea and China against American imperialism in the Korean war; why back one “imperialist camp” against the other? Now, all of a sudden, they back North Vietnam and the South-Vietnamese Liberation Front (the nucleus, presumably, of the ‘bureaucratic class’ which is going to extract tomorrow the last drop of surplus-value from the South Vietnamese laborers under the “state capitalist” system they are busy establishing):

What has happened? Isn’t Russia “state capitalist” or “imperialist” any more? Has China ceased to be “state capitalist”? Is the conflict no more a conflict between two “imperialist camps”? Have the South Vietnamese communists suddenly more “choice” than the “Tropical Trotskyists” in Ceylon:

Could they —God forbid! — Actually lead a socialist revolution and build a society “in transition from capitalism to socialism”, instead of state capitalism? One can’t make head nor tail of this “logic”. Here all the inconsistencies of the theory of “state capitalism” are revealed quite nakedly’[34].

Let us add that Kidron’s dilemma for the Ceylon trotskyists (and revolutionists in the backward semi-colonial countries in general, at that) does not make much sense from an economic point of view either. Kidron assumes that the “terrible dependence” of Ceylon on the capitalist world market is somehow the result of that country’s poverty and backwardness; but couldn’t it be conceived as the *origin* rather than the *consequence* of that poverty? What does Ceylon (or rather the Ceylonese capitalists and foreign plantation companies) receive in exchange for tea, rubber and coconut exports, and what do they do with these results of unequal exchange? Do they use it for industrializing the country? Only to a small extent. Don’t they

rather import a lot of consumer *goods*, to begin with food? Couldn't most of these consumer goods, to start with food, be produced in Ceylon itself? Isn't there a tremendous reserve available for this, half a million unemployed plus all the underemployed able-bodied adult men (not to speak about the unemployed adult women)? Shouldn't this underemployment of the nation's resources be viewed as one of the main roots of underdevelopment too? Shouldn't the enthusiasm of the population be mobilized for these productive purposes, rather than for having them "accept sacrifices in their standard of living"? Couldn't this "labor investment" under conditions of socialist democracy (i.e., majority consensus and workers control) lead to an increase in output, where increase in the standard of living could go side by side with increase in investment (in fact, isn't that the economically *optimum* solution, i.e., the one which guarantees fastest economic growth)? Wouldn't the main condition for such a "take-off" be the expropriation of foreign and native capital and the establishment of a state monopoly of foreign trade and isn't the trouble with the reformist LSSP that it can achieve this neither in alliance with the bourgeois SLFP nor by electoral means? Couldn't Ceylon answer an economic blockade by Britain (if it came about) like Cuba did, by exchanging rubber, tea and other goods for Russian, Czechoslovak and East German industrial equipment? Couldn't the administration of the tea estates by the Tamil workers, and the subsequent rise of their standard of living, create tremendous sympathy and enthusiasm for a Ceylon workers and peasants republic among the starving downtrodden but politically already alert or even radicalized population of South India and Bengal! Couldn't a victorious Ceylonese revolution become a powerful factor for triggering off a revolution in India, which would be one of the most important and far-reaching upheavals in the history of the human race? That is the answer to Kidron's dilemma, which any revolutionary Marxist could have mapped out to him. If he himself hasn't found it, it is not because of lack of intelligence, but because the theory of "state capitalism" makes him colorblind to the real problems of world revolution today and their answers.

Under these circumstances, one cannot be surprised that, faced with the accusation of “crude philosophical idealism” hurled at us by Kidron we are not at all upset. Yes, in our view Marxism *does* imply that Ceylonese revolutionists have a choice today, and that “capitalist exploitation and accumulation” does not fatally flow there from a certain set of economic circumstances. Yes, in our view, the tragic lack of understanding by the leadership of the Bolshevik party, in the twenties, of the problem of bureaucratic deformation of the workers state, and of the means to fight it till a new upsurge of world revolution came about, was the main cause of Stalin’s conquest of power, and not any economic fatality against which there was no avail. Yes, we are not “economic determinists” in Kidron’s way, which is really Kautsky’s and Otto Baeur’s tradition, excluding revolutionary party as a determining factor of history, anywhere, any time. To be accused of “philosophical idealism” by such a fatalist cannot but confirm us that we are right.[35]

After all, some people, before Kidron, thought that socialists in a backward country had no choice but to act as a benign opposition to capitalists, because they thought that whatever one did, capitalism was on the agenda in that country (as long as it would not have been overthrown in all or most of the industrially advanced countries of the world). That’s why these people were furiously opposed to the October revolution, which they called a “voluntarist adventure”, inspired by “crude philosophical idealism”. That’s why they proclaimed triumphantly, as early as 1920, that facts had proven them right, and that “capitalism” (some actually said: state capitalism) existed in that country. The name of that country was Russia, and the people were called Mensheviks. They are Kidron’s models and inspiration, whether he likes it or not.

August 10, 1969
Ernest Mandel

Endnotes

1. Michael Kidron. “*Maginot Marxism: Mandel’s Economics*”, in “*International Socialism*”, April-May, 1969

2. Capitalism is the transformation of labor power capital into a means of means of production into capital, which means that they have to become commodities too.

3. “Objects for use only become commodities because they are products of private labors, conducted independently from each other. The complex of these private labors constitutes global labor. As the producers establish social contact only starting with — the exchange of the products of their labor, the specific social character of their labors appears only through, this exchange” (Volume I, chapter I, p. 39) —“In order that these objects may enter into relations with each other as commodities, their guardians must place themselves in relation to one another as persons whose will resides in these objects... . They must, therefore, mutually recognize each other as private proprietors” (Volume I, chapter II, pp. 50-51) —In the existence of the product as commodity, determined historical conditions are embedded. In order to become a commodity, the product couldn’t be produced as means of immediate subsistence for the producer himself. If we would have pursued our investigation and asked: ‘Under what conditions do all or even the majority of products take the form of commodities!’, we would have discovered that this happens only on the basis of a very specific mode of production, the capitalist one” (Volume I, chapter IV. p. 132) — The transformation of a sum of money in means of production and labor power is the first movement which a quantity of value passes through, if it has to function as capital. This takes place on the market, in the circulation sphere. The second phase of the movement, the production process, is finished as soon as the means of production are transformed into commodities, whose value is greater than the value of their component parts, and thus contains the advanced capital plus surplus value. These commodities must then be thrown back into the circulation sphere” (Volume I, 7th part, preface to chapter XXI, p. 527). All references are to the German edition of “*Das Kapital*” of Karl Marx, edited by Engels (9th printing, Hamburg, Otto Mcissncrs Verlag 1921), and have been translated by us.

4. “This absolute drive (Trieb) of enriching himself, this passionate chasing after value, is common to both the capitalist and the hoarder, but while the hoarder is but a mad capitalist, the capitalist is a rational hoarder. The indefatigable increase of value, which the hoarder tries to attain through salvaging money out of circulation, the more intelligent capitalist realizes it by throwing money again and again into circulation” (Volume I, chapter 4, p. 116) — “Commodity production presupposes commodity circulation, and commodity circulation presupposes the representation of commodities as money, monetary circulation; the duplication of commodities in commodities and money is a law of the appearance of products as commodities. In the same way capitalist commodity production presupposes — from a social as well as from an individual point of view — capital in monetary form or monetary capital as *primus motor* for each new beginning business, and as a continuous motor. ... The whole advanced value of capital, i.e., all component parts of capital, which are composed of commodities, labor power, labor means and productive material, must constantly be bought by money and bought again. What is true here for individual capital, is also true for social capital, which can function only in the form of many individual capitals” (Volume II, chapter 18, p. 328) — “Money is the form in which each individual capital (abstraction made of credit) must appear, in order to transform itself into productive capital, this follows from the nature of capitalist production itself, in general from commodity production” (ibidem, p. 332, for source, see note 3).

5. “Capital exists and can only exist as many capitals, and its self-determination appears therefore as interaction of these many capitals on each other,” (p. 317) — the concept of capital implies, that the objective conditions of and — and these are its own products-become embodied in confrontation with labor (literally: take up a personality in confrontation with labor. E.M.), or, which is the same, that they are posed as property of a personality alien to the worker. The concept of capital implies that of the capitalist” (p. 412) — Karl Marx: “*Grundrisse der Kritik der politischen Oekonomie* , (Rohentwurf) 1857-1858”. DietzVerlag, Berlin 1953. Our own translation.

6. “The specific economic form, in which unpaid surplus labor is pumped from the direct producers, determines the conditions of domination and submission (Knechtschaft) as they emerge directly from production itself, and react in its turn in a determining way upon production” (Volume III. chapter 47, p. 324 of “*Das Kapital*”, source as in note 3).

7. Marx made the point, in several parts of “Capital”, and in “Theories of surplus-value”, that real wages are higher in the capitalist countries with higher productivity of labour than in the less developed capitalist countries. As for Marx the *réserve* army of labour is the regulator of wages, this implies that there is no absolute decline of labour foreseen by Marx, when capitalist industrialization unfolds. The movements of accumulation of capital can produce several results: absolute increase of labour accompanied by relative increase (in comparison to the mass of production and the mass of capital); absolute increase accompanied by relative decline; and absolute decline accompanied by relative decline. The first case (which implies a decline in social productivity of labour) is exceptional under conditions of industrial capitalism, and so is the third one, characteristic for periods of primitive accumulation of capital; the second case is the more common one.

8. Karl Marx, *Theorien über den Mehrwert*, 2er Band, pp. 267-8 (2nd edition by Kautsky, Stuttgart, Dietz Verlag 1910).

9. Karl Marx, *Das Kapital*, Volume III, chapter 15, pp. 236-7 in the edition indicated in note 3.

10. There is of course one peculiarity of arms production which we stressed in “Marxist Economic Theory”: the fact that its products do not enter the enlarged *reproduction* process, as they are neither means of production nor means of consumption, and reconstitute neither constant capital nor labour power. But capital invested in the arms sector is part of total social capital; its profits enter the accumulation process, exactly like any other capital; and its own organic composition of capital enters in the determination of organic composition of global social capital, hence in the determination of the average rate of profits exactly like any other capital.

In his book “Western Capitalism since the War” (Weidenfeld &

Nicolson, London 1968, pp. 46-7), basing himself on writings of von Bortkiewicz and Sraffa, Kidron tries to explain the “drain” nature of arms production by equating them to “luxury goods”. He forgets that by the Marxist definition of luxury goods, these are bought by the *non-accumulated* part of surplus-value. So what we have here is a perfect *petitio principis*. If the non-accumulated part of surplus-value grows, accumulations slows down (and, with it) the effects of all laws flowing from increased accumulation: that’s what he wanted to prove from the start. But is arms production indeed paid for by the “non-accumulated” part of surplus-value? What interest has the capitalist class in suddenly slowing down accumulation for a quarter of a century? Has arms production actually resulted in a slowdown, or has it rather led to a speed-up of accumulation? And if it has resulted in a speed-up, how can one then present arms as “luxury products”? These questions show that Kidron’s analysis of arms production does not hold water.

11. This Kidron does not want to admit, because he labours under the impression that there exists not a plethora but a scarcity of capital. The “proof” he produces is the high rate of interest, i.e., high demand for money capital. If conjunctural factors — as those which exist in the USA in 1968-9 — are abstracted from the general rise of interest rates during the last decade is a result of inflation and not of scarcity of capital. When secular inflation—which Kidron could have linked to the weight of arms production, among other things—becomes a permanent feature of the economy, the interest rate is composed of two factors: the “price” of loaning money capital plus an insurance premium to offset annual losses of purchasing power of the currency. When this premium is evaluated at 3%, then the “price” for loaning money capital is much lower than it appears to be. Evidence for the plethora of capital can be found (1) in the movement of capital export from the main imperialist powers, which is today stronger than ever before; (2) in the high rate of self-financing; one of the striking changes of today’s monopoly capital as compared to monopoly capital in Hilferding’s and Lenin’s description (a change which we noted and explained in “Marxist Economic Theory”). Incidentally: inflation can increase the demand for *money capital* side

by side with the existing plethora of productive capital. As capitalists big and small don't want to hold cash, they buy up all kinds of "real values", and have an interest to do this on credit as far as possible. Thus inflation creates credit expansion, which in turn feeds inflation. Whether this leads to a scarcity of productive capital can be studied in the annual reports of the big corporations. Do they have difficulties in selling stocks and bonds? Can't they finance important expansion projects due to lack of capital, etc., etc.? Posing the question is answering it. 'The excess productive capacity in key sectors of industry is the real basis of this plethora of capital.

12. The figures 1869-1919 from "Historical statistics of the USA. from colonial times till 1957"; the figures 1919-1964 from "Long Term economic growth 1860-1965 (US Department of Commerce, Washington 1966)"

13. In "Marxist Economic Theory" we have clearly indicated the counteracting, tendencies, which slow down and, momentarily, even reverse the tendency for the average rate of profit to decline.

14. Cf. Baran-Sweezy: *Monopoly Capital* , pp. 372-378, *Monthly Review Press* , 1966, New York.

15. We have already indicated elsewhere a very telling example: when the Mobutu regime of Congo nationalized the Union Miniere du Haut-Katanga and proposed to pay compensation on the basis of the net book value of assets, the gentlemen concerned cried out like wounded animals: "But our assets are worth three times as much...".

16. West German figures "Zeitschrift für allgemeine und textile Marktwirtschaft", Heft 2, 1968-The British figures are not completely comparable, because till 1965 they express the relation between net profits (gross profits less depreciation and taxes) and net assets, whereas the post 1965 figures deduct financial charges too from gross profits. The difference is however less than 1 %, and therefore cannot change the general trend.

17. See especially "The Economics of Neo-Capitalism", published in the "Socialist Register", 1964, London, Merlin Press.

18. Stepped up capital accumulation can be explained in Germany, Italy and Japan, the three countries with the highest rate of growth

for the period 1950-1965 among the major imperialist powers, essentially as a result of a sudden upward push in the rate of surplus value. Reconstruction of the ruined economy increased profit and productivity of labor rapidly, whereas wages lagged behind, as a result of the large surplus of labor (from Japanese and Italian agriculture on the one hand, the strong influx of East German refugees on the other hand).

19. Kidron denies that there has been a decline of world trade in relation to total industrial production, and states that “trade in manufactures has ... gone up twice the rate of output since 1948” (p. 34). He forgets that there was a -tremendous drop in the relation: trade in manufacturers/output of manufacturers for the capitalist countries after the 1929 slump; that the pre-1929 relation was reached again only in 1965; that the pre-1929 relation was in itself lower than the 1913 relation; and that the 1965 figures are strongly inflated as a result of the expansion of trade inside the European Common Market (which, at least partially, resembles the -trade inside the United States more than international trade). A tendency which verifies itself for more than half a century is surely a historical tendency, even if it is reversed for four years.

20. Imports from capitalist countries fell from 0.7% of the Soviet Union’s national income in 1940 to 0.5% (, in 1950, after that slowly to rise to 1.2% of the national income in 1959 and 1.5% in 1964. These figures don’t tell the whole story though, for a large part of these imports come from semi-colonial countries which have an average productivity of labor much lower than that of the Soviet Union and can therefore neither “encroach” nor “wound” anything inside the Soviet economy. Imports from advanced capitalist countries have till now remained consistently lower than 1% of the Soviet Union’s national income.

21. Kidron alleges that the planners ensure growth by a flow from low-productivity to high-productivity sectors, and equates this with the flow of capital from sectors with low profits to sectors with high profits. He seems to forget that in a capitalist economy, it is not physical productivity of labor, but financial profitability of capital (through the prism of the market) which directs the flow of resources

from one sector to another — and that both parameters by no means automatically coincide. Unwittingly he has thereby stressed another qualitative difference between the Soviet economy and a capitalist economy, instead of “discovering” a *simile*. Just in passing: doesn't Kidron believe that in a socialized, or even a socialist economy, resources will also have to flow from low-productivity to high-productivity sectors, inasmuch as economic growth is still needed? Doesn't this indicate the basic similarity between the Soviet economy and any economy in the epoch of the dictatorship of the proletariat, after the overthrow of capitalism, in whatever part of the world this occurs?

22. Not, of course, maximizing accumulation. We showed in “*Marxist Economic Theory*” that the Maximum rate of accumulation never leads to the fastest rate of growth, also some “fresh” thinking which escapes Kidron's attention.

23. Cf. Oscar Lange and Fred M. Taylor: “*On the Economic Theory of Socialism*”.

24. The economic *rationale* of central planning as against “individual profitability” of the factory lies in the fact that the optimum combination of national (or international) resources gives a higher economic result (whether counted in net revenue or in economy of time-time) than the sum total of the optima achieved on a factory level.

25. A few recent Soviet articles referring to these debates can here be mentioned: V. Komin: “*Economic Reforms and Tasks in Further Improving Price Formation*”, in “*Planovoie Khoziaistvo*”, 1968 nr. 4; v, Lisitsyn and G. Popov: “*On administrative cadres*”, in “*Planovoie Khoziaistvo*”, 1968, nr. 5; E. G. Liberman and Z. Zhitnitsky: “*Economic and Administrative Methods of Managing the Economy*”, in “*Planovoje Khoziaistvo*”, 1968, nr. 1. etc.

26. Cf. The outcry and near-open revolt of the Yugoslav workers since 1968 against the results of the “economic reforms”, especially in the form of increased unemployment, increased inequality of income and increased encroachments by managing bodies on, the workers' rights.

27. In fact, there have been “transitional societies” between all major stages of man’s history. Cf. George Novack’s excellent article in the November-December 1968 issue of “*International Socialist Review*”.

28. In “Marxist Economic Theory” we analyzed for the first time (except for the contribution by Preobrashensky, essentially geared however to the problems of an underdeveloped agrarian country) the concrete process of withering away of commodity production, in the course of building a socialist economy. One would have expected some comments of Kidron’s on this example of “fresh exploration”.

29. Kidron eagerly picks up our remarks about unsold stocks in the Soviet Union to show that overproduction, after all, exists in that country. He doesn’t understand that from a *partial* survival of commodity production, *partial* overproduction would emerge inevitably, as we correctly predicted already in the fifties, but that, the whole difference between capitalism on the one hand, and petty commodity production or society in transition between capitalism and socialism on the other hand, lies precisely herein, that in the first case, generalized commodity production leads “by natural law” to generalized overproduction, i.e., to periodic decreases in investment, in income, in output and in employment in the economy as a whole, whereas under partial commodity production this is not the case, no more in medieval Italy than in today’s Russia. Here notwithstanding unsaleable stocks in various sectors of consumer goods, global investment, income, output and employment don’t interrupt their continuous growth. Kidron has again, unwittingly, clarified a major qualitative difference of Soviet economy and of capitalism, instead of the simile he thought to have discovered.

30. Michael Kidron: “*Western Capitalism since the War*”, pp. 147-148 Kidron’s prescription was based upon the assumption of permanent full employment. Once this is eroded, the resistance of workers of individual factories or firms against the increasingly centralized determination of real wages has no chance of success.

31. See our article: “*Une strategie socialiste pour l’Europe capitaliste*”, in “*Revue internationale du Socialisme*”, No.9, mai-juin 1965.

32. Kidron should have been at least objective enough to tell his readers that after entering a coalition government with the bourgeoisie, the reformist LSSP was expelled by the Fourth International, while a minority, the LSSP(R) — which has the secretary of the strongest Ceylon trade union in its ranks-maintains the continuity of Revolutionary Marxism, i.e., Trotskyism, in the island.

33. Incidentally, this conception equals a rehabilitation of Stalin too. The poor fellow had -obviously no choice-no more than the reformist LSSP-but to industrialize Russia at the expense of the workers' standards of living. And the alternative program of Trotsky's Left Opposition'? So much "philosophical dealism", undoubtedly....

34. We could continue the tale. The same issued of "*International Socialism* " which publishes Kidron's "article contains an excellent report by Ibrahim Ali, which end; with the following sentence: "Only a revolutionary and internationalist solution is capable, not only of solving the Palestine problem, but all other problems of social and national emancipation in the region". We fully agree. But let Kidron explain why "developed Arabs" can solve all (!) their social problems through a socialist revolution, while "underdeveloped Ceylonese" cannot. Let the editors of "*International Socialism* " explain why what is true for the Arab revolution, Eastern sector, was not applicable to the Arab revolution, Western sector (i.e., the Algerian revolution). Wouldn't it then have been necessary to give the Algerian armed struggle against French imperialism the same kind of critical support "*International Socialism* " is giving today the Palestinian guerillas? And wouldn't it have been necessary to try and push the Algerian revolution forward to a socialist revolution, exactly like Ibrahim Ali proposes today to the Palestinians'!

35. Even on this very minor question Kidron cannot keep his categories clear. "Philosophical idealism" is a doctrine which affirms the primacy of spirit (mind) over matter, the first creating the second. When we say that the individual unconscious still harbors echoes from the "communist part" of 7000 years ago, we don't imply thereby that instincts or ideas "create" material conditions; we simply assume that they can linger DB after the material conditions which gave birth

to them have disappeared. This statement has therefore nothing to do with either philosophical or historical idealism, but is an elementary truth of historical materialism, conceived in a dialectical way. Doesn't Kidron know that the peculiar ideas of the Catholic Church, born out of material conditions of feudalism, still have a powerful impact a thousand years after their formulation? Doesn't he know that superstitions born from material conditions which have disappeared for many more centuries also linger on? Why is it then so difficult to conceive that some of the elementary customs of social solidarity and cooperation, born under tribal communism, and maintained in the village community, could still strongly affirm themselves today? Perhaps because Kidron's way of thinking is narrowly mechanistic and based upon vulgar determinism, where everything flows automatically from economic fatality?

Chris Harman
The Inconsistencies of Ernest Mandel
(December 1969)

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Any attempt to 'examine the economic basis of the theories of International Socialism' and to 'demonstrate ... in fact the Menshevik theories of International Socialism lead to a very bad political practice' would merit attention in this journal. When the author of such an attempt has been considered for many years the leading theoretician of the 'Fourth International' and has also acquired a reputation in certain circles as a 'Marxist economist', a serious assessment of his arguments can not only enable us to clarify our arguments, but also to see to what extent his reputation is deserved.

There are, however, two practical difficulties in an overall assessment of Mandel's pamphlet. [1] The first is that the range of points covered is so great as to prevent us attempting to deal with other than the major ones. The second is that his critique is not of 'the theories of the International Socialism group as a whole'. It is a critique of one short presentation of these theories in a review by Mike Kidron; the books and articles by Cliff, Kidron and others where our arguments are put fully are only mentioned a couple of times in passing in Mandel's pamphlet.

However, by looking at the major points on which Mandel takes dispute with us, the basic untenability of his position can be shown, together with the extent to which he is forced into inconsistencies, distortions and simple misunderstandings in order to defend it, and the overall shallowness of his critique.

The Nature of Capitalism

The first central point in Mandel's criticism concerns the nature of capitalism. He argues that

'Capitalism is a mode of production in which generalised commodity production unleashes a historic process of accumulation of capital, which is in turn a constant (if discontinuous) growth of commodity production, of production of exchange values and of reinvestment of surplus value'. [2]

'The rationale of capitalism can be understood only under conditions of constantly expanding commodity production, of a constantly expanding and insecure market, and of firms, of producing units, facing that anonymous market independently from each other and competing for larger and more profitable shares of the market ... But if we assume generalised and constantly expanding commodity production we assume also the absolute need to realise the surplus value of these commodities, in order to accumulate capital.'

The argument is developed at some length and the central idea is repeated, in different forms, several times. As far as it goes it is a fair summary of a *part* of Marx's conception of the nature of capitalism. [3] But there is an odd omission. Nowhere in the whole section of the pamphlet dealing with this question is there a single mention of the working class or a single reference to the wage labour/capital

relationship. Now this is curious. For it was not Michael Kidron but Karl Marx who wrote

‘The relation between wage labour and capital determines the entire character of the mode of production’.

And this is not an accidental aside. Marx’s original starting point was alienated labour, the situation in which the products of man’s labour appear as independent forces, constraints on his activity. In its developed form this implies the separation of the worker from control of the means of production, expropriation of the actual producers, the creation of a proletariat.

The significance of this omission will become apparent later. For the moment, however, let us look at the conclusion Mandel thinks can be drawn from his definition. He sees it as meaning that commodities produced have to be transformed into money, and that therefore that ‘capital accumulation’, ‘the final money form of capital’ and ‘the capitalists thirst for profits’ are ‘exactly identical expressions’. But this is plain unadulterated nonsense. Thirst for profits is not ‘synonymous’ with ‘the basic economic compulsion determined by the structure of capitalist society’. Thirst for profits existed, for instance, among usurers in the slave society of Roman antiquity or in Chinese oriental despotism. So did the ‘final money form of capital’. In neither case did they produce systematic ‘capital accumulation’. What Mandel is trying to say is that in capitalism as Marx describes it they are different elements in an integrated ongoing system. But if that is the case, it is difficult to see the particular sin in describing them as *social and psychological* mechanisms that make the system function. Yet it is for this that Kidron is subjected to attack. What really matters, of course, is whether they are the only such mechanisms that produce the peculiar features of that system as opposed to other historically existing modes of production.

This leads us to the central argument: whether the capitalist mode of production is to be defined by a system involving the ‘thirst for profit’ and ‘commodity production’ for a ‘constantly expanding and

insecure market', or by something else of which these are but manifestations. Kidron argues that this something else is the competition between rival owners of means of production that forces each to try and resist the inroads of the other by continually expanding the means of production. This establishes a relationship between the different accumulations of alienated labour making up the competing means of production that defines each as *capital*, and their owners as capitalists. It also determines the dynamic of interaction of capitalists with each other and with those who produce the means of production so as to continually reproduce on an enlarged scale, the competition.

Mandel's argument is that this cannot be a definition of capitalism because:

1. The primacy of growth 'is not only true for capitalism'. He instances the 'tremendous process of growth' of the fourth millennium BC and 'the tremendous economic growth' that would occur under socialism. Yet, in fact, neither of these actually refers to a situation in which there was a 'primacy of growth' in Kidron's terms, that is, a system in which growth is compulsive. Rather each refers, even according to Mandel, to growth that occurs as a result of historically contingent factors. In fact, even Mandel is unimpressed by his own argument here. For 12 pages later he writes: 'this urge (to accumulate capital) is typical only for the capitalist class under the concrete conditions of the capitalist mode of production'. [4]

2. More importantly, he argues that competition alone cannot be the definition of capitalism, because in the past there have been societies competing with each other (e.g. Rome and Carthage, Venice and Byzantium) that have not been capitalist. Therefore, what counts is only competition on the basis of 'generalised commodity production'.

The trouble with this definition is that it leaves the concept of 'commodity' as unproblematic. This might not matter if one were

dealing with small-scale capitalist production with many competing firms exchanging all their produce on the market. With modern capitalism of the Western sort, let alone with that which dominates in countries like Egypt or Syria, this raises immediate problems. For instance, what happens when the capitalist produces for the state? According to Lenin:

‘When capitalists work for defence, i.e. for the government treasury, it is obviously no more “pure” capitalism, but a special form of national economy. Pure capitalism means commodity production. Commodity production means working for an unknown and free market. But the capitalist “working” for defence does not “work” for the market at all.’ [5]

Or again, in a monopoly when the capitalist has a degree of control over his own prices? As Hilferding has put it:

‘The realisation of the Marxian theory of concentration – the monopoly merger – seems to lead to the invalidation of the Marxian law of Value’. [6]

The Commodity

Unfortunately Mandel does not even begin to discuss these points. He continually refers to ‘generalised commodity production’ as essential to capitalism, but does not begin to analyse what it means. He is so concerned to try to show Kidron as deviating from the picture of capitalism that Marx paints that he does not see any problems arising as capitalism itself begins to deviate from Marx’s picture. But precisely in order to understand how the system we live under is the same as that analysed by Marx, one had to go beyond mere surface definitions, so as to see how the form of commodity production may undergo profound changes, become hardly recognisable, but the content remains the same. In other words, what is needed is a clear analysis of what commodity production is,

the analysis that Mandel does not even refer to in his critique of Kidron.

Despite Mandel's claim that he is only repeating what Marx wrote – 'We only say: Marx truly said this' [7] – he does not in fact take up a point central to Marx's whole analysis of commodity production: which is precisely that the commodity cannot be taken at face value, that 'its analysis shows that it is in reality a very queer thing, abounding in metaphysical subtleties and theological niceties'. [8] One of the most important sections of *Capital* is after all called 'the fetishism of commodities'. The commodity is not just a good whose character is clearly visible from the fact that it exchanges with another good. It is a reflection of a more deep-rooted characteristic of social production. As society develops, what is manifested on the surface is the exchange of commodities. But through this one recognises what is beyond: the economic relations of production. [9] Marx's conclusion is quite clear.

'The reason why the products of labour become commodities, social things whose qualities are at the same time perceptible and imperceptible by the senses' is 'because the relation of the producers to the sum total of their labour is presented to them as a social relation, existing not between themselves, but between the products of their labour.'

'As a general rule, articles of utility become commodities, only because they are products of the labour of private individuals or groups of individuals who carry on their work independently of each other. The sum total of the labour of these individuals forms the aggregate labour of society. Since the producers do not come into social contact with each other until they exchange their products, the specific social character of each producer's labour does not show itself except in the act of exchange. In other words, the labour of the individual asserts itself as a part of the labour of society, only by the relations which the act of exchange establishes directly between the products, and indirectly through them, between the producers.' [10]

Marx argues that this process forces the labour of the individual labourer to have a two-fold character: on the one hand it is concrete, useful labour of a particular sort; on the other hand it represents a portion of the total labour of the whole of society.

‘The different kinds of private labour, which are being carried on independently of each other ... are continually being reduced to the quantitative proportions in which society requires them ...’

What is central for Marx’s analysis of commodity production then is that through it the labour of individuals is related in a quantitative fashion to the labour of all other individuals with whom they enter into social relations, not consciously, but rather through the relations that come to exist between the products of their labour. This in turn means that the production process itself is determined by factors outside of it, that is, by the relation of its costs to that of production taking place elsewhere. There is

‘regulation of mutual production by the costs of production ... the product is related to itself as a realisation of a determined quantity of general labour, of social labour time.’ [11]

For the particular commodity producer this means that his methods of production – his particular relationship with nature and other men in the production process – has continually to be changed as there are unplanned and anarchic changes in the methods of production of all other producers. This commodity production becomes capitalist production when labour power, the capacity for performing labour, as well as the products of labour, becomes a commodity, the price of which (i.e. wages) is determined by the unplanned social interaction between its exploiters that continually forces them to pay for it no more than an historically and culturally determined minimum.

We can sum up what we have been saying up to this point: yes, capitalism is, as Mandel argues, competition on the basis of commodity production. But to fully understand it one has to go further and see that what makes man-produced objects – and above

all labour power – into a commodity is precisely competition between producing units that has advanced to the point where each is compelled to continually rationalise and rearrange its internal productive processes so as to relate them to the productive process of the others.

Now if one examines why, say, the competition between Rome and Carthage was not capitalist, the reason is not just the tautological one that it was not based upon ‘commodity production’, but rather that the labour processes which the citizens (and slaves) of Rome were engaged in were not being continually transformed and rationalised so as to keep pace with such changes in Carthage and vice-versa. The ‘social relation’ between the Roman and the Carthaginian citizen established by the competition did not continually intrude upon the actual act of production in this way.

On the other hand, one is now able to see why, and in what sense, production where commodities as defined by common-sense (and Mandel) do not exist can be ‘commodity production’. In monopolies both the goods produced at each stage in the production process and the labour power employed are ‘commodities’ because in the long run the internal organisation of the labour process – i.e., the number of goods produced, the exchange relations between different goods, the percentage of the total social labour time employed in producing them, the price paid for labour power – is determined by its relationship to production taking place in society outside the monopoly. Similarly, with arms production for the government; because there exist complex and unplanned relationships between the process of arms production (albeit not ones arising from competition between commodities on the free market) and the production processes for other goods in society, commodity production can be considered to take place. In both cases, the ‘law of value’ – the complete determination of production by its unplanned market relation to production taking place elsewhere, is negated in a certain sense. But at the same time, it alone provides a necessary basis for understanding how the production process is in fact regulated. An object falling freely through the atmosphere certainly does not fall at 32 feet per second

per second; but to understand how it falls one has to begin from the law of gravity.

In an advanced capitalist society most production is not pure commodity production; but one can begin to understand its dynamic through the law of value. There is a partial negation of the law of value, but on the basis of the law of value itself.

The Stalinist States

The argument about the nature of capitalism in general is a necessary preparation for the discussion about Russia and the other Stalinist states. For Mandel it is settled in advance that these cannot be capitalist states of any sort because a producing unit is, as argued previously, only capitalist when its products 'have to be sold on the market'.

'It is absurd to assume that capitalist production was somehow re-introduced because of "competition on the world market" (i.e., that the tail of 1 per cent of output imported from and exported to the advanced capitalist countries is wagging the dog of the Russian economy).'

Mandel does not, however, stop at this point. He feels the need to go on and argue his case in more depth. Rather than take time to point to some of the limitations of his argument here – for instance, the crude empiricism implied in a mere quantitative estimation of the role of foreign trade, without any examination of whether at certain points the qualitative significance of commodities obtained by foreign trade might have been much greater than 1 per cent [12] (after all, Magdoff has argued persuasively that the very low proportion of US trade with the third world is of central importance to the US economy) merits some of the absurd conclusions that must follow (which if Mandel does not accept, other 'Trotskyists' do), that Cuba, say, with the major portion of its productive resources devoted in the next five-

year period, as in the last one, to attempting to produce 10 million tons of sugar a year to sell on the world market in competition with other sugar producers, is engaged in commodity production and is therefore capitalist, while Russia is not – we will analyse his arguments further.

Not only is it not true, argues Mandel, that there is commodity production in Russia, neither is there an urge to accumulate capital.

‘As we have said above, it is simply not true that all ruling layers in history have had an urge to pump more and more surplus product out of their producers. And it is even less true that they all have an urge to “accumulate capital”. This “urge” is typical only for the capitalist class under the concrete conditions of the capitalist mode of production (universal commodity production and private property of the means of production, i.e., the existence of several capitals, i.e., competition). Now the Soviet bureaucracy is not a capitalist class. It does not manage factories under conditions of universal commodity production. It is not in the process of competition with other capitalists. *So it is under no economic compulsion to maximise output and under even less economic compulsion to optimise resource allocation*’ (Mandel’s emphasis).

One can only thank Mandel for putting the logic of his argument so clearly. There are two premises and an irrefutable conclusion: only under capitalism is there an ‘urge’, to accumulate capital, Russia is not by Mandel’s definition capitalist, and therefore the Soviet bureaucracy is under ‘no economic compulsion to maximise output ... and to optimise resource allocation’. Clearly if we can disprove this conclusion, we can seriously question (to say the least) Mandel’s whole position. It would seem that we should devote considerable effort to doing so. We do not, however, intend to. For Mandel himself saves us the effort. Only one sentence later he writes that ‘the inner logic of a planned economy calls for maximising output and optimising deployment of resources’ and a paragraph later that the ‘Soviet economy needed urgently to grow from extensive to intensive

industrialisation, with much more calculated use of resources than before’.

But Mandel himself has just argued that there can be no such ‘inner logic’, no such need ‘urgently to grow from extensive into intensive industrialisation’, or as he put it earlier no ‘urge to accumulate’ in a non-capitalist society. In a non-capitalist society the consumption needs of the ruling class determine the dynamic of production. A ‘plan’ is merely the organisation of production to fulfil these needs. A ‘plan’ has no ‘inner logic’ to accumulate. The ruling class (or bureaucracy) may want to accumulate and plan accordingly – or it may not and plan otherwise.

Reifying the Plan

In talking of the ‘need’ of the plan to accumulate, Mandel is making precisely the mistake that Marx castigates again and again of ascribing human properties to things, of accepting reified appearances, of worshipping the commodity fetish. The only ‘need’ plans in general have is that of ensuring a proportionate division of inputs to produce the desired outputs – people – whether consciously or unconsciously through their unplanned interaction – not ‘plans’ determine whether this output should be large or small, and for that matter whether it be the result of an ‘optimal utilisation of resources’ or otherwise. Rosa Luxemburg, at least, was very clear that one sort of ‘plan’ would be subject to no such reified pressures:

‘The aim of socialism is not accumulation but the satisfaction of humanity’s wants by developing the productive resources of the entire globe’ [13]

But why does Mandel, who has certainly read Marx’s strictures against reification and fetishism, so readily fall into this trap himself? The reason is not difficult to find. Clearly something other than the ‘consumption needs of the bureaucracy’ [14] is behind the forced

development of the economy. It was obviously not the privileges of the bureaucracy that determined the need for hundreds of millions of tons of iron and steel in the thirties and forties. Nor was it these that produced the collectivisation of agriculture and the near stagnation of consumer good production after 1929. Nor, for that matter, could it have been the consumption needs of other sections of the population. The bureaucracy itself implemented the plans (there were no long term plans before 1928-9) yet according to Mandel it was only motivated in its 'economic management', by its 'consumption desires'. Therefore, something else has to be responsible for all the rest. Given Mandel's premises it must have been the plan. (What an argument for 'planning', that its 'logic' entails subordination of consumption to accumulation!) In real life something other than the 'consumption desires of the bureaucracy' did determine the dynamic of economic development in Russia, something that makes possible the 'reification' of the plan. There can be a 'tug of war' between the plan and the desires of individual bureaucrats precisely because the plan is determined by something outside itself other than these desires (and not by some metaphysical 'logic of the planned economy'). There is only one thing this something else, in contradiction to the desires of individual bureaucrats, can be: the pressures of rival ruling classes outside Russia. It is these that continually determine the pace and direction of economic processes inside Russia. If Mandel is not clear about this, he only reveals that he is more myopic even than Stalin was.

'The environment in which we are placed ... at home and abroad ... compels us to adopt a rapid rate of growth of our industry.' (Stalin, 19.11.29) [15]

Or again:

To slacken the pace of industrialisation would mean to lag behind; those who lag behind are beaten ... We are fifty years behind the advanced countries. We must make good this lag in 10 years. Either we do it or they crush us.' [16]

It was this continual pressure from world capitalism that was responsible for the development of the Russian economy from 1929 onwards. It was this, not the 'needs of the plan' or the 'desires of the bureaucracy' that produced an accumulation of means of production devoted to further accumulating means of production. Only on such a basis was it possible for the bureaucracy (once its interests had made it abandon a perspective of revolution abroad) to develop the material base to defend its control over Russian society from the intrusions of foreign ruling classes. And, it is worth adding, this is still what determines both the structure of the plan and the degree of fulfillment of its different sectors. Again, the Russian bureaucrats are more aware of this than the 'Marxist' Mandel:

'Owing to the international situation it has not been possible to allocate as many resources as intended to agricultural investment and whilst the 1969 figure exceeds that for 1968 it is below that envisaged in Directives for 1966-70 ...' [17]

It is worth adding that Mandel is quite prepared to concede the importance of 'continued expansion of arms production' due to competition with the non-capitalist economy in the Soviet Union' in determining economic development in the West. But apparently, this 'competition' does not play the same role in relation to Russia.

If, on the other hand, this competition does determine the whole development of the Russian economy, then the anarchic and unplanned relations between the products of their labour with that of producers outside Russia (comparisons of levels of arms production and of the development of heavy industry generally) will determine the conditions under which Russian workers will produce and live. Because the price of labour power in the West is continually being forced down to a historically determined minimum in the long run, so will the price they receive (i.e., their real wages). Every change in production processes in the West will force changes in production processes in Russia, and vice-versa. Accumulation in the West will force accumulation in Russia (and again, vice-versa). In other words, a total system of reified relations is set up in which the anarchic and

unplanned interaction of the products of labour determines the labour process, in which dead labour dominates living labour, in which every concrete act of labour is related to abstract labour - on a world scale – in which although there may be many partial negations of the law of value these are on the basis of the law of value.

Encroachment and Transformation

Of course, it is 'methodologically wrong to assume a mechanical and automatic identity between the fact of a country being submitted to "encroachments" of foreign capital and the fact of the country becoming capitalist. Only when these encroachments change the internal mode of production do they lead to the introduction (or reintroduction) of capitalism'. In this at least we wholeheartedly agree with Mandel. That is why Russia in the 10 years after 1917, although continually threatened by foreign capitalism, was not itself capitalist. Until the inauguration of the first five-year plan it was certainly not the needs of competing against foreign capital that determined the inner structure of the production process in Russia. It is clear (both from old sources like Cliff's *Russia* and newer ones like the most recent volume of E.H. Carr) that the differing levels of real wages, the consumption level of the peasants, the relative sizes of heavy and light industry, were until 1928 the result of differing pressures of different social groups on the state. There was growth, but no 'urge to accumulate'. Until 1924 not economic and military competition with the West, but spreading of the revolution was seen as the basis for establishing socialism in Russia. Even after the proclamation of 'socialism in one country' in 1925 the bureaucracy did not accept the programme of competing with the West. Rather, it tried to ignore the power of world capitalism in a quite utopian fashion (as Mandel, incidentally, still does).

But it is also the case that in 1928 reality did overtake the bureaucracy and force it to industrialise. In doing so it did bring about changes that are on such a scale quantitatively and qualitatively as

to bear description as a 'change in the mode of production'. Firstly, pressures of world capitalism led to a rapid change in the mode of production in agriculture on an unprecedented scale. Tens of millions of individual peasant farms were collectivised. The Stalinist bureaucracy brought more of the economy into state ownership than the great October revolution had. This was necessitated not by the arbitrary 'desires' of the bureaucracy, still less by the 'logic of the plan' but by the pressures to build up heavy industry on a scale that could not be sustained without a forcible pumping of surplus agricultural produce out of the countryside. [18]

Secondly, in industry there was also a change in the mode of production. In a matter of months changes were carried through that were to endure for decades: wages were cut, the rate of production speeded up, piecework introduced, the elementary rights of workers to defend themselves done away with, the independence of the trade unions abolished, the labour camps expanded on a massive scale. These measures were all symptomatic of a change in the whole mode of operation of the economy. Building up of heavy industry in competition with the West was on the basis of such measures. It was that which brought them about. In other words, production and the conditions of production were no longer determined by the needs of people, ie, by the production of use values, but by the 'needs' of competition, the production of exchange values. In other words, through the mediation of arms production, the allocation of resources between consumption and accumulation, between living and dead labour, was determined by (and in turn determined) the allocation operating outside of the Russian economy, in the capitalist world. A leap from 'freedom to necessity' had been imposed.

There is no way of rationally understanding the dynamic of development of Russia either in the thirties or today if one denies that a change in the mode of production was forced through by the bureaucracy when it decided to defend itself against capitalism by imitating capitalism. Only this can make sense of Mandel's own talk of a 'logic' to the plan that is different from the desires of individual bureaucrats. But this does not mean that acceptance of this logic of competition with the West was either 'mechanical' or automatic – it

was in fact resisted in 1928-9 both by a substantial section of the bureaucracy around Bukharin, and by a section of the left opposition who, despite ambiguities, wanted to defend Russia against capitalism by revolutionary means, not by an internal imitation of capitalist exploitation. But it is a matter of fact, unfortunately or otherwise, that these lost out in the struggle and that the Stalinist transformation of the economy took place.

It is worth adding here that with the development of the newer Stalinist-type regimes, it is no longer merely competition with private capitalist states that imposes its laws upon them. It is also the needs of competition with other state capitalist ones (e.g. with orientation of the Russian economy to defence against China and vice-versa). Nor is it only or necessarily military competition. The general crisis confronting the Czechoslovak regime from the mid-1960's on arose from an inability to sell the produce of its economy on the world market (including to other Stalinist regimes) – that is, from a classical inability for the state capitalist bureaucracy to realise its surplus value.

The Analysis of Modern Capitalism

Mandel's criticism of Kidron's analysis of modern capitalism can be more quickly dealt with than the analysis of the Stalinist states, because the issues involved are less profound. Mandel begins by apparently quoting Kidron's view of Marx's model of capitalism and of why it should mean that there is a tendency for labour power to decline in absolute terms under capitalism; that "booms become progressively less profitable, and shorter; slumps more lasting and severe". Incidentally, Mandel claims that Kidron 'will have a hard time finding any evidence in Marx's *Capital*' for these assumptions. One can only suggest that Mandel refers to pp.630-635 of *Capital* (vol.1). Thus Mandel quotes Kidron:

‘The model is a closed system, in which all output flows back as inputs in the form of investment goods or of wage goods. There are no leaks. ‘Yet in principle a leak could insulate the compulsion to grow from its most important consequences. ... If “capital intensive” goods were drawn off, the rise would be slower and – depending on the volume and composition of the leak – could even stop or be reversed. 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 vast quantities of output. Capital exports have diverted and frozen other quantities for long stretches of time.

‘A lot since World War II, filtered out in the production of arms. Each of these leaks has acted to slow the rise in the overall organic composition of capital and the fall in the rate of profit.’

According to Mandel what is involved in this account is ‘a vulgar theory of overproduction, according to which it is a glut of physical goods which is at the basis of all capitalism’s evil’, which depends for its plausibility on ‘a truly remarkable confusion between use-values and exchange-values ... worthy of inclusion in a textbook simply to show what a lack of understanding of the dual nature of the commodity necessarily leads to’.

What is amazing is that Mandel feels capable of writing this criticism down without mentioning what is central to Kidron’s stress on leaks: their affect on the organic composition of capital and the rate of profit. Kidron never once refers to an ‘overproduction’ of either use values or exchange values in the passage referred to, unlike Mandel who earlier writes that ‘unpredictable developments under capitalism arise from an overproduction of exchange-values ... (which most of the time are caused by ... an increase in the production of use-values).’ [19] The ‘rise’ Kidron is concerned with is a rise in the organic composition of capital (Mandel judiciously omits

one sentence from Kidron making this clear in his long quotations, so the reader might well not be aware of this). Further, his 'closed model' is precisely a model of the circulation of exchange values: given that all value produced is transformed either into consumer goods or capital goods, and that the value of labour power does not rise, then there will be an overproduction of values than can only be disposed of either by an overproduction of consumer goods, leading to a crisis, or an increase in ratio of constant capital to variable capital in new investment (leading to a fall in the rate of profit, to less investment and therefore to crisis); the only alternative is for there to be a leak whereby values can be drawn from the system. At no point in this argument can there be, given its very form, the confusion of 'use-values' and 'exchange-values' invented by Mandel.

It is only because he ignores the actual model presented by Kidron, that Mandel is then able to pretend that 'leaks' from the system which occur through war, foreign investment, slumps, etc., involve the physical destruction of goods. For instance, Kidron's whole point is that wars cause possibilities of growth for the system by destroying value that would otherwise have to be transformed into constant capital. This certainly does not mean that wars have to destroy *physical* means of production in order to counteract the contradictions of the system: indeed, in arguing in this way it is actually Mandel, not Kidron, who confuses capital as accumulated value (the Marxian definition) with a given accumulation of particular use values ('to destroy capital ... they must destroy industrial equipment to a larger degree than is newly built' [20]). Similarly, Kidron's whole point is not that slumps destroy goods, but that they result in a devaluation of goods, i.e., value is destroyed or 'leaks' from the closed system, so as to permit new capital investment at a lower organic composition than would otherwise be the case.

One can put Kidron's argument another way. It deals with the circulation of value in the system as a whole. For the individual entrepreneur it there are no leaks in this total system, there is an ever-growing, abundance of capital available. This means that the possibilities of expanding and cheapening production always exist for the individual. Indeed, if he does not seize them by utilising a

greater portion of constant capital, then his competitors will, his costs of production will be relatively too high, and he will be forced out of business. Enlarged constant capital means an overall (throughout the system) fall in the rate of profit. But if there are leaks whereby value is taken out of the total system, the opportunities for each individual capitalist obtaining value to transform into constant capital will be less, and therefore the constraints on each capitalist to expand his means of production will lessen. The immediate pressures to expand constant capital (and therefore of production) will diminish, the overall rate of profit will fall less, and therefore there will exist the basis for a longer term steady expansion based upon a lower average organic composition of capital. This will be true whatever the form the value that leaks from the system takes, providing its creation employs relatively more dead labour than living labour.

Mandel's Analysis of Modern Capitalism

Mandel's own analysis of the nature of the 'key difficulty facing monopoly capital' is that this difficulty is not that of 'disposing of surplus goods' but the difficulty of disposing of surplus capital'. Here Mandel makes the mistake he accuses Kidron of, of distinguishing capital and goods as different use-values, without seeing that as *values* they are; equivalent (i.e., if you can dispose of surplus goods profitably, then you can dispose of surplus capital). Mandel goes on to distinguish between the effect of 'the economic function of arms production' – 'to provide additional fields for investment for surplus capital' – and any reduction 'in the tendency of the increase in the organic composition of capital and/or the decline in the rate of profit'. But on the classical Marxist model precisely such a distinction is impossible, because only if the rate of profit is prevented from falling too drastically is any long term, steady growth of investment possible. To put it another way; there are always opportunities for

capital investment, arms expenditure or no arms expenditure, but these are only seized if the rate of profit is high enough.

Even more fascinating, however, is Mandel's excuse for not treating 'in a systematic way the problem of the sharp rise in the rate of growth of the capitalist economy after World War Two', in his book *Marxist Economic Theory*. This is apparently because most of it 'was written in the late fifties, i.e., more than 10 years ago, when most post-war trends were not yet clear'. This statement is nothing short of preposterous. One does not have to go back to the early post-war period, when already in 1946 and 1947 there was an argument by Marxists such as Tony Cliff [20a] against Mandel's views then that 'there is no reason to believe that we are facing a new epoch of capitalist stabilisation and development'. [21] Mistakes at that time were quite natural, given the short duration of peacetime conditions. But by 1950 the post-war expansion was already pronounced enough, despite many Marxist predictions, for writers such as Vance (in the *New Internationalist*) to be attempting theoretical explanations of it. Fully five years before Mandel began writing his book, Cliff and Kidron had substantially developed (in *Socialist Review*) explanations of 'post-war trends' that five years later, according to Mandel 'were not yet clear'.

Yet even stranger is Mandel's analysis, developed since, of the reasons for this post-war growth. Apparently, it is because capitalism is undergoing a third 'industrial revolution'. This has been possible because 'during the "long period" of stagnation of the capitalist world economy (1913-1940) a great "reserve" of scientific and technological inventions had been built up, whose large-scale productive application was delayed as a result of unfavourable economic circumstances prevailing during that period'. The argument, however, is simply contradictory. One moment these innovations are responsible for the economic expansion; the next they were allowed to accumulate for 30 years because there was no economic expansion. In that case, something other than the innovations must be responsible for their present employment – otherwise why did they not cause expansion in the thirties? Mandel seems as incapable now as when he wrote his book 10 years ago of

identifying what this other cause might be.

Permanent Revolution

At this point we have dealt with Mandel's arguments of substance. But there are a few others worth referring to. There is the claim that the 'working class has overthrown capitalism ... in Yugoslavia, China, Cuba, North Vietnam and is doing so now in South Vietnam'. One wonders when the 'working class' actually did 'overthrow capitalism' in, say, Yugoslavia. In 1944-45? If so one wonders not just how (through what institutions of mass self-activity and struggle) and led by what revolutionary party, but also why Marxists at the time did not notice this monumental fact. For three years afterwards Mandel certainly did not regard Tito's regime as any sort of workers' state. It was, he and his colleagues argued, an 'extreme form of Bonapartist dictatorship'. In particular relation to Yugoslavia and Albania he himself wrote that the Stalinists had constructed 'a new bourgeois state apparatus'. [22] And when someone argued otherwise, they were not merely wrong, but carrying through 'a complete petty bourgeois revision of the Marxist-Leninist concept both of the state and of the proletarian revolution'. [23] Again, one wonders when the overthrow took place in North Vietnam. With the establishment of the first Vietminh government in 1945? But those who took power then were described without equivocation by Mandel's organisation as 'the Stalinists who themselves long ago abandoned the Communist banner of Lenin and Trotsky ...' [24] Far from what was taking place in Hanoi being described as a socialist revolution, Ho Chi Minh, like Soekharno, was said to have been 'logically brought to betray and sabotage the national emancipation'. [25]

Now, of course, Mandel can change his mind. But one would like to hear his reasons for doing so, to see what evidence there is of workers' power in Yugoslavia or Vietnam now that was not available previously. It would also be interesting to see Mandel justify his own

claimed commitment to the theory of permanent revolution in the light of the avowed policy of the Chinese before taking power and of the NLF today being the 'bloc of the four classes'.

Instead of doing any of this, Mandel merely asserts that these countries have seen workers' revolutions, and that to deny this is to assert that 'capitalism today is stronger than it ever was' and 'has ushered in new and sensational phase of development of the productive forces, above all in backward countries' so that 'Trotsky was deadly wrong with his theory of permanent revolution'. Such according to Mandel is what Kidron does, and such is 'Menshevism'. [26]

Perhaps Mandel reads different editions of Trotsky to the rest of us. The theory of permanent revolution according to Trotsky I know asserts quite unequivocally that the tasks of the bourgeois revolution in the underdeveloped countries can only be solved by the working class, led by a class-conscious revolutionary party. It is not 'Menshevism' to assert that as a matter of fact not only has no such party yet led the working class to the taking of power in Vietnam, or China or Cuba, but those that did take power executed (in Vietnam and China) or imprisoned (in Cuba) those trying to build such parties. Neither Mao's party nor Ho Chi Minh's party were workers' parties in anything other than name. Their membership and leadership were not workers, nor was their theory that of proletarian revolution (it was that of classical, unrepentent Stalinism). [27]

Nor for that matter have the regimes in China, Vietnam or Cuba carried through all the tasks of the national bourgeois revolution. It is mere apologetics to pretend that they have solved the problem of industrial development. The 'cultural revolution' in China occurred precisely because the Maoist regime cannot. (Here again Mandel shows his ignorance by asking what would our attitude be if 'tomorrow most of the decisions of the cultural revolution were reversed' – in reality most of these 'decisions' were reversed two years ago with the setting up of the 'three-in-one' revolutionary committees.) In Cuba, despite desperate attempts to overcome the dependence on the world market by diversifying agriculture, the road to development is now seen as lying through the production of more

and more sugar to sell in competition with other sellers on the world market. Finally, in Vietnam, the Stalinist leadership has twice already shown itself incapable or unwilling to solve the most elementary of bourgeois national tasks – that of national unity – when opportunities to do so were at hand (in 1945 and in 1954).

It is Mandel who is actually the modern Menshevik, tailing behind a petty bourgeoisie trying to transform itself into a state capitalist class with varying degrees of success in Yugoslavia, in Algeria, in Vietnam and in China. He does so, moreover, at a time when in the largest of these, the Shanghai general strike of January 1967 and the emergence of groups like the Sheng Wu Lien, has revealed new forces challenging completely the pretensions of the bureaucracy.

The theory of permanent revolution cannot be applied in our epoch without certain important modifications. [28] But its most important conclusions – that the problems of the backward countries can only be solved by proletarian revolutions and even then not without the revolution spreading – become more and more apposite as the successes of the petty bourgeoisie in a few countries prove increasingly limited and transitory. But it is us who draw these conclusions, not Mandel.

Finally, it is worth noting that in order to try and justify himself Mandel pretends complete ignorance of the Marxist position on the national question. ‘All the inconsistencies of the theory of “state capitalism” are revealed quite nakedly’ because we are able to support ‘North Vietnam and the National Liberation Front’, even though we believe their present leaders are ‘the nucleus of a “bureaucratic class” that is going to extract tomorrow the last drop of surplus-value from the South Vietnamese labourers’. One wonders at the inconsistencies both we and Mandel’s organisation have fallen into in the past without him noticing – supporting say, the Kenyan struggle against colonialism, although its leaders ‘were the nucleus’ of an African capitalist class, or the Cypriot struggle led by the cleric Makarios and the fascist Grivas. In fact we found no contradiction whatsoever in giving wholehearted support to these struggles against imperialism, without believing their leaders to be socialists; we have no such problems in the case of Vietnam either. ‘All the

inconsistencies of the theory' we adhere to must lie in the fact that, unlike Mandel, we hold that the fundamental problems facing the populations of these countries cannot and will not be solved until these struggles are led by a real, not a mythical, working class with a revolutionary Marxist party committed to an explicit programme of socialist revolution on an international scale.

In his pamphlet Mandel has set out to 'reveal most of the contradictions into which adherents of the theory of "state capitalism" enmesh themselves'. Unfortunately, all that he has done is to show himself as ignorant, both about these theories and about quite fundamental questions in Marxism (such as the analysis of the commodity, the relationship between capitalist production and commodity production, and the relationship between use and exchange value); as self-contradictory (over the questions of the dynamic of the Russian economy and of the unprecedented expansion of capitalism in the post-war period); and as dishonest (in making omissions when quoting Kidron so as to distort his argument). I say 'unfortunately' because it is only through serious and scientific debate that Marxist analysis can develop. Mandel has made no contribution to this in his pamphlet.

Notes

1. E. Mandel, *The Inconsistencies of State Capitalism*, IMG, 4s.
2. *Ibid.*, p.2.
3. Which is not to say that the details are beyond criticism.
4. *Ibid.*, p.13.
5. Lenin, *Works* (Russian), vol.XXV p.51, quoted in T. Cliff, *Russia: A Marxist Analysis*, London, n.d., p.153.
6. R. Hilferding, *Das Finanzkapital*, Vienna 1910, p.286.
7. Mandel, *op. cit.*, p.4.
8. *Capital*, vol.1, p.71.
9. K. Marx, *Fondements de la Critique de l'economie politique* (French translation of the *Grundrisse*), Paris 1967, p.169.

10. *Capital*, 1, p.78.

11. K Marx, *Fondements de la Critique*, *op. cit.*, p.147.

12. In fact foreign trade has played a crucial role at certain points in the history of Stalinist Russia – particularly in the early thirties when Stalin expected to be able to buy foreign machinery for industrialisation. In order to pay for this he had to be able to sell agricultural produce. But ‘the violent fall in the terms of trade associated with the world depression greatly increased the cost of imported machinery in terms of Soviet primary exports’. (M. Kaser, *Comecon*, London 1967, p.19) In order to pay for the machinery, more primary produce had to be obtained from the peasantry, hence increasing the pressures for collectivisation.

13. Rosa Luxemburg, *The Accumulation of Capital*, London 1963, p.467.

14. E. Mandel, *op. cit.*, p.14.

15. Quoted in E.H. Carr and R.W. Davies, *Foundations of the Planned Economy 1926-29*, London 1969, p.327.

16. Stalin, quoted in Deutscher, *Stalin*, p.328.

17. *Finansy SSR 28/69*.

18. For the direct relationship between threats to Russia from the West and the decision to build up heavy industry see, for instance, E.H. Carr and R.W. Davies, *op. cit.*, p.295.

19. E. Mandel, *op. cit.*, p.2.

20. *Ibid.*, p.5.

20a. See, for example, Tony Cliff, *All that glitters is not gold*, London 1947. Incidentally, at another point, Mandel finds it possible to blame Cliff for ‘not foreseeing’ the need for reforms in Russia in his writings of the ‘fifties’ such as *The Nature of Stalinist Russia* But that work was not written in the 1950s at all, but in the early months of 1948. And it certainly does point out the major contradiction that the bureaucracy has attempted to solve (unsuccessfully) since:

‘The historic task of the bureaucracy is to raise the productivity of labour. In doing this the bureaucracy enters into deep contradictions. In order to raise the productivity of labour above a certain point, the standard of living of the masses must rise, as

workers who are undernourished, badly housed and uneducated, are not capable of good production ... But workers, besides having hands, have heads. The raising of the standard of living of the masses means to raise their self-confidence, increase their appetite, their impatience at the lack of democratic rights and personal security and their impatience with the bureaucracy that preserves these burdens. On the other hand, not to raise the standard of living of the masses means to endanger the productivity of labour which is fatal for the bureaucracy in its present international relations, and sooner or later drive the masses to revolts of despair.'

For a full description of the reasons the reforms in Russia have *not* worked one has only to add this, not Mandel's 'tug of war' 'between the plan and the bureaucrats administering the units of production' between 'factory managers' and the 'planners', but

1. the existence of certain groups in the bureaucracy with a vested interest in resisting changes that would be beneficial to the bureaucracy as a whole – not just 'planners' as a group or 'factory managers', but rather those associated with the police apparatus and with certain sorts of planning mechanisms together with 'factory managers' in heavy industry;

2. the continuing short-term pressure of world capitalism that prevents the allocation of resources to agriculture and light industry needed if labour productivity is to be raised to a level competitive in the long term.

21. Quoted in Hallas, *Building the Leadership*, IS 40.

22. *Soviet Union After the War*, September 1946.

23. *Ibid.*

24. Resolution of Fourth International, in *IVème Internationale*, 1946.

25. *Editorial* in *IVème Internationale*, December 1946. This same journal also published an interesting description of events in Saigon during 1945-6 in its issue of September/October 1947. Finally

Mandel's organisation also published a pamphlet by Ahn-Van and Roussel, where they write that:

'The direction of the Vietminh profited by its influence to block the revolution and ... to fulfil its counter-revolutionary role. That is why it decreed in November 1945 the dissolution of the CP ... That is why it forbade the confiscation and division of the land, satisfying itself with decreeing the taking, of "collaborators" lands; that is why it maintained and legalised the usury system, merely pleading for a lowering of interest rates ... The Stalinist direction sought a compromise with French imperialism and struck at the avant-guard: the Trotskyist leaders Ta Thu Thau, Tran Van Trac and numerous others were assassinated in February 1946 so as to prepare the way for the accords of March 6.'

26. It is not only Kidron who, according to Mandel's argument must thus be "Menshevik", but also such lifelong revolutionaries as the late Natalia Sedova Trotsky (see for instance her letter breaking off relations with the Fourth International in *Socialist Review*, 1950) and the late Alfred Rosmer, Zimmerwaldist, founder member of the French CP and founder member of the Fourth International.

27. For example, the programme of the Vietminh addressed itself to 'Rich people, soldiers, workers, intellectuals, employers, traders, youth, women ...' Today, the worker content of the Vietnamese Communist Party 'is only 18.5 per cent and the higher the party echelon the lower the worker stock' (Le Duc Tho, quoted in *Sunday Times*, 7.9.69).

28. For attempts at this, see T. Cliff, *Deflected Permanent Revolution* in *IS 12* and N. Harris, *Perspectives for the third world* in *IS Internal Bulletin*, December 1969.

Chris Harman
From Trotsky to State Capitalism
(Summer 1990)

From *International Socialism*, 2:47, Summer 1990

Transcribed by Christian Høgsbjerg

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Beyond Perestroika

by Ernest Mandel

London 1989, £10.95

The USSR today displays all the symptoms of a society entering a prolonged period of social and political turmoil. Such periods always represent a great challenge but also offer great opportunities to the revolutionary left internationally. But to meet them the left has to have a clear understanding of what is happening and why. It has to have a revolutionary theory to guide its revolutionary practice.

There are a number of different theoretical analyses of the USSR on the revolutionary left. Ernest Mandel is one of the best known proponents of the theory that sees it as a degenerated workers' state, Tony Cliff of the theory that sees it as bureaucratic state capitalist. The appearance in the last few months of Mandel's book *Beyond Perestroika* in an English translation and of Tony Cliff's *State Capitalism in Russia* in French translation offers the opportunity to contrast the two analyses and to see which best comes to terms with current realities.

Both Mandel and Cliff come from the Trotskyist tradition. Cliff was a member of the Fourth International in Palestine and Britain during the 1930s and 1940s before playing a leading role in the Socialist Workers Party of Britain (previously the International Socialists), of which he is still a leading activist. Mandel has been a leading figure in the Fourth International since the mid 1940s.

Both started off by accepting the same analysis of Russia, that elaborated by Trotsky in the 1930s. But in the late 1940s developments in Eastern Europe led to a period of intense discussion in the international Trotskyist movement which drew Cliff and Mandel in different theoretical directions.

Trotsky had argued in the 1930s that the bureaucracy in the USSR was a 'caste'. It was a stratum of society which had been able to take advantage of the isolation of the Russian Revolution (to which it then contributed!), the poverty of the country and the weariness of the masses to concentrate power and privilege in its own hands. But it was only able to do so by balancing between the working class and bourgeois and petty bourgeois forces at home and internationally:

The Soviet (it would be more accurate to say, the anti-Soviet) bureaucratism is the product of the social contradiction between the city and the village; between the proletariat and the peasantry; between the national republics and districts; between the different groups of peasantry; between the different layers of the working class; between the different groups of consumers; and finally between the Soviet state and its capitalist environment ...Rising above the toiling masses, the bureaucracy regulates all these contradictions ... [1]

It was 'not an independent class but an excrescence upon the proletariat'. [2] To this extent it could be compared with the trade union bureaucracy in the West: it betrayed the working class, it used the working class for its own ends, but was still to some degree dependent on the working class. It did not have its own independent roots in the ownership of property or in production, but was a parasitic outgrowth based on contradictions in the realm of consumption. As such it impeded the development of society, without

substituting any new development based on its own class interests. 'A tumour can grow to a tremendous size and even strangle the living organism, but a tumour can never become an independent organism.' [3]

Because of this, it served to retard the development of the country. 'The further unhindered development of bureaucratism must lead inevitably to the cessation of economic and cultural growth, to a terrible social crisis, and to the downward plunge of the entire society.' [4]

In his early formulations of the analysis Trotsky drew the conclusion that the bureaucracy could still be brought to order peacefully by a resurgent working class:

The recognition of the present Soviet state as a workers' state not only signifies that the bourgeoisie can conquer power only by means of an armed uprising, but also that the proletariat of the USSR has not forfeited the possibility of subordinating the bourgeoisie to it, of reviving the party again, and of regenerating the regime of the dictatorship – without a new revolution, with the methods and on the road to reform. [5]

But he was not afraid to change his account in the light of the harsh experience of what Stalinism in power meant. In October 1933 he wrote, 'The bureaucracy can be compelled to yield power into the hands of the proletarian vanguard only by force.' [6]

The Revolution Betrayed, written three years later, was absolutely adamant that it was not possible to reform either the party or the state:

All indications agree that the further course of development must inevitably lead to a clash between the culturally developed forces of the people and the bureaucratic oligarchy. There is no peaceful outcome to this crisis. No devil has ever cut off his own claw. The Soviet bureaucracy will not give up its positions without a fight. The development obviously leads to the road of revolution. [7]

This revolution, he argued, was a 'political' not a social revolution, although it would be a political revolution with 'deep social consequences'. [8]

Trotsky's attitude to the bureaucracy hardened even more in the last four years before he was murdered. He insisted that it was a counter-revolutionary force, a product of the pressure of the bourgeoisie on the working class. But he still insisted it was not a class. Powerful sections of the bureaucracy wanted to turn themselves into a class, but they could only do so by establishing private property of industry – and fear of the working class stopped them doing so. 'It [the bureaucracy] only preserves state property to the extent that it fears the proletariat ...' [9]

Just as the working class could not establish a healthy workers' state without revolution, the bureaucracy could not establish itself as a ruling class without a full blooded counter-revolution. The bureaucracy seemed very powerful, Trotsky argued. But in reality its power could not last for long, 'Bonapartism by its very essence cannot long sustain itself: a sphere balanced on the point of a pyramid must invariably roll down on one side or the other.' [10]

One of his arguments against the 'new class theory' developed by Shachtman and others in 1939 was that as revolutionary socialists we would 'place ourselves in a ludicrous position if we fixed to the Bonapartist oligarchy the nomenclature of a new ruling class just a few years or even a few months before its inglorious downfall'. [11]

In 1940 he spelt out the argument even more forcefully. The outbreak of war would constitute an increase in all the contradictory pressures within the USSR and there would be no chance of the bureaucracy being able to continue its balancing act. 'In case of a protracted war accompanied by the passivity of the world proletariat the internal contradictions in the USSR not only might but would have to lead to a bourgeois-Bonapartist counter-revolution.' [12]

The problem Trotsky's followers had to face after the war was that, far from falling apart or even weakening, the Stalinist bureaucracy was stronger than ever. Its armies had extended the boundaries of the USSR and had established regimes virtually

identical to the USSR in Eastern Europe – a feat soon to be copied by Mao Zedong’s army in China. If the USSR was a degenerated workers’ state, then logically these regimes must be some form of workers’ state as well. But what then happened to Trotsky’s contentions that the Stalinist bureaucracy was ‘counter-revolutionary’ – or to the general Marxist contention that revolution from below was needed to destroy capitalism?

The revolutionaries of the Fourth International wrestled with these contradictions in Trotsky’s analysis through 1947–9. Some (including both Cliff and Mandel briefly) attempted to fit the facts into the old analysis: Russia was a degenerated workers’ state, but the Eastern European states bourgeois dictatorships (a position still ostensibly held by Lutte Ouvriere in France). But soon two positions crystallised, both in their own way different to Trotsky’s.

The first was to use much of the phraseology of Trotsky’s formulations, but to accept that Stalinism could be a revolutionary force despite itself, and to proclaim the East European states ‘deformed workers’ states’. This was the position taken by Mandel, Pierre Frank, Michel Pablo and others.

It was this path which led some people very easily away from the spirit of Trotsky’s theory. Pablo, for instance, concluded that if the Stalinist parties could be revolutionary, then humanity faced ‘hundreds of years of deformed workers’ states’ and the job of revolutionaries was to help in their creation by entering the Stalinist parties. [13] Meanwhile, Isaac Deutscher, a pre-war Trotskyist who had opposed the formation of the Fourth International, argued that the growth of industry inside the USSR would automatically lead Stalinism to reform itself. Again, the logic was to abandon independent revolutionary politics. Deutscher wrote in 1953 that ‘the effect of the Berlin revolt was objectively counter-revolutionary and not revolutionary’ because it had contributed to ‘Beria’s downfall’ at a time when ‘Beria was one of those who stood for democratic reform’. [14] He later transferred his trust to Khrushchev, writing of the uprisings of the 1950s that:

Eastern Europe (Hungary, Poland, and East Germany) ... found itself on the brink of bourgeois restoration at the end of the Stalin era; and only Soviet armed power (or its threat) stopped it there. [15]

Meanwhile, a section of Pablo's supporters backed the crushing of the Hungarian revolution by Russian troops. Of course, such people weren't necessarily uncritical of Stalinism or of Khrushchev. Right to the end of his life in 1968 Deutscher continued to argue for a democratic version of socialism. But the important point was that he saw the Russian bureaucracy, acting from above, as an agent that could take us part of the way there.

The mainstream of the Fourth International managed to avoid such extreme conclusions. But they did tend to see the Russian bloc as a progressive historical force. Mandel, for example, would argue that the growth rate of the Russian economy alone was enough to demonstrate the superiority of its economy over any of capitalism (forgetting Trotsky's prognosis nearly 20 years before of the imminent collapse of that economy!):

The Soviet Union maintains a more or less even rhythm of economic growth, plan after plan, decade after decade, without the progress of the past weighing on the possibilities of the future ... All the laws of development of the capitalist economy which provoke a slow down in the speed of economic growth are eliminated. [16]

And if Mandel never made Deutscher's mistake of opposing the risings of 1953 in East Germany and 1956 in Hungary, he did tend to identify reform from above in Eastern Europe with the 'political revolution'. So he expressed a clear preference in 1956 for the methods of Gomulka in Warsaw to those of the revolutionaries in Budapest. He could write that, although 'socialist democracy will still have many battles to win in Poland, the principal battle, that which has permitted millions of workers to identify themselves again with the workers' state, is already won'. [17]

This trend is continued today by many people who claim to base themselves on Trotsky's analysis. Thus, for instance, Tariq Ali – who says his 'political formation' was 'greatly influenced by Isaac Deutscher, Leon Trotsky and Ernest Mandel (in that order)' – puts enormous faith in Gorbachev in his aptly titled book *Revolution from Above*. 'In order to preserve the Soviet Union', he writes, 'Gorbachev needs to complete the political revolution which is already underway.'

Fortunately, the tone of Mandel's book on perestroika is different. He tells us:

Gorbachev represents the response of the modernist wing of the bureaucracy to the threat to the stability of its rule represented by this crisis [of the Soviet system] and by the rise of public awareness. To channel these changes and to try to keep them under the bureaucracy's control – this is the historic project of the Gorbachev wing of the Soviet bureaucracy. [18]

Underlying the apparent realism of Gorbachev is a profoundly conservative vision of reality, which corresponds perfectly to the social and ideological conservatism of the Soviet bureaucracy ... [19]

Mandel argues strongly against those who say what is taking place today is 'a revolution from above':

The point of the exercise is to prevent a revolutionary explosion, in other words, a 'revolution from below'. But, for this very reason, these measures are radical reforms and not revolution in the proper sense of the word ... [20]

Yet the tone is not always so sure, as when he writes that 'the only valid verdict' on measures taken by Gorbachev 'is a nuanced one, case by case, problem by problem ... Too bad for the over simplifiers.' [21] It is as if Mandel, having taken a sharp turn against those like Tariq Ali, who would have us put our trust in Gorbachev, is still not fully convinced that they are wrong.

But if Mandel's conclusions are not fully coherent, the analysis on which he bases them is even less so. It is not just that the book contains an infuriating number of elementary factual errors. [22] More importantly, the theoretical underpinning of the argument is fundamentally flawed.

The most basic problem with the analysis concerns Mandel's understanding of the bureaucracy. He insists that the bureaucracy is not a class: 'The *nomenklatura* is not a ruling class but a fraction of a class which has usurped power from the working class ...' [23]

This leads him into all sorts of contradictions. He writes that 'the bureaucratic layer monopolises political power just as it does economic power' [24] and that 'the interests of the mass of producers, the workers and peasants ... are opposed to those of the directors/managers ...' [25]

He applies to it what he calls 'the essential law which emerges from the history of different societies', that 'the social group (social class or major section of a social class) which controls the social surplus because of its place in the production process, controls to a large extent all other activities too.' [26] It follows from 'the materialist interpretation of history' that:

Relations of domination flow from relations of production. These relations of domination cannot, except during brief periods of dual power, be in fundamental opposition to the relations of production.

But if the bureaucracy 'controls the social surplus' because of 'its role in the production process', then 'its role' involves it exploiting the direct producers. And a 'group' which exploits the direct producers is, by definition, an exploiting class.

Of course, there have been many cases historically when a section of an exploiting class has concentrated power into its own hands and, thereby, creamed off much of the surplus previously disposed of by other sections of the ruling class. This was true, for instance, of the late feudal monarchy and, according to Marx, of the regimes of both Louis Philippe and Louis Bonaparte. But in these

cases the surplus came, in the first place, from the class exploitation of the direct producers. The 'section of the class' was a section of an *exploiting* class.

It is a complete travesty of Marxism to claim that a section of the working class, ie of an *exploited* class, can control the surplus from exploitation. But Mandel does not pursue this line of argument. Three pages after putting it, he denies his own argument:

Unlike a real ruling class, the bureaucracy is unable to base its material privileges on the coherent functioning (i.e. the reproduction) of the economic system, of its role in the production process ... [27]

So on one page the bureaucracy 'controls the social surplus' because of 'its role in production'. Three pages later 'its material privileges', which presumably are part of the surplus, do not come from 'its role in the production process'. The confusion of the whole argument is increased still further when we are told later, 'In reality, a socialist society, a society without classes, does not exist in the USSR.' [28]

This confusion over whether the bureaucracy is a ruling class is part of a wider confusion. In Mandel's account there is no explanation of the dynamic of the Russian economy. Mandel, as we have seen, used to hold the view that planning made the Russian economy able to expand indefinitely. Now empirical reality has made him change his mind. He talks of economic 'crisis', and says, 'The most striking manifestation of this crisis is the slowdown in the rate of economic growth.' [29]

He explains this in three ways.

Mandel argues:

The contradictory development of Soviet society is precisely a product of the combination of dynamism and immobility. The dynamism results from economic and social growth (a product of what remains of the October revolution) which is impressive

in the long term, even if it is slowing down year by year. The immobility results from the bureaucratic stranglehold on the state and society as a whole. This is an obstacle to further growth. [30]

Elsewhere he makes the same point in a slightly different way:

The dominant layer in society seems incapable of developing the system. [31]

... the material interests of the bureaucracy [are] the principal, if not the only, motor force of plan fulfilment, of the daily functioning of the system. This robs the entire economy of any form of economic rationality. The material interests of the bureaucracy push in the direction of increasing access of goods and services to the bureaucracy itself and not in the direction of optimising the output of enterprises – and certainly not in the direction of maximising the rate of accumulation. [32]

He goes on to argue:

Technically the fall in the growth rate expresses the regular increase in what, in the capitalist economy, we would call the 'capital coefficient'. The investment mass necessary to increase the national income by 1 percent increases from one five year plan to the next. [33]

Finally, Mandel claims:

The plan/market relations, or what amounts to the same thing, the bureaucratic despotism/law of value relation ... [is] the fundamental contradiction of the economy ... [34]

Let's look at each in turn.

In his first point Mandel's talk of a 'combination of dynamism and immobility' only makes sense if what is meant is that the economy used to seem very dynamic, with growth rates higher than most advanced Western countries (although not all: Japan has probably done better on average), but that it is increasingly prone to stagnation. But it is completely misconceived to try to explain the dynamism by 'what remains of the October revolution' and the stagnation by the 'bureaucratic stranglehold'. Such an explanation implies that the 'bureaucratic stranglehold' was less and the 'remains of the October revolution' greater at the time of the Moscow trials and the five to ten million slave labourers than today.

In fact, as every serious study of the five year plans and industrialisation has shown, the drive to industrialisation and collective agriculture was carried through by the Stalin wing of the bureaucracy (assisted, it is true, by ex-Zinovievites, capitulationist left oppositionists like Preobrazhensky and Radek and the great mass of repentant Bukharinites). It came after what has sometimes been called 'the Stalin revolution' – the final and complete bureaucratisation of the party, the state machine and the trade unions, and the use of the GPU to obliterate every expression of opposition. [35]

This bureaucratisation did not simply, or even mainly, lead 'in the direction of increasing access to goods and services for the bureaucracy itself. Above all it led, despite Mandel's claim to the contrary, to a massive rate of accumulation. And this accumulation was not of the 'goods and services' consumed by the bureaucrats, but, above all, of heavy industry – of iron, steel, cement, electricity generation, coal, oil.

The Russian economist, Vasily Selyunin, has recently provided figures on accumulation in the USSR since the late 1920s. He begins with figures from Agabegyan showing 25 percent of present national income going to 'saving' and 75 percent to consumption. He then recomputes them to take account of price distortion and concludes, 'the consumption fund accounts for 60 percent of income and the savings fund for 40 percent. Such a high composition of savings is, essentially, a wartime standard.' [36] It compares with an

average level of gross accumulation in Western states of 15–20 percent.

Selyunin goes on to show how the real level of accumulation in the USSR has grown continually since the 1920s, giving the following figures: in 1928 consumer goods were 60.5 percent of output, in 1940 39 percent, in 1960 27.5 percent, in 1985 25.2 percent. He concludes that the officially given figures for the rate of accumulation must be a gross underestimate:

Is it really conceivable that, according to official figures three quarters of net income goes to consumption while consumer goods are only one quarter of industrial output? You can't help wondering what goods are being bought with the consumption fund.

Shifts towards the manufacture of producer goods have put us in the paradoxical situation where accelerated rates of development and more rapid growth in national income have very little effect on the standard of living. The economy is working more and more for itself, rather than for man. [37]

This might be irrational from the point of view of the mass of Russian workers, whose labour is accumulated without them gaining. But it is certainly not a policy based on producing goods for the consumption of the bureaucracy alone – unless you believe that 'steel hard cadres' actually eat the stuff!

The bureaucracy has, in fact, overseen a policy of massive accumulation and industrialisation, and it is completely wrong to claim that it has prevented this occurring.

Secondly, Mandel claims that growth in the 'capital coefficient' is a product of 'the growing non-utilisation of resources, resulting from the general malfunctioning of the economy, as well as by the low productivity of human labour'.

But this is to beg the question. If the non utilisation of resources is 'growing', why? There is 'general malfunctioning of the economy'

and 'low productivity of labour'. But is there any reason for these things to be worse today than in Stalin and Khrushchev's time?

One might expect a Marxist to look more closely at a growth in the 'capital coefficient' than Mandel does. For the coefficient is closely related to the Marxist concept of the organic composition of capital. The coefficient is the ratio of means of production to output, the organic composition the ratio of means of production to labour power (all measured in value terms). If one increases, then the other is likely to do so.

The rising organic composition of capital was, of course, for Marx the basis of the fundamental contradiction of the capitalist economy, the tendency of the rate of profit to decline and of the economy increasingly to stagnate. If it also underlies the crisis of the USSR, then the finding is very significant indeed, and not to be explained away simply by a claim that inefficiency and irrationality are greater now than at the height of Stalin's terror in the 1930s

Finally, what of the attempt to see the 'fundamental contradiction' as between 'the plan' and 'the market', or between 'bureaucratic despotism' and the 'law of value'?

Mandel's formulation here is both theoretically flawed and politically dangerous.

The law of value operates in societies where there is commodity production – and, in particular, the most developed form of commodity production, capitalist production. The function, necessary to any society, of allocating labour between different productive tasks, is not carried out consciously in such societies, but rather through the blind interaction of the products of different acts of labour which are organised independently of each other. The organisers of these different acts of labour are in competition with each other, and this competition forces them to try to keep ahead of each other in forcing up the productivity of the labour – both through imposing harder work and investing in ever more advanced means of production. By behaving in this way, they are continually relating each act of concrete labour to every other act of concrete labour carried out in the system, or, as Marx put it, transforming concrete individual labour into abstract social labour.

The law of value is the pressure that exists in such a system forcing each individual unit of the system to relate to productivity in every other unit. It is the coercive economic force which overrides the desires and intentions of those who run individual parts of the system. Under capitalism, it is certainly not something which is necessarily opposed to 'bureaucratic despotism' or, for that matter, to planning within individual firms. Quite the opposite – it compels managers to be despotic, to tighten the screw on workers. It also compels them to 'plan' the internal arrangements inside the firm so as to meet the requirement of competition outside it. As Marx put it, 'the anarchy of the market determines the tyranny of the factory'.

What is true is that capitalism is a continually developing system, with innovations and technical progress taking place in some parts of the system before others. Elsewhere in the system the old forms of 'tyranny inside the firm' – the old methods of capitalist planning – then no longer correspond with what is needed to keep abreast in the struggle for increased productivity. The law of value then comes into contradiction with the existing forms of organisation of production.

The contradiction between 'bureaucratic despotism' and the 'law of value' occurs because society is subject to the law of value. Can this be true in the USSR? Only if you accept that the USSR is a commodity producing society, a variant of capitalism.

This was no problem for Trotsky and Preobrazhensky writing in the mid-1920s. Although the state controlled big industry in the USSR, virtually the whole of the agricultural sector, a sizeable portion of trade and much handicraft production were in private hands. The state traded with the private sector and with capitalist countries abroad, and therefore was subject to the pressures of commodity production itself. In this situation Trotsky and Preobrazhensky could write about conflicts between the pressures on the one hand from the requirements of commodity production ('the law of value') and on the other from the attempts of the state to plan the economy in the interests of one or other social group.

But where do the pressures to satisfy the requirements of commodity production come from today? Stalin virtually eliminated

the rural and urban petty bourgeoisie. The state sector completely dominates the economy. If, as Mandel argues, the USSR is a 'post capitalist society', one no longer dominated by commodity production, then it is difficult to see why the law of value should conflict with the bureaucracy's ways of running the economy. It is rather like expecting the laws of aerodynamics to operate in empty space – unless he is inadvertently admitting what he denies throughout the rest of his book, that the bureaucracy is forced to behave like a capitalist class.

There is one dangerous interpretation which can be put on his formulation: that the bureaucratically administered economy 'contradicts the law of value' through being innately less efficient than a market based capitalist economy. This, of course, is the contention of a whole host of ideologists of Western capitalism. It is also the contention of many of those who consider the USSR to be a new form of class society, neither capitalist nor socialist: they see it as an 'oriental despotism' or a 'bureaucratic collectivism' with a completely different dynamic to capitalism – indeed, usually with no dynamic at all, and therefore to be regarded as inferior to capitalism. This today, for instance, is essentially the attitude of the group of intellectuals around the magazine *Critique* in Britain. It was also the analysis which led the former American Trotskyist Max Shachtman to support the Bay of Pigs invasion of Cuba. Mandel is not, of course, moving to such horrendous practical conclusions. But he does resort to formulations which might lead others to, as when he argues, 'Clarity and unimpeded dissemination of information ... is guaranteed within capitalist enterprises by private property. [38]

In fact, precisely because the anarchy of the market does lead to the tyranny of the factory, it also leads to bureaucratic inefficiency within the firm, attempts to stifle innovation, a lack of control of top management over shopfloor management. The functioning of any capitalist firm is characterised by a whole range of practices which are not wiped out by some smooth running automatic mechanism, but only periodic readjustment of internal production to the external law of value through crisis and 'restructuring'. What is more, the increasing concentration and centralisation of capital means that

firms get ever larger, the bureaucratic despotism within the firm ever stronger, and the degree of restructuring and crisis required to satisfy the law of value ever greater and more traumatic.

The point is important. All the time we are faced with propaganda from the media telling us that the 'crisis of communism' shows the efficiency of Western capitalism. We should not give an inch on this argument.

Unfortunately, this is not the only point at which Mandel gives ground. At another point he says the reason the USSR's health service is worse than that of the US is that 'doctors in the USSR spend a lot of their time form filling.' [39] Yet American health provision is notoriously inefficient (consuming three times the proportion of the national product compared with the USSR's, or six times the total funds) precisely because American doctors spend a lot of time checking the bank balances of their patients!

The lack of theoretical coherence in Mandel's analysis is revealed most starkly when he writes that the approach of 'Stephen Cohen and Moshe Lewin' is 'similar to that of the present author'. [40] Both Cohen and Lewin have produced useful historical works. But both are also unreconstructed Bukharinites, who believe that reliance on the market would have solved all the USSR's economic problems in the 1930s and who see their task as to advise the USSR's leaders to follow a policy of such reliance today.

A final, practical point on Mandel's analysis. Trotsky viewed the bureaucracy as an unstable, parasitic growth. This led him to conclude that the great crisis he expected in 'a few years, if not a few months' would result in the main sections of the bureaucracy opting to transform themselves into a bourgeois class based on private property, 'not organically through degeneration, but through counter-revolution'. [41]

Those who base themselves on the letter of Trotsky's analysis today are split into three camps. There are those who see the present crisis in the USSR as the one he warned of (ignoring the 55 year time lag, during which the bureaucracy has presided over a massive advance in the forces of production). They draw the conclusion that the reformers inside the USSR and Eastern Europe

who talk today about the market represent the forces of ‘bourgeois restorationism’ and that the task of revolutionaries is to oppose them. The logic of that position is to give critical support to the Ligachevites – the most reactionary forces in the USSR.

The second interpretation is to say that Gorbachev’s reforms constitute the ‘political revolution’, and to offer him critical support.

The third view, the one which Mandel mostly holds to in his book (although, as we have seen, not consistently), is to seek to exploit the openings provided by glasnost to organise the working class independently of Gorbachev and his conservative opponents.

But Mandel can only do so by downplaying those of Trotsky’s arguments which insist on the strength of the ‘restorationist’ forces. Mandel insists, ‘It is not capitalism that Gorbachev wants to introduce in the Soviet Union’ [42] – although with typical inconsistency he writes elsewhere that ‘there has emerged within the bureaucracy a fraction which is clearly “restorationist”’ [43] and that ‘Gorbachev’s real economic dilemma ... is ... the maintenance of a socialised and planned economy or the restoration of capitalism in large scale industry’.

The fact that such completely different perspectives can emerge from the same ‘orthodox Trotskyist’ analysis of the USSR must raise questions about the correctness of the analysis itself – just as the crisis of the Trotskyist movement did back in 1947–8.

Cliff reacted to that crisis very differently from Mandel. He argued, in the first, cyclostyled, edition of his book, which appeared early in 1948, that the revolutionary movement faced an enormous danger. Standing by the *letter* of an old analysis of reality could lead to abandoning the revolutionary spirit which originally motivated that analysis. The only way to avoid the danger was to carry through a fundamental re-analysis of Russian society ‘rooted in the teachings of the great Marxist teachers’.

Cliff’s own analysis began by examining the material realities of the USSR. Sifting through vast masses of empirical material, he drew out the contrasts between conditions in the post-revolutionary period and those after 1928, when Stalin finally consolidated his power.

Trotsky had come to the conclusion in 1935 that Thermidor, the decisive bureaucratisation of the regime, had occurred ten years earlier with the defeat of the left opposition. But he had then gone on to point out that Thermidor represented, in the French Revolution, the establishment of a non-revolutionary regime which still preserved essential advances of the revolution, and was different from counter-revolution.

Cliff argued that an examination of material realities showed that further qualitative change had taken place after the Russian Thermidor of 1924. In the winter of 1928–9 the bureaucracy, which had previously balanced between the working class and the peasantry, hit out viciously against both.

The last elements of workers' control were destroyed in the factories; trade union independence was completely abolished; real wages fell 30 or 40 percent; the GPU was given a free hand to obliterate the last remnants of discussion inside the party; the fight against 'egalitarianism' became state policy as differentials between bureaucrats and workers increased massively; the peasants were driven from the land through so-called 'collectivisation'; the number of prisoners in labour camps rose 20 fold in two years (rising tenfold again in the next decade); Russification was used to destroy the autonomy of the non-Russian Soviet republics.

The fact that all these changes occurred at once was no accident. They were all by-products of the response of the Stalinist wing of the bureaucracy to the economic crisis which hit the country with the threat of war in 1927 and the 'scissors crisis' of 1928. As its old policy – the Bukharin-Stalin policy of 1924–7, of ignoring the rest of the world and hoping for the best – fell apart, the bureaucracy used all the forces at its disposal to impose a new policy. It sought to respond to threats from the West by copying the very means used by Western capitalists to build up industry and, with it, military potential. It destroyed the independence of the working class and the peasantry and attacked their living standards so as to gain a surplus for industrialisation. If its methods were even more vicious than those used in the industrial revolution in, say, England it was

because the Stalinist bureaucracy sought to do in a couple of decades what had taken 300 years to accomplish in England.

The most impressive part of Cliff's book was where he showed, by meticulous examination of the USSR's official statistics, how the official talk of 'planning' (accepted at the time by Mandel and other 'orthodox Trotskyists') concealed the reality of the continual subordination after 1928 of the production of consumer goods to means of production. While before 1928 consumer and producer goods production both rose together, after 1928 their paths diverged completely. While 'plan' targets for producers goods were over-fulfilled, those for consumer goods were simply ignored.

This, incidentally, shows the sharp contrast between the notion of planning and industrial development which Trotsky had fought for in the years before 1928 and that which Stalin had implemented. Trotsky had based himself on the need to speed up the rate of industrial growth so as to improve the living standards, the confidence and the social weight of the working class. Stalin based himself on cutting living standards, using the GPU to terrorise the working class into submission, and swamping old, class conscious layers of workers in a sea of raw, inexperienced and terrified ex-peasants.

There were formal similarities between Stalin's policies and Trotsky's. These confused Trotsky himself for a time and led people like Radek and Preobrazhensky to capitulate to Stalinism. But, as Trotsky himself came to realise, from a working class standpoint they were opposites.

Under Stalin the overall picture was of an economy in which the drive to accumulate means of production dominated everything else. This drive to accumulate pitted the bureaucracy against the workers and peasants. It gave the different members of the bureaucracy interests, rooted in the production process itself, which forged them into a class in unrelenting historical opposition to other classes. It meant they were no longer a stratum of the working class, or a group simply balancing between other classes, but the protagonists of developing a mode of production at the expense of other classes. As Cliff put it:

Why was the first five year plan such a turning point?

It was now, for the first time, that the bureaucracy sought to create a proletariat and to accumulate capital rapidly. In other words, it was now that the bureaucracy sought to accomplish the historical mission of the bourgeoisie as quickly as possible. A quick accumulation of capital on the basis of a low level of production, of a small national income per capita, must put a burdensome pressure on the consumption of the masses, on their living standards. Under such circumstances the bureaucracy, transformed into a personification of capital, for whom the accumulation of capital is the be-all and end-all, must get rid of all remnants of workers' control, must substitute conviction in the labour process by coercion, must atomise the working class, must force all socio-political life into a totalitarian mould. It is obvious that the bureaucracy, which became necessary in the process of capital accumulation, and which became the oppressor of the workers, would not be tardy in making use of its social supremacy in the relations of production in order to gain advantages for itself in the relations of distribution. Thus industrialisation and technical revolution in agriculture ('collectivisation') in a backward country under conditions of siege transforms the bureaucracy from a layer which is under the direct and indirect pressure and control of the proletariat into a ruling class, into a manager of the 'general business of society: the direction of labour, affairs of state, justice, science, art and so forth.' [44]

Cliff refers to the bureaucracy as 'state capitalist'. This has caused his theory to be attacked by a host of commentators – of which Mandel is just one – who claim there cannot be capitalism without private owners of the means of production competing with each other to sell goods.

Cliff deals with this argument at length in his book. He bases himself on the analyses of the imperialist stage of capitalism developed during the First World War by Lenin and by the young

Bukharin. These showed how the concentration and centralisation of capital leads to the replacement of 'free market' capitalism by 'state monopoly capitalism'. Horizontal and vertical mergers lead to huge firms which dominate whole industries, planning their operations with meticulous care and not just leaving them to the accidents of the market. The heads of these industries work increasingly closely with the state bureaucracies. There is, so to speak, a 'merging together' of industry and the state. This merging finds its fullest development in all-out imperialist wars, in which the state and capital work together to plan the war economy internally, while seeking to destroy rival capitalisms physically.

So much is the war economy planned, that those who base themselves on a simple, ahistorical view of capitalism do not see it any longer as capitalist. This was, for instance, the conclusion which the famous Austro-Marxist economist, Hilferding, came to about the Nazi German economy. For *inside* the war economy production is planned from above and does not depend upon the ups and downs of the market, upon the interplay of commodities. And its external trade is necessarily limited.

Cliff insists, however, that the war economy remains a species of capitalism. For if old-style 'free market' competition plays a very little role, a new form of competition dominates it completely. This is military competition between the rival state capitalist ruling classes of different countries. This competition has similar effects on the organisation of production inside each country to those economic competition has on the organisation of production inside each firm.

To compete militarily with each other the rulers of each country have to make sure that the productivity of the labour under their command does not fall below that of their rivals. Every time their rivals invest in new equipment and more advanced technology they have to try to do the same. Every time their rivals succeed in getting a bigger surplus for investment by increasing the rate of exploitation of their workers, they have to try to match their efforts.

In this way, the different acts of concrete labour carried out in different factories in different parts of the world are related to each other, are measured against each other, are transmuted into

expressions of a common abstract labour. The threat of military defeat compels the giant state capitalist ruling class to impose the law of value on its enterprises just as the smallest individual entrepreneur is forced to by the threat of bankruptcy.

It is this analysis which Cliff uses to decipher the puzzle of Stalinist Russia. Stalin's policies after 1928 involved transforming Russia into a massive arms economy, dominated by the drive to accumulate the economic basis of military power, above all heavy industry. Stalin was subordinating the USSR's economy as a whole to the pressures of a particular form of international capitalist competition (to the law of value on a world scale), even while preventing competition between different sections of the economy inside the USSR.

It is this domination by competition which explains the most remarkable feature of the USSR's economic development: the way in which it has displayed the very dynamic which Marx argued was unique to capitalism – the endless pursuit of accumulation. In the *Communist Manifesto* Marx makes a sharp distinction between 'bourgeois society' in which 'living labour is but a means to increase accumulated labour' and 'communist society' where 'accumulated labour is but a means to widen, to enrich, to promote the existence of the labourer.' The USSR lies on the side of 'bourgeois society' in this respect and not on the side of socialism. Cliff shows why.

But that is not all he seeks to do. His aim in exposing the dynamic of the USSR's economy as one of endless competitive accumulation is to draw conclusions for the struggle for socialism.

Those who do not identify such a dynamic can come to one of two equally disastrous conclusions. The first is to see the bureaucratic ruling stratum as more progressive than the capitalist classes of the West. The logic is then to subordinate the struggle for socialism to giving assistance, or at least advice, to these rulers. It is a logic that leads to horror at the thought that social upheavals might threaten their rule, and to paralysis in the face of the present crisis in the USSR through fear of it leading to a 'restoration of capitalism'.

The second conclusion is to see the bureaucracy as less progressive than Western capitalist classes, as a totalitarian force

preventing human development for the indefinite future. Such was the path of Shachtman in the 1940s and 1950s. Such is the path that many 'new class theorists' are tempted towards today.

Cliff's theory, by identifying such a dynamic, comes to a radically distinct conclusion. It is that the Stalinist bureaucracy, like the Western capitalist classes, creates its own gravedigger. The more successful it is in accumulating capital, the more it builds up the size and strength of a working class that has the potential to overthrow it.

The bureaucracy increases the working class on the basis of the highest concentration history has yet known. And, try as it might to abridge the abyss between concentrated wage labour and concentrated capital, the bureaucracy is bringing into being a force that will sooner or later clash violently with it. [45]

When these words were written in the late 1940s, they seemed much less impressive than those who talked of 'hundreds of years of degenerated workers' states' or those who claimed the Russian bureaucracy ruled over some new variant of slave society which was not subject to the contradictions of capitalism. They are vindicated today by the scale of unrest which is sweeping the USSR.

One last point. Only Cliff's analysis enables us to account for the character of the present economic crisis in the USSR. It is because the USSR is part of a world system based on military and economic competition that the bureaucracy finds its old methods of running the economy no longer fit.

The USSR's rulers try to maintain military parity with a state which has twice their GNP – and so have to spend twice the proportion of their own GNP on arms. They are obsessed with modernising their engineering industries so that they match technical advance elsewhere in the world. They see the relative fall in the price of their major export, oil, in recent years as a threat to their whole economic strategy by making it more difficult to import the most advanced machines. Above all, they are deeply afraid that they cannot raise the productivity of labour inside the USSR closer to the US level.

Mandel used to deny that external circumstances could exercise such pressures on the Russian economy, writing that this was to claim 'that the tail of one percent of output imported from and exported to advanced capitalist countries is wagging the dog of the Russian economy.' [46] Now he admits they exist, but cannot integrate them into a total analysis. And so, as we have seen, he sees a contradiction between 'the law of value' and 'bureaucratic despotism' without explaining how that law operates and why the contradiction should come to the fore now.

Yet once you recognise the USSR as a bureaucratic state capitalist country, it is very easy to complete the analysis. The Stalinist bureaucracy responded to the world crisis of the 1930s and the growing threat of war by seeking to accumulate capital inside the country while cutting to a minimum its external trade links. In this respect, it was not behaving very differently from ruling classes in many Western and Third World capitalist countries. The whole period was one of relatively self contained economies in which the state intervened in order to prevent the onset of violent crises within the internal economy – the period of Keynesianism in the West, of import substitutionist growth in countries like Argentina and Brazil, and of attempts to copy Stalinist 'planning' in China and even India.

But in the 1960s and 1970s such approaches everywhere ran increasingly into contradiction with the internationalisation of the world economy. The concentration of capital meant that the resources required to keep ahead in the most advanced industries began to exceed the internal resources of nearly all states; keeping up with advances in technology increasingly meant forging links with the largest multinational corporations. The industries which had developed within the confines of national boundaries could now only survive if they were restructured as part of a new international division of labour.

The restructuring could be painful even for relatively open and limited state capitalisms like that of Britain. In the more autarchic and complete state capitalisms of the East it can be devastating. It threatens not only the conditions and livelihoods of many workers, but whole sections of the bureaucratic-managerial apparatus itself.

And there can be no guarantee that even if it is successfully completed conditions in the outside world won't have shifted in the interim, leaving the USSR's economy still uncompetitive.

The Russian ruling class faces the problem that periodically besets every capitalist ruling class. The very methods that allowed successful accumulation in the past no longer do so. Because it is part of a world system it has to try to change its ways. But its attempts to do so are unleashing social forces which it cannot control. As Marx wrote in the *Communist Manifesto*:

The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production and with them the whole relations of society ... Constant revolutionising of production, uninterrupted disturbances of all social conditions, everlasting uncertainty and agitation distinguishes the bourgeois epoch from all earlier ones. All fixed fast frozen relationships, with their train of ancient and venerable prejudices and opinions are swept away, all newly formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his conditions of life and his relations with his kind. [47]

The Stalinist state bourgeoisies of the East can no more escape from this violent, capitalist dynamic than can the 'private' (more accurately, the state monopoly capitalist) bourgeoisies of the West and Third World. That is what is so exciting about what is happening in the USSR today. But to understand why, you have to move beyond the vague, inconsistent, self contradictory formulations of Mandel, and the best way to do so is to base yourself on Cliff's book.

Notes

1. *The Workers' State and the Question of Thermidor and Bonapartism* (London n.d.), p. 8.

2. *The Class Nature of the Soviet State* (London 1962), p. 13.
3. *Ibid.*, p. 13.
4. *Ibid.*, p. 12.
5. *Problems of the development of the USSR, Writings of Leon Trotsky, 1930–31* (New York 1973), p. 215.
6. L. Trotsky, *The Class Nature of the USSR, Writings, 1933–4* (New York 1972), pp. 117–118.
7. *The Revolution Betrayed* (London 1957), p. 286.
8. *Ibid.*, p. 288.
9. *In Defence of Marxism* (New York 1942), pp. 63–70.
10. L. Trotsky, *The Workers' State and the Question of Thermidor and Bonapartism* (London n.d.), p. 19.
11. L. Trotsky, *In Defence of Marxism, op. cit.*, p. 14.
12. *The War and the Fourth International*, in *Writings, 1939–40* (New York 1973).
13. Pablo's articles from these years are to be found in *International Secretariat Documents*, vol. 1 (New York 1974).
14. Letter from Deutscher to Brandler, 15 July 1953, in *Correspondence between Brandler and Deutscher, New Left Review 105*, September–October 1977.
15. I. Deutscher, *The Prophet Unarmed* (Oxford 1959), p. 462. See also *Universities and Left Review*, vol. 1, no. 1, p. 10.
16. *Quatrième Internationale*, année 14 (1956,) nos. 1–3.
17. E. Germaine (i.e. Mandel), *Quatrième Internationale*, December 1956.
18. E. Mandel, *Beyond Perestroika* (London 1989), p. xii.
19. *Ibid.*, p. 116.
20. *Ibid.*, p. 187.
21. *Ibid.*, p. 134.
22. For instance: when he twice locates the 'Kosygin reforms' as beginning in the mid 1970s, whereas in fact they started ten years before that (see, for instance, Michael Ellman, *Socialist Planning*, Cambridge 1989, pp. 73, 80, and Marshall Goldman, *Gorbachev's Challenge*, New York, 1987, pp. 53–54); when he refers to Grigoriant as a 'left oppositionist', whereas he is a right wing liberal; when he says that 'the Congress of the Writers Union threw out the

conservative apparatchiks in 1987', whereas in fact the Writers Union remained for a long time the most conservative of all the cultural unions.

23. Mandel, 1989, *op. cit.*, p. xii

24. *Ibid.*, p. 33.

25. *Ibid.*, p. 33.

26. *Ibid.*, p. 31.

27. *Ibid.*, p. 34.

28. *Ibid.*, p. 109.

29. *Ibid.*, p. 3.

30. *Ibid.*, p. 3.

31. *Ibid.*, p. 32.

32. *Ibid.*, p. 35.

33. *Ibid.*, p. 8.

34. *Ibid.*, p. 21.

35. For an account of this based on research in previously inaccessible archives, see M. Reiman, *The Birth of Stalinism* (London 1987).

36. Vasily Selyunin, *Sotsialisticheskaya industriya*, 5 January 1988.

37. *Ibid.*

38. Mandel, *op. cit.*, p. 11.

39. *Ibid.*, p. 15.

40. *Ibid.*, p. 44.

41. Trotsky, 1962, *op. cit.*, p. 13.

42. Mandel, *op. cit.*, p. 62.

43. *Ibid.*, p. 42.

44. Cliff, *op. cit.*, p. 154.

45. *Ibid.*

46. *The Inconsistencies of 'State Capitalism'* (London 1969), p. 13.

47. *The Communist Manifesto*.

Ernest Mandel
A Theory Which Has Not Withstood the Test of
Facts
(Winter 1990)

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Translated by Gareth Jenkins.

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Tony Cliff based his theory that the USSR and countries with analogous socio-economic structures are 'state-capitalist' on a set of hypotheses which are taken as axiomatic. We shall outline six of them:

- i. Soviet society and the societies of Western Europe, of the United States and of Japan are all qualitatively the same since they are all capitalist.
- ii. In the USSR a new ruling class exists which is not based on private property but which can nevertheless be characterised as capitalist.
- iii. The Soviet economy is fundamentally ruled by the law of value, 'operating via the world market', even though internal competition has been eliminated.

iv. Just like Western and Japanese capitalists, the Russian ruling class is basically driven by the need to accumulate: 'production for the sake of production'.

v. Crises of overproduction are absent because 'organised capitalism' allows them to be avoided in the USSR. [1]

vi. Furthermore, general crises of overproduction do not exist in the imperialist countries either, in view of the tendency towards 'organised capitalism' and the importance of the armaments sector in their economies.

Events over the last 15 years have inflicted one cruel blow after the other on these dogmatic assertions. [2] The generalised recessions of the world capitalist economy in 1974–5 and 1980–2 were truly classic crises of overproduction, the mitigating effects of inflation notwithstanding. In scale they exceeded, rather than being below, the average capitalist crisis of overproduction of the last century and a half. What then remains of the myth of 'organised capitalism' and Hilferding's *Generalkartell*?

Nothing similar has taken place in the USSR. If there is a crisis in that country it is one of underproduction of use values (of scarcity) and not one of overproduction of exchange values (of commodities). To claim that the first is only a variant of the second is a gross fallacy. An empty shop is not 'a variant' of a shop stuffed full of unsellable goods.

A process of restoration of capitalism is under way in several East European countries. [3] In at least one country, the GDR, that process is almost complete. Literally no one in these countries, or in the world, denies the evidence. This presents the followers of the theory of state capitalism with an insoluble problem: how is it possible under capitalism to restore capitalism?

They try to get out of this difficulty by claiming that 'private capitalism' is different from 'state capitalism'. But that only pushes the problem one stage further back: either the difference between 'state' and 'private' capitalism is a qualitative one – in which case,

why use the same concept to cover both? Or the difference is purely quantitative. In which case, the whole initial problem re-emerges more strongly. Can one seriously argue that there was only a quantitative difference between the GDR and the Federal Republic? Does the Federal Republic's *Anschluss* change nothing basic in the GDR's actual socio-economic system? Are the societies of North and South Korea qualitatively the same?

To reduce the nature of capitalism simply to the wish to accumulate ('production for the sake of production') is to dismiss much of Volumes 1 and 3 of *Capital*, and the whole of Volume 2. Capitalist production is generalised commodity production. Every commodity contains within itself a contradiction between use value and exchange value, as well as a contradiction between commodity and money. An 'organised capitalism' that overcame these contradictions would no longer be capitalism, at least not in the sense analysed and defined by Marx.

Capital exists and can only exist with money-capital as its starting point. Capital is value looking to increase in value, to surplus value. Of necessity it must eventually recover its initial money form, despite the fact that while engaged in the production process it no longer has that form. Without money there can be no capital accumulation.

These are not esoteric abstractions. We are at the heart of the matter. It is of no use for a capitalist just to make the workers he exploits produce the maximum of surplus value. He cannot transform a car pound or warehouses full of colour televisions into additional machines or steel, or into wages for extra workers, or into private jets for his own consumption. He cannot accumulate capital simply by producing surplus value. He must realise that surplus value through the sale of the commodities that have been produced in order to accumulate capital. As Marx says, the process of (expanded) reproduction, that is to say, the process of accumulation, is the unity of both the process of production and the process of realisation of surplus value. These two never coincide automatically. Without the process of realisation no accumulation is possible. What makes periodic crises of overproduction inevitable is the inevitable contradiction between the two poles of this unity. Moreover, the

same contradiction activates a series of mechanisms typical of the capitalist economy. These were carefully analysed by Marx and can be called 'the laws of motion' of the capitalist economy.

To know whether a society is basically capitalist or not we have therefore to ask the question (and back it up factually): are the laws of capitalist motion in evidence?

Just to point to the extraction of surplus labour from the direct producers is insufficient. At night all cats are grey. For thousands of years since primitive communism surplus labour has always been extracted from the direct producers, and this will continue until we reach the future classless socialist society. But that does not make all these societies capitalist. Marx says that in the last analysis the nature of each society (except classless society) is determined by the specific form in which surplus labour is extracted (*Marx Engels Works*, Vol. 27, p. 799). And under capitalism that takes the specific form of the transformation of labour power into a commodity, of its sale to capitalists for money, of capitalists buying the means of production for money, of the appropriation by these same capitalists of the products of wage labour, and of the sale of these commodities in order to make roughly the average profit. Without all these specific mechanisms, capitalism does not exist for Marx, at least not as a dominant mode of production.

Our interpretation of the present day capitalist economy and of present day Soviet economy allows the inner coherence of Marxist theory to be preserved. Cliff's theory destroys any type of coherence unless essential elements of Marxist theory are jettisoned. So whatever advantage it claims in explaining the USSR is lost when it comes to explaining present day capitalism.

The idea of the bureaucracy as a ruling class really has to be taken with a smile after what has happened in Hungary, Poland and the GDR (to quote only those examples). Has any ruling class in history ever been seen to literally tiptoe away from the stage of society, as a significant section of the *nomenklatura* in those countries is now doing?

According to chapter one of Volume 1 of *Capital*, a commodity is only a commodity because it is the product of private acts of labour

performed independently one from the other. To present the Soviet economy in terms of a capitalist economy therefore implies that industrial labour there consists of 'private acts of labour performed independently one from the other': an absurd description if ever there was one.

To say that an act of labour is private means that no capitalist (firm) knows whether the labour costs expended (both living and dead) will be recognised as socially necessary costs, that is to say, whether they will be paid for by society. It is only after the sale of the commodities that the capitalist learns whether he has gained or lost. If the labour expended has been socially necessary, he obtains an average profit. If social labour has been wasted, he gets less than the average profit or goes bankrupt.

At the first sign of sale at a loss or of below average profits, he attempts to change the way in which production is organised. He will try to improve the technology, to use better machines, to save on raw materials and energy, to extract more surplus labour from his workforce, to spread his investments, to get access to cheaper credit, and so on. The organisation of labour depends in the first place on the private decisions of the factory owner, which is then corrected by competition, by the market. He has to submit to these corrections or face extinction. Under capitalism there is only one overall measure of performance – realised profit. The more productivity is raised, and the lower the costs of production, the greater the likelihood that his profit will outstrip that of his competitors. But there is nothing automatic about this. It is the post-sale profits that determine everything. The capitalist economy is an economy based on profit, and profit can only be realised and measured in the form of money.

This is where the famous 'law of value' enters into play. It determines the social nature of labour through commodities exchanging at equivalent values and so operates under capitalism as the tendency to create an average rate of profit. Capitals move out of enterprises and sectors of below average profit into those of above average profit. Thus, as Harman himself emphasises, the essential function of the law of value under capitalism is to ensure

that productive resources are allocated through objective mechanisms, these being imposed on enterprises and capitalists, as well as on workers, behind their backs and independently of their will and decisions.

However, the law of value only rules any economy in so far as it is one of generalised commodity production, that is, one in which labour is basically private labour. In pre-capitalist societies this is not the case. Here the law of value is not determinant, even if it has already begun to influence economic decisions. A French peasant of the 11th century, a Russian peasant of the 18th century, or a Peruvian peasant of the first half of the 20th century, does not alter his decisions to sow or reap in line with the price of wheat rising or falling, for the simple reason that 95 percent of his production is not for the market. In these societies the bulk of productive resources are directly allocated to different sectors by those who control the means of production. Direct, *a priori* allocation is the opposite of a *posteriori* allocation brought about through the law of value. This difference between two methods of resource allocation marks the opposition between planning and the market.

In the USSR the essential investments are not decided via the law of value. They are decided by the bureaucracy, mostly at state level. It is a planned economy (that implies no value judgement: an economy can be planned in an irrational, even senseless manner) as far as direct allocation of resources is concerned. For 70 years, 'loss' making enterprises requiring large subsidies have received a preferential allocation of productive resources. These have been systematically diverted from 'more profitable' enterprises or sectors. Such phenomena are unthinkable under capitalism and the rule of the law of value. But if the law of value does not rule 'directly' in the USSR, does it do so 'indirectly' through the intermediary of the world market?

Dogmatically, as if it were a revealed truth, Cliff and Harman claim this to be the case. They cannot prove it. Any rule of the law of value 'through the intermediary of the world market' has to operate via trade, like anything to do with capitalism. Enterprises that fail to compete with imported goods are doomed to go under. At least two

thirds, if not more, of Soviet enterprises do not compete with imperialist enterprises. If they were subject to the law of value operating 'through the intermediary of the world market', they would be forced to close (like Mexican steelworks or British coal mines). There is therefore no 'rule of the law of value' in the USSR 'through the intermediary of the world market'.

A Hybrid Economy

However, even though the functioning of the Soviet economy is not dominated by the law of value, it cannot abstract itself from its influence. While it is not a capitalist economy, that is, an economy based on generalised commodity production, neither is it a socialist economy geared to the direct satisfaction of human need, an economy in which labour possesses an immediately social character. It is a post-capitalist economy with elements of the market. Partial survival of commodity production is combined with the partial rule of the direct allocation of productive resources.

This combination is hybrid and contradictory. It implies that the fate of the USSR as a transitional society between capitalism and socialism, 'frozen' at its present stage by the bureaucratic dictatorship, has not yet been settled historically. A social counter-revolution can pull the USSR back towards capitalism. A victorious anti-bureaucratic political revolution can push it in the direction of socialism (no more than that: socialism in one country is impossible no matter how pure, democratic, revolutionary or internationalist a government based on workers' power may be).

Comrades from the Socialist Workers Party in Britain (SWP) find this notion of hybrid combination, the perpetuation of which lacks all certainty, this 'transition between two progressive modes of production' (to quote Marx's celebrated formula), difficult to accept and understand. They are quite wrong. We are talking here of a phenomenon that has occurred in practically every epoch when a

given mode of production has entered its historical period of decline and decay.

To give just one example – between the decline of the feudal mode of production and the triumph of capitalism a transitional epoch intervened in which petty commodity production dominated, stretching over several centuries. Petty commodity production has its own characteristics which are neither those of feudalism (serfdom) or of capitalism (wage labour). The predominant form of labour is the free labour of small proprietors or semi-proprietors, owning their own means of production.

We are not talking here of a new mode of production able to perpetuate itself automatically. Petty commodity production is capable of regression towards feudalism, which is what happened in a large area of central and eastern Europe from the 16th century onwards, the period of the ‘second serfdom’. It is also capable of moving towards capitalism, that is towards the predominance of wage labour, which is what happened in the Netherlands and in England from the 17th and 18th centuries onwards. But in both cases the small independent producers disappeared only little by little.

The same rule can be applied more or less to the period of transition between capitalism and socialism. Either what remains of commodity production will finally eliminate most of the direct appropriation and allocation of the social surplus product – in which case, capitalism will be restored. Or society will throw off the deadweight of the bureaucracy and ensure that the direct appropriation and allocation of major resources for the satisfaction of needs as democratically decided by the masses will predominate – in which case, the unavoidable survival of some market mechanisms will no longer be able to put a brake on genuine progress towards socialism. But in both cases, what is specific about today’s hybrid Soviet situation will have largely disappeared.

Once again, it is not a question of some abstract theoretical schema. Our understanding of the principal causes of the specific economic crisis characteristic of the USSR is rooted in reality. Current mystification notwithstanding, what the Soviet economy

suffers from is at one and the same time too little central planning (democratic planning, let it be understood, not bureaucratic planning) and too little of the market (in all those areas where as a result of the inadequate objective socialisation of labour direct allocation of resources does not operate and the market is required to break up monopolies). [4]

The despotic nature of planning from the First Five Year Plan onwards meant that it was marked by colossal disproportions, the cumulative effect of which in the end undermined even the very targets set by the bureaucracy. The market or pseudo-market mechanisms used have always lacked a proper foundation largely because there is no unified pricing system and no stable currency. The double pricing system is an accurate reflection of the hybrid dualism of the Soviet economy. [5]

Comrade Cliff's analysis makes much of the importance of the world market for the Soviet economy. But the world market is not some disembodied Holy Ghost hovering above the clouds in order to create the world, as the Bible boldly tells us. One of the essential contributions that Marx and Marxism have brought to the social sciences is the categorical rejection of any kind of reification of economic categories. One of the essential gains of historical materialism is to discover behind these categories relations between social groups (social classes and major class fractions). The connections between them and the way they struggle for their interests strips bare the secret of economic categories, including that of the world market.

In this respect, the theory put forward by Trotsky and the Fourth International, that the fate of the USSR and so of its economy has not yet been definitely settled, is based on a precise understanding of international class struggle in the 20th century. Cliffs theory largely empties the interconnection between international class struggle and what has happened in the USSR of its significance.

Trotsky predicted in 1905–6 that the imperialist chain would first break in Russia because its proletariat was subjectively stronger than the proletariat in Germany and other countries. Objectively, however, the conditions for an advance towards socialism were

infinitely worse in Russia than in any of the major industrialised countries in the world. Therefore either the victorious Russian revolution would join up with a victorious revolution in some of these countries, in which case the proletariat would retain political power. Or it would not, in which case the Russian proletariat would lose political power.

But what would be the precise form of the counter-revolution in Russia? Again, that did not depend first and foremost on the forces present in that country alone, but on the relationship of social and political forces at a world level. The imperialist bourgeoisie was strong enough to prevent (or, what amounts to the same thing, the leadership of the proletariat was too weak to ensure) the victory of the revolution in Germany, Austria, Italy, Britain, France and Spain. It was not, however, in a position to crush the world working class movement. Overall, it was only strong enough to crush the workers' movement in Germany and Spain with the victory of fascism, but even that was only temporary.

Furthermore, the Russian bourgeoisie had been too weakened, and the international bourgeoisie was too divided, to make a success of restoring capitalism by civil war, foreign intervention or the direct pressure of the world market. In part, this effort was neutralised by the intervention and pressure of the world proletariat. [6] What followed as a result was a relative world equilibrium of class forces. These conditions meant that a political counter-revolution (Thermidor) took place in Russia, but not a social one. The proletariat lost political power but it was not an old or new capitalist class which benefitted but, to use Marx's formula, functionaries who rose from the ranks of the working class itself.

In the long term, this relative equilibrium of class forces cannot last. Either the international working class will make decisive moves forward to socialist revolution in key countries of the world, in which case any restoration of capitalism will become impossible in the USSR. Or the world proletariat will experience crushing defeats, not necessarily in the precise form of the Nazi victory in Germany but with similar consequences, namely the elimination for a long period of its capacity for resistance and collective and organised action. If

that happens the restoration of capitalism in the USSR is inevitable. Given this perspective, the role of the Soviet working class itself, its capacity to react, to resist and move onto the counter-offensive, will become more and more important.

Chris Harman criticises us by quoting an extract from an article written in 1956, in which we stated that the Soviet economy grows in a regular rhythm and that this shows its superiority to the capitalist economy. Extracting a single quotation on a topic which an author has written about for more than 40 years is not a serious way to debate. We could quite easily refer to ten or so passages in which we predicted that the rate of growth in the Soviet economy would fall. One quotation will do:

The disproportion between the development of light industry and that of heavy industry, which underlies the bureaucratic form of management, has become a deep-going weakness in the economic system. Its repercussions on the development of heavy industry itself ... are becoming bigger and bigger. [7]

So have we changed our mind on this matter? Is there a contradiction in our analysis? Not at all. The quotation and the method used by Harman can be turned against him. If one examines the real growth curve of the Soviet economy from 1928 onwards (excepting the years of Nazi aggression against the USSR 1941–44), it will be seen: a) that growth really was regular and uninterrupted; b) that unlike the capitalist economy the USSR has experienced no recession, no crisis of overproduction leading to an absolute fall in production, for more than 60 years [8], c) that the rate of growth began to fall 20 years ago; d) that this fall may become 'zero growth', but that there is no 'law' making this inevitable. It so happens, then, that we did predict this fall in the rate of growth and our analysis of the Soviet economy (and of Soviet society) accounts perfectly for both aspects of the tendency.

Cliff's explanation, on the other hand, starts from a confusion in analysis and terminology and relies on false statistical data. Under capitalism, the lash of competition and of class struggle leads

capitalists to increase the organic composition of capital. In the first instance they replace living by dead labour, i.e. by machines, in order to sell more cheaply on the market. In the second they can raise the rate of surplus value by subjecting workers to the pressure of unemployment. The rise in the organic composition of capital, and the resultant tendency of the rate of profit to fall, are the consequence and not the cause of this behaviour. The cause lies in the nature of the system itself: production for the sake of profit. This takes us back again to money-capital, which is the starting point for the reproduction cycle of capital and its end point.

In other words, without competition between capitalist firms, none of this dynamic would exist, or would only exist on an extremely limited scale. [9] Marx was explicit on the subject. He writes in Volume 3 of *Capital* that without competition 'the fire that keeps production alive' (and a fortiori accumulation) would be extinguished. Let us add that Marx believed that capitalism can only exist in the form of 'many capitals', which in turn inevitably implies competition. Marx was also quite unambiguous about the point that competition involves exchange, that competition is only possible through exchange. So where is the 'exchange' between Soviet arms and imperialist goods?

The use of the term 'military competition' as equivalent to competition for the realisation of profit arises from a characteristic semantic confusion. In reality, for 'military competition' to be capitalist competition, it must operate via the world market. That would mean the USSR being forced to buy arms or the machines necessary for the production of arms from abroad, which would mean that Soviet factories producing these arms or machines would have to close if they worked at too high a cost price. This has clearly not been the case in the USSR for 70 years. Quite the contrary. No arms factory or factory making machines for arms has closed, irrespective of whether costs were known to be higher than those in the USA, Germany or Japan.

All this proves once again that the Soviet economy is not governed by the law of value. And so one cannot speak of

‘competition’ with capitalist countries in the economic Marxist sense of the word when dealing with the arms race.

Do the figures quoted by Harman agree with reality? Not at all. What they reflect is the systematic attempt to camouflage the reality of the Soviet economy which the bureaucracy has carried out since the Stalin era. This has misled both apologists like Maurice Dobb and critics like Bordiga and Cliff. The aim of this mystification is to disguise the essentially parasitic and wasteful role of bureaucratic management.

The theoretical error which allows this statistical falsification is the reduction of the Soviet economy to a system having two instead of three sectors (Department III includes unproductive consumption and ‘accumulation’, while Department I consists of means of production and Department II of the means of consumption consumed by the producers, that is to say productive consumption). With a two sector scheme, productive and unproductive consumption, investment which leads to expanded reproduction and investment which serves no economic purpose in reproduction are carelessly added together and jumbled up.

Here is an example, deliberately chosen from outside armaments production. When a steelmill produces bars of steel which ‘accumulate’ in warehouses (or, better still, in the open air) and remain there, one cannot speak of ‘accumulation’ in any economic sense of the word. Using the term ‘capital accumulation’ in this connection would make any real capitalist laugh. It is clearly waste production from a social point of view. It is also waste production from the point of view of those who control the economy.

Sheer wastage of products and resources occupies an enormous space in the Soviet economy. Calculation of its size is not easy, but the most critical economists have put forward the figure of between 30 and 40 percent of available productive resources (including human resources: a third of all paid hours of work result in no real production). Here we have the ‘secret’ of the command economy, of pseudo- or semi-planning in the USSR: it is Department III which is overexpanded, not Department I.

Let us take one concrete example among many. The USSR is the biggest producer of chemical fertiliser in the world. It produces nearly as much as the USA and Western Europe put together. Does this imply overexpansion of Department I (chemical fertiliser, being a raw material, is part of Department I)? Not at all. More than half this production is lost 'in transit'. It never reaches the user and so is never incorporated into any force of production or reproduction. A product of labour whose use value is not realised has no exchange value. So asserts Marx for commodity production. To extend this analysis to any society not governed by the law of value, to say it is simply a sheer waste of social resources, is to echo the spirit of his thought still more strongly. Such wastage has nothing to do with any supposed 'allocation of productive resources by the law of value' or with any drive to 'accumulate capital'.

Back will come the retort, but what about armaments production under capitalism? Isn't that also waste production of productive resources? Wouldn't capitalism which incorporates the arms race as a more or less permanent feature be a capitalism which develops the forces of destruction rather than the forces of production? [10] Our answer to this objection is at several levels.

From the point of view of the individual capitalist firm involved in arms production this is not waste. Such commodities find buyers in so far as these buyers (the state or arms dealers) wish to realise their use value. So they possess an exchange value which creates real profit. Otherwise they wouldn't be produced under capitalism anyway.

Isn't what the firm producing arms finds 'useful' irrational, even inhuman, from the social point of view? Undoubtedly. But this is absolutely characteristic of capitalism. The contradiction between the partial rationality and the global irrationality of economic activity is developed to the extreme. [11] The same point can be made about drugs, cigarettes, polluting automobiles, chemical fertilisers, nuclear power stations, and so on.

Is arms production 'unproductive' from the point of view of the capitalist economy as a whole? That is, doesn't it fail to increase the mass of surplus value, of profit-source and of capital, which is the

only definition of 'productive' from the point of view of capital as a whole? Not necessarily. When a mass of productive resources lies idle the effect of expanding Department III can be to mobilise these resources and so increase the total mass of surplus value and of profits. [12] That is clearly what happened in the United States from 1940 onwards. It would be absurd to deny that capitalism, and indeed bourgeois American society, was more prosperous in 1944 (not to say in 1950) than in 1933.

Does that mean that capitalism has been transformed into a 'waste economy'? Only partially. Besides there is nothing new about this. Marx already stated in the Grundrisse and in Capital that capitalism can only develop the production of material wealth by simultaneously undermining the two sources of all wealth: human productive force and nature. During the rise of capitalism the 'positive' effects of growth outweighed the destructive ones. In its period of decline, from 1914 at least, the opposite has been the case. Yet growth since 1949 (in the USA since 1940) has not been any the less real. The extra amount of foodstuff, textiles, medicines, housing and domestic appliances produced in the last 40 years is genuine and colossal. To label this as 'forces of destruction' is absurd, non-materialist and non-Marxist.

Should one conclude from this that it is a matter of indifference, economically speaking, whether society produces means of destruction or means of production? Such a conclusion is not justified either. The iron laws of reproduction continue to operate in a commodity production system of whatever type (including the partial commodity production system of the USSR, as in any country in a period of transition between capitalism and socialism).

One cannot produce wheat with teargas, dresses with tanks, or television sets with rockets. The dimensions of Department III are bound to have repercussions on the dimensions of Departments I and II. The utilisation of any productive resource for the manufacture of armaments entails its removal from production of the means of production and of consumption. Production in Department III therefore cannot be developed beyond a certain point without in the

end reducing production in the other two Departments, thereby strangling expanded reproduction and so the accumulation of capital.

What is true of capitalist society is also true of pre-capitalist society. And in as much as armaments production persists (or other forms of wastage appear on a grand scale) it applies to post-capitalist society as well.

For thousands of years in pre-capitalist societies, wars led to famine and to an absolute decline in production which was temporary or long lasting depending on the period and the circumstances. In the USSR the over-expansion in Department III of armaments production and unproductive expenses in general (above all administrative expenses, ie the cost of the bureaucracy) puts a brake on the overall development of material production.

In the end it even chokes off growth, including growth in the arms sector. This is for two reasons: it takes away vital resources for the development of Departments I and II; and it increases the producers' dissatisfaction with their given level of consumption (even if this rises in a modest way), such that their lack of concern about overall production results becomes ever greater. Under capitalism, this lack of concern is partly neutralised by fear of redundancy and unemployment, something which has played no role in the USSR for more than half a century. Instead, therefore, alongside each producer had to be placed a supervisor, a foreman, a cop. Hence the enormously swollen size of the 'petty' bureaucracy, amounting to about 20 million people, it can be reckoned, since Trotsky's time. Hence also the colossal and permanent growth of unproductive expense: Department III is biting its own tail like the legendary serpent.

This mechanism cannot be 'reformed', as Gorbachev has discovered to his cost. The serpent can only be slain by the spread of strictly public, popular working class control, and by the spread of genuine working class management in a multiparty socialist democracy.

A schematic system of thought which only operates in black and red and which is the prisoner of outrageously simplistic abstractions is incapable of handling the categories of 'transition', of 'combined

and uneven development' and of 'contradictory reality'. In other words, such thought is undialectical. This unfortunately is the way in which Tony Cliff and Chris Harman think, at least when dealing with general problems.

Moreover there is something irrational, even positively irresponsible, in the SWP comrades' vituperative attacks on accelerated industrialisation in the USSR from 1927 onwards. This is clear to the naked eye for every worker, peasant and Marxist from Third World countries, and for every true internationalist.

Each one of us is against 'overinvestment', against 'gigantism', against Stalinist and post-Stalinist 'superindustrialisation', most of which represent a total loss of expenditure in material resources. But we are not against accelerated industrialisation as such in these countries or in Russia, which was the first to opt for it, after the October revolution. To turn one's back on this industrialisation would mean not just rejecting the whole short and medium term trend in economic policy elaborated by Lenin, Trotsky and the Left Opposition after 1923. Above all it would mean condemning those countries to flounder in barbarism while they wait for the victory of the world revolution. But when would that come about? After five years? After ten years? After 20 years? After 30 years? Who knows? Must we in the meantime fold our arms and tolerate the intolerable?

When we speak of intolerable barbarism we are not speaking loosely. Underdevelopment kills 16 million children in the Third World each year. How many children would die each year if development took place in these countries on the basis of a democratically run socialised economy? The *Generalplan Ost* of Nazi-led German imperialism envisaged the extermination of 100 million people in central and Eastern Europe. Was it wrong not to have laid down conditions for successful resistance against this projected monstrous crime, notably by developing a powerful industry in the Urals and beyond? By rejecting a sense of proportion (the difference between necessary accelerated industrialisation and disproportionate, wasteful and destructive superindustrialisation), which breaks with dialectical thinking, the SWP comrades put themselves in an impossible situation with respect to their own objectives.

Let us suppose that one day they succeed in leading the British working class to a seizure of power. What type of society would emerge from this victorious revolution? A socialist society? Have the SWP comrades been suddenly converted to the reactionary Utopia of socialism in one country? A state capitalist society because of 'the pressure of competition from the world market'? Workers' power would scarcely be in a position to counter this pressure in Great Britain alone. Would their efforts then have been in vain? A socialist society by virtue of the fact that the British revolution would immediately spread to the rest of the world? But if that does not happen, or at least not for some time, wouldn't Britain then be a transitional society between capitalism and socialism which all advanced workers and communists/socialists would unite in an effort to protect from the dangers of bureaucratisation, even if they couldn't eliminate them entirely? What is the point of rejecting today the very concept which one would be forced to apply tomorrow? And wouldn't the funds for accumulation, productive as well as unproductive, have to be sufficient to meet (at least partially) the requirements to invest in order to satisfy the needs of the masses and to defend them against imperialism?

Wouldn't reducing this whole complex problematic simply to the question of the 'pressure of the world market' result in paralysis, even suicide, for the SWP and for any victorious British revolution? In the imperfect world in which we live it is impossible to find one's bearings or to act in a revolutionary manner without resorting to such categories as 'transition', 'transitional programme', 'transitional demands' and 'transitional society'. The all or nothing approach acts as a blindfold. It also inhibits revolutionary action, no matter how limited in effect.

The Specific Character of the Soviet Bureaucracy

According to Cliff and Harman, the Soviet bureaucracy is characterised by the tendency to excess production of the means of

production, the tendency to 'production for the sake of production'. The idea which they object to (and attribute to us) is the claim that the economic development of the USSR is dominated by the production of consumption goods (luxury goods) for the bureaucracy. We have never defended such an extreme thesis. In no society (including slave or feudal society) does what motivates the ruling class or group – the desire to increase its own consumption – explain or exhaust the dynamic of the economy as a whole.

In order to preserve and extend its privileges, the Soviet bureaucracy, just like any ruling class or group in history, has to develop the economy up to a certain point. Without car factories 3 million middle and top bureaucrats cannot acquire cars. Without enough steel, electricity or iron ore, the car industry cannot be developed satisfactorily. True, one could try and import these goods. But that would mean having to export in order to obtain resources, which would mean submitting to the law of value and to the world market. In that situation an underdeveloped country remains basically an underdeveloped country, unable either to industrialise beyond a certain limit or buy a sufficient number of cars.

In order to avoid just this kind of constraint (to escape the constraints of the world market), the Soviet bureaucracy unleashed a process of 'superindustrialisation' in the USSR. Without this, it could not have defended, consolidated or extended its powers and privileges as spectacularly as it did after 1928.

This is the framework necessary to understand the socio-political struggles that have taken place in the USSR over the last 60 years. The struggle has been three way, not two way ('between capital and labour'). When the profound crises of 1928–33, 1941–44 and 1945–48 shook Soviet society and the power of the bureaucracy, on every occasion the bureaucracy struck simultaneously at both the bourgeoisie and the working class. It did the same in Eastern Europe. It did not simply 'overexploit the working class', it also expropriated the bourgeoisie. Historically it has played an autonomous role.

The real theoretical debate turns on the extent of this relative autonomy and how long it can last. For believers in the theory of

‘bureaucratic collectivism’, this autonomy is identical with that of a ruling class in history. For Trotsky, as for us, it is much more limited, both in time and scope. But that does not make it any the less genuine, much more genuine than the majority of Marxists thought possible before 1927. To persist in ignoring this today is to deprive oneself of an explanation of what has actually happened in the USSR since then.

The fourth great crisis in the history of the bureaucratized USSR is now unfolding. It remains to be seen whether the three way struggle continues (we think it will), or whether, as many commentators and tendencies believe, the *nomenklatura* will go over into the camp of the international bourgeoisie lock, stock and barrel and become its resident junior partner (very junior: look at the GDR!).

Be that as it may, ends and means have to be clearly distinguished in this complex social struggle: what the fundamental driving force is, what means are used to fulfil the ends chosen, and what the objective results are of the interaction between ends and means. And here we are forced to return to the conclusion – a conclusion moreover which corresponds to Marx’s definition – that only under the lash of competition has the bourgeoisie a permanent and lasting stake in the continuous expansion of production. Without this constant pressure, no pre-capitalist ruling class showed any such tendency (nor, we would add, does the bureaucratic caste in the USSR).

As long as the shortage of consumption goods kept them thirsty for more, the bureaucrats were fanatical about accumulation, about ‘production for the sake of production’ and about ‘technological progress’ (as sections of the middle bureaucracy, in their greed for an American yuppie lifestyle, still are today). But as soon as the *nomenklatura* as a whole had reached a satisfactory level of consumption (‘when socialism had been achieved for its benefit’) this thirst began to disappear. ‘Productivist fanaticism’ dwindled. A stage of what the Hungarian Stalinist ex-prime minister, Hegedus, correctly called ‘generalised irresponsibility’ set in.

This also explains why Soviet managers, unlike their capitalist counterparts, nearly always and almost automatically give in to wage demands in the workplace: no pressure of competition forces them to 'extract the maximum surplus value' from the workers. The only pressure they are under is to 'avoid problems' when it comes to fulfilling the plan. It is in order to bring about a thorough change in their attitude that Gorbachev and his ilk have been trying to introduce all the technocratic changes of perestroika. However, as the most consistent supporters of perestroika and of out and out 'economic liberalisation', both East and West, have clearly understood, radical 'structural reform' cannot be fulfilled without a massive return to private property.

Without competition and the drive to private accumulation which it sets in motion the behaviour of the bureaucrats in the East will in essence never be like that of capitalist bosses. At best they will act like gangsters trying to legalise theft and extortion ('trying to go legit'). And if they embark on all out privatisation, which would mean making tens of millions of people unemployed in the USSR, they will have to break the resistance of the working class.

This proves that a genuine 'three way struggle' is still taking place in the USSR. It proves that, despite everything, workers still have at least two 'gains' from the October revolution to defend: more than half a century of uninterrupted full employment (which has never existed in capitalist society and never will exist); and the abolition of private property in large scale production, without which this full employment cannot be achieved.

By dogmatically and unrealistically defining the bureaucracy as a 'capitalist class' the SWP comrades are unable to grasp what is specific about the Soviet bureaucracy. The bureaucracy differs from the bourgeois class, indeed from all ruling classes in history, by virtue of the fact that the income of those classes (its portion of the social product) is variable, while that of the bureaucrats is fixed. The annual profits of the bourgeoisie depend on the annual fluctuations in profit and production. The annual feudal rent depended on annual fluctuations in the harvests. The annual income of the bureaucrat

depends on his (or her) position in the hierarchy. If that position does not change, the income does not change either, except marginally.

Hence the conservatism, inertia and 'irresponsibility' of the bureaucracy in stark contrast to the behaviour of the capitalist entrepreneur. The latter behaves differently not because he is 'more aggressive' or 'more rational', 'better' or 'worse' than the bureaucrat, or more of an 'individualist'. He does so because capitalist competition means that the struggle over the distribution of the mass of surplus value and profit is never eliminated, which means his share of it can never be guaranteed. If he slips up on the path of 'technological progress' or of 'labour organisation' the inevitable consequence will be a fall in his share, if not bankruptcy.

Nothing of what glasnost has come to reveal about the reality of the Soviet economy has had any light shed on it by the myths of 'state capitalism', myths which are only the reverse side of the Stalinist coin about the 'achievements of socialist industrialisation'. All can be explained in the light of the analysis made by Trotsky and the Fourth International of Soviet society and the Soviet economy, and of the analysis underpinning it of the specific nature of the Soviet bureaucracy.

Harman claims that nowhere in history has a section of the producing class been involved in the 'maximum extraction of surplus labour' from the producers themselves. Without doubt, the Soviet bureaucracy is an unprecedented phenomenon historically. But the October revolution and the creation of the isolated Russian workers' state were also new phenomena lacking historical precedent (the Paris Commune lasted only a few months). People with a scientific and undogmatic outlook should not be surprised if a new historical development throws up new and unexpected by-products.

Let us turn to the question of 'maximum extraction of surplus labour'. The proportion of working class consumption in the USSR is much bigger than in Brazil, to take just one example of a country engaged in accelerated industrialisation (not that of working class and middle class consumption put together: the middle classes consume ten times more than workers and account for 20 percent of the population).

Let us call to mind a simple analogy (which is not to say it is identical, just analogous). For any socialist or trade unionist in 1848 or 1890 the idea of socialist party leaders or reactionary trade union leaders acting so as to objectively increase the 'extraction of surplus labour from the producers' would have appeared literally unthinkable. Yet that is what social democratic leaders have done since 1914, and a good number of trade union leaders since even before that date. Should one therefore refuse to call social democratic parties workers' parties? Have they become bourgeois parties, identical with the Conservatives and the Liberals? Is it possible to engage in class politics in Europe or Japan without having to defend these parties against the bourgeoisie's attempts to weaken or even periodically crush them?

Must the mass trade unions under the leadership of reformist traitors be considered as yellow bosses' unions? The ultra left have long defended this absurd idea, which the SWP comrades reject as far as Great Britain is concerned. But why, if it is conceivable to defend the SPD against fascism, despite its being led by the Noskes, the assassins of Karl Liebknecht and Rosa Luxemburg, is it 'inconceivable' to defend the USSR against imperialism?

Chris Harman claims that two arguments we successively put forward about the bureaucracy are mutually incompatible. The first is that the bureaucracy is not a ruling class; the second is that it controls and distributes the bulk of the social surplus in the USSR. But this incompatibility yet again reflects a formalist, schematic and simplistically dogmatic manner of thinking.

There have been many cases in history where powerful social layers controlled and distributed the bulk of the surplus despite not being the ruling class. For to be a ruling class involves appropriating the surplus, which is not necessarily the same as controlling or distributing it. The mandarins at the height of the Chinese Empire and the imperial bureaucracy in the late Roman Empire were by and large in control of the centralisation and distribution of the social surplus. But for all that they were not the ruling classes in these two societies, because they did not appropriate the major share of the surplus. At the end of the Third Reich, the Nazi military bureaucracy

certainly controlled the distribution of what was produced socially. But it was in no sense the ruling class, since the bulk of the social surplus continued to be appropriated by the capitalist class. The events which followed showed who was master and who, despite the appearance of omnipotence, only carried out orders.

Future events will similarly demonstrate that the Soviet bureaucracy will only be able to become a ruling class by appropriating to itself the social surplus and the means of production, that is to say, by turning into 'old fashioned' capitalists who own a good chunk of the large scale means of production.

A Fear That Has Proved Groundless

When he decided to break with the interpretation of Soviet society formulated by Trotsky and defended by the Fourth International, Tony Cliff predicted that those who continued to call the USSR a bureaucratically degenerated workers' state would be led to capitulate to Stalinism, in particular to side with the bureaucracy against workers in revolt. (Incidentally, let us recall that as early as Stalin's death, if not from 1948 onwards, we predicted such revolts.)

Subsequent events have proved this prediction to be groundless. Neither the Fourth International, nor any of its sections, nor any of its leading representatives, has even once lined up 'on the side of the bureaucracy against the masses in revolt'. We all gave 100 percent support to the workers' uprising in the GDR in 1953, to the 1956 Hungarian revolution, to the Polish workers' struggles in the same year, to the Prague Spring's resistance in 1968–69 to the Soviet invasion, to the rise of Solidarnosc in 1980–81 and to its subsequent struggle against Jaruzelski's military coup in Poland, and to the uprisings in China and Eastern Europe in 1989.

Chris Harman recognises this, moreover. In embarrassment he falls back on the assertion that we nevertheless might have expressed a 'preference' for the Gomulka style method of reform in 1956 to that of the Hungarian revolution. This is slander. Harman will

not be able to find a single quotation to back up his accusation. We have been supporters of a political revolution – a revolution involving large scale independent mass action and self-organisation – ever since we began to take part in debates on the ‘nature of the USSR’ (i.e. since 1945–6), and remain so. We have never budged an inch from this position. But the reality of the political mass struggles in the USSR, Eastern Europe and like societies cannot be reduced to struggles between the masses and the bureaucracy.

In the USSR, Eastern Europe, China, Cuba and Nicaragua, the struggles of the last 50 years have also taken place between, on the one hand, these states and the masses in these countries and, on the other, the imperialist powers. The theory of state capitalism has been no kind of guide in these conflicts, to say the least. Its internal logic would necessarily lead one to view most of these conflicts as interimperialist and take an absentionist, ‘third camp’ position (which is what Cliff adopted in the Korean War and which at least some of his followers were tempted to do in the Bay of Pigs conflict). It is true that during the Vietnamese War he took a more correct position, but one in flagrant contradiction to the logic of the theory of ‘state capitalism’.

In these conflicts the popular masses of those countries, starting with the workers, did not remain neutral. They lined up against imperialism, despite their hatred of Stalin and his heirs. In practice they applied Trotsky’s line of military defence of the USSR (and the other bureaucratised workers’ states) against imperialism. They did so in the USSR, in Yugoslavia, in China, in Vietnam, in Cuba and in Nicaragua. In these confrontations, which involved tens of millions of workers, the attitude adopted by the few followers of the theory of ‘state capitalism’ was at best confused and contradictory, at worst plainly counterrevolutionary. If Soviet workers had had the misfortune to follow these false guides, none of us would be alive today and no independent workers’ organisation would exist in Europe, if not in other continents. The triumph of Nazi barbarism would have destroyed them.

The Vicious Circle of Sectarianism

The tendency led by Tony Cliff (from which the SWP came) has seen its main task ever since its birth as spreading the theory of 'state capitalism'. This is the characteristic mark of a sect as defined by Marx: in order to justify its existence it constructs a shibboleth out of a particular doctrine and subordinates its activity to the defence of that shibboleth.

This sectarian deviation has its own logic from which it is almost impossible to escape. In Britain itself the SWP comrades have been partially protected from the worst sins of sectarianism because of their real roots in the working class and because of the size of their organisation: any type of irresponsible behaviour is impossible when acting under the critical gaze of thousands. But even in Britain the sectarian frame of mind has damaged and continues to damage the SWP, particularly in its approach to those mass movements which it considers 'non-proletarian' and carelessly dubs 'petty bourgeois'. This derives from the same inability to grasp the notion of combined development which arises as a transitional phenomenon, particularly in the sphere of class consciousness. It is the same 'all or nothing' attitude which lies at the heart of the theory of 'state capitalism'.

Sectarianism has especially damaged the SWP's international work in another way. The theory of state capitalism means that it is powerless to grasp the full progressive dynamic of the mass anti-imperialist movements in the Third World. According to that theory, these movements can only lead in the end to the creation of new state capitalist states. Their dynamic is a purely 'nationalistic' one. The entire strategy of permanent revolution – total support for the anti-imperialist struggle while fighting for the political class independence of the proletariat; a struggle for proletarian hegemony inside the movement; striving to ensure that in solving its national-democratic tasks the revolution grows over into making a start on solving its socialist-proletarian ones – is in fact rejected or minimalised by the leadership of the SWP.

In other imperialist countries besides Britain, the followers of the SWP mostly content themselves with forming grouplets to propagate the theory of state capitalism, which are incapable, if only because of their tiny size, of intervening in genuine class struggle. Sectarian interests take precedence over class interests. The same applies in the states of Eastern Europe, which are in complete social and political turmoil. In the *Communist Manifesto* Marx and Engels provided the classic definition of what communists have to do:

They have no interests separate and apart from those of the proletariat as a whole.

They do not set up any special principles [in the 1888 English edition Engels preferred to insert 'sectarian principles'] of their own, by which to shape and mould the proletarian movement.

The communists are distinguished from the 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 front the common interests of the entire proletariat, independently of all nationality. 2 In the various stages of development which the struggle of the working class against the bourgeoisie has to pass through, they always and everywhere represent the interests of the movement as a whole.

The Communists, therefore, are on the one hand, practically, the most advanced and resolute section of the working class parties of every country, that section which pushes forward all others; on the other hand, theoretically, they have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions, and the ultimate general results of the proletarian movement.

The SWP is no different from the Fourth International when it comes to 'understanding the line of march, the conditions, and the ultimate general results of the proletarian movement' in Eastern Europe and

the USSR: the proletariat organises itself to conquer power through multiparty, democratically elected Soviets, with the perspective of constructing a classless society internationally.

But the followers of the SWP do not draw the obvious conclusion that a separate organisation of state caps is unjustified in these Eastern European countries. They do not see that the task of any revolutionary there is to help advanced workers and intellectuals battle on two fronts, against the bureaucracy and against restorationist forces. Instead of defending the interests of the proletariat as a whole, which above all demands the (re)creation of class independence (no easy matter), the followers of the SWP concentrate on stirring up an artificial distinction from every other revolutionary current – a distinction exclusively based on acceptance of the dogma of ‘state capitalism’, their sectarian shibboleth.

That can only reinforce the image of revolutionary Marxists as scholastic dogmatists, as hopeless ‘splitters’, which first Stalinists and then neo-Stalinists and neo-social democrats have systematically spread in these countries in order to discredit revolutionary Marxists (and increasingly these days Marxism itself). This image is counterproductive. It weakens the real possibilities that Marxists have in these countries, not to found sects, but to become the major pole of attraction for the militant left inside the workers’ movement as it reconstructs itself.

Fortunately the negative effect of this will remain limited, both because of the theoretical, political and organisational strength which the Fourth International has already gained (its influence is real there in a way that the SWP’s is not), and because of the understanding and experience that the best indigenous forces springing up in those countries have progressively accumulated that the role played there by the SWP clearly illustrates the negative repercussions of sectarianism.

This sectarianism has made the SWP incapable of making any progress towards the construction of an international organisation. Sects can only link up with mini-sects which they closely control. Organisationally, their sectarianism prevents them linking up with substantial, autonomous revolutionary bodies in an important

number of countries. Politically, this is because they fail to understand the real process of mass struggle in most countries in the world. The SWP is essentially, then, a national-communist organisation, which is forced to fob its members off by trying to create grouplets in a few countries.

After 40 years experience our record in this respect cannot be faulted. The Fourth International exists for real as the one and only world organisation. It is, of course, still small, too small, and is far from being the mass revolutionary international for which it is working and of which it will constitute just one element. However, it is much stronger than in 1938 or than in 1948, both in numbers, in rootedness in the workplace and unions, and in geographical terms. It exists in 50 countries or so. Some of its sections and sympathising organisations play a genuine part in the workers' movement and the mass movement in their respective countries, which is recognised by all. It acts and will continue to act in a non-sectarian fashion, on the basis laid down above in the *Communist Manifesto*.

It can do so because it represents the one current in the international workers' movement which takes on the unconditional and uncompromising defence of the interests of the workers and the oppressed in the three sectors of the world revolution – the imperialist countries, the countries under bureaucratic dictatorship and the so called Third World countries – without anywhere subordinating this defence to any supposed 'priorities'. This is what allows the building at one and the same time of national revolutionary organisations and of an international revolutionary organisation. In this respect, an understanding, based on the theory of permanent revolution, on the Trotskyist analysis of Stalinism, on *The Transitional Programme* and on the 'dialectic of the three sectors of the world revolution', of what has happened, and is happening in the USSR, in the Third World and in the organised workers' movement in the imperialist countries, has proved both operational and effective.

Notes

1. Bordiga, who advanced a different variant from Cliff's about 'state capitalism' in the USSR, predicted that a general crisis of overproduction was going to occur in that country. He even announced the precise year in which it would break out. The year came and has long since gone. The general crisis of overproduction in the USSR is still awaited ...

2. The SWP comrades did not at all predict the overproduction crises of 1974–75 and 1980–82. We did so almost to the year in which they broke out.

3. It is another matter to know what period of time is needed for the process to have some chance of completion.

4. See the perfectly clear statement by Trotsky in *The Soviet Economy in Danger* (1932).

5. It would be better to add, the triple or quadruple pricing system, for account must be taken of black market prices and of the 'prices' (comparative advantages) of the 'grey market' (exchange of services).

6. In addition the growing importance of the mass liberation movements in the colonial and semi-colonial countries from 1925–28 onwards should be included.

7. Written in 1960, *Marxist Economic Theory* (first edition, Merlin Press), p. 598: 'At the same time the rates of industrial expansion had to be reduced', *ibid.* (second edition, 1969).

8. Aganbegyan claims that there was one year of absolute decline in production under Brezhnev. This is contradicted by every other source.

9. Complete and permanent monopolies are impossible under capitalism. The very divergence between their rates of profit and those in other branches inevitably attracts capital towards the sector that has been monopolised.

10. The Lambertists believe this.

11. We devoted one entire chapter in *Late Capitalism* to developing this idea.

12. This is the 'rational kernel' of Keynesian and neo-Keynesian theories, which in every other respect are wrong.

Chris Harman
Criticism Which Does Not Withstand the Test of
Logic
A Reply to Ernest Mandel
(Winter 1990)

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The coincidence of economic crises East and West present revolutionary Marxists with a great challenge. The old Stalinist ideology which dominated so much of the workers' movement in the West and the Third World has collapsed. Its collapse has left a vacuum which the opponents of Marxism and of class politics are trying to fill with claims that 'the market' offers the only way forward for humanity. Such claims receive encouragement from the reaction of very large numbers of workers in the countries of the former Eastern bloc to the economic crisis that besets them: believing the old order to be some variant of socialism they themselves reject talk of socialism and turn towards people like Walesa or Yeltsin who preach the wonders of Western capitalism.

There is only one way for revolutionary socialists to meet this challenge. It is to provide an analysis of the world system which

shows the interaction between crisis in the East and crisis in the West. Unfortunately, Ernest Mandel fails to do this.

His account of modern Western capitalism is simplistic in the extreme. He presents us with a precis of what he claims was Marx's account 120 years ago in *Capital*. He tells us that under modern capitalism:

The organisation of labour depends in the first place on the private decisions of the factory owner, which are then corrected by competition, by the market. He has to submit to these corrections or face extinction. Under capitalism there is only one measure of performance – profit ... It is post-sales profits that determine everything. The capitalist economy is based on profits, and profit can only be realised and measured in the form of money. Capitals move out of enterprises and sectors below average profit into those of above average profit ...

At the first sign of a loss or of below average profits he (the capitalist) attempts to change the way production is organised... The law of value only rules any economy insofar as it is one of generalised commodity production, that is, one in which labour is basically private labour.

This account is not, of course, completely wrong. But it is hopelessly inadequate when it comes to dealing with the empirical reality of the system since Marx's time. To deal with that you cannot simply talk in terms of 'private decisions' made by the 'factory owner'. You have to analyse what happens as monopolies come to dominate the national economy, when there is the nationalisation of productive sectors of the economy, when 'peaceful' competition for markets gives way to military conflict between capitalist states, when states override the workings of the law of value inside their economies so as to ensure expansion of the sectors vital for military success.

It was precisely these issues which Lenin and Bukharin began to confront with their writings on imperialism. [1] Their writings took for granted Marx's account in *Capital*, but saw the need to build on it.

Far from simply talking about ‘competition for markets’ they recognised that capitalism was beginning to go beyond this stage of its history (already, in 1915 and 1916!). Mandel, by contrast, is content to stick with his summary of Marx, without even referring to what Lenin and Bukharin wrote 75 years ago!

If that is not enough, he dismisses out of hand those of us who have attempted to build on their insights for accepting ‘the myth of “organised capitalism” and Hilferding’s “Generalkartel”’. Yet Engels could write, more than a century ago:

When we move on to the trusts which control and monopolise whole branches [of industry] then that means an end not only to private production but also to planlessness. [2]

Presumably, he too accepted ‘the myth of organised capitalism’. Presumably Lenin did also, when he wrote a very favourable introduction to Bukharin’s *Imperialism and the World Economy*, with its insistence (already in 1915) that, ‘Competition is reduced to a minimum within the boundaries of “national economies”’ but ‘flares up in colossal proportion’ as ‘the struggle between state capitalist trusts’, a struggle which ‘is decided in the first place by the relation between their military forces’. [3] Finally, presumably Trotsky made the same mistake when he wrote, in *The Manifesto of the Communist International to the Workers of the World*:

The statisation of economic life, against which the capitalist liberalism used to protest so much, has become an accomplished fact ... It is impossible to return not only to free competition but even to the domination of trusts, syndicates and other economic octopuses. Today the one and only issue is: Who shall hereforth be the bearer of statised production – the imperialist state or the victorious proletariat? [4]

Lenin, Bukharin and Trotsky all recognised that once capitalism enters its monopoly, imperialist, phase it is dominated by gigantic concerns which certainly do not organise the processes of

production inside them on the basis of exchange of commodities at market prices, but by a planned interaction of inputs and outputs. It is something of which those who today run the giant corporations are only too aware. So a recent account of the workings of South Korea's giant *chaebol* conglomerates can tell:

The performance of Korea's big businesses cannot be measured by profitability, because profit data are manipulated, nor can it be measured by volume of exports, which may merely reflect subsidisation. Good performance must be measured by physical indicators of production and operations management – say, productivity, quality and inventories, as well as changes in export values. [5]

Inside the firm there is a form of 'planning', often running counter to the relations between commodities which would follow from the law of value.

What is true inside the giant firm is just as true inside the enormous military sectors of modern states – which during the two world wars came to dominate virtually the whole of each national economy. Even when the state does not produce arms directly, it ensures that private contractors are paid on a 'cost plus' basis, thus keeping them in business regardless of whether this involves subsidising unprofitable sectors of the economy at the expense of more profitable ones. No modern state allows the internal workings of the market – of the law of value – to destroy its ability to wage war.

But this is not the end of the matter. The law of value which is banished from the internal operation of the giant corporation or the military preparations of the state, nevertheless exercises a vital determining force on them from the outside. The direction which this 'planning' takes is not an arbitrary one. It has to enable each giant concern to compete with others – in military or economic terms – in the long run.

A giant corporation which cannot make an overall profit on the sum total of its transactions, profitable and unprofitable combined, will eventually go out of business. A national state which does not

use its resources in such a way as to enable it to outshoot its rivals will eventually risk military defeat.

External competition determines the parameters according to which the 'planners' inside each concern operate. It is this external competition which forces managements to worry continually about their internal production costs, that is, to try to impose the law of value on the various production processes under their control.

But, of course, the vagaries of external competition continually make nonsense of the attempt at internal planning, upsetting old cost calculations, compelling managements to enlarge certain production facilities much more than was 'planned' and to leave others half finished. Attempts at 'organisation' within the national economy are continually disrupted by competition at the international level. And that does not just mean economic competition for markets. It also means the form of competition typical of the epoch of imperialism, military competition.

Mandel's Myths About the East

Mandel's mythical account of the functioning of modern Western capitalism is followed by a mythical account of what has happened inside the Eastern states. He argues that:

In the USSR the key essential investments are not distributed by the law of value. They are decided by the bureaucracy, mostly at state level. It is a planned economy, planned as far as direct allocation of resources is concerned. For 70 years, loss making enterprises required large subsidies and have received preferential allocation of productive resources. These have been systematically diverted from 'more profitable' enterprises or sectors. Such phenomena are unthinkable under capitalism and the law of value.

So it was that 'from 1928 onwards ... growth really was regular and uninterrupted ... unlike the capitalist economy, the USSR has experienced no recession, no crisis of overproduction leading to an absolute fall in production from more than half a century.' Finally, although 'the rate of growth began to fall about 20 years ago' and 'this fall may become "zero growth" ... there is no law making it inevitable'.

If there is a dynamic in the economy of the USSR, he argues, it is certainly not the one to which the theory of state capitalism points, of accumulation of means of production, since much of this accumulation turns out to be waste goods. 'Here we have the secret of the command economy: it is Department III which is over expanded, not Department I.'

This is proved, he claims, by the way the USSR's agriculture is so unsuccessful, although 'the USSR is the biggest producer of chemical fertiliser in the world', producing 'nearly as much as the USA and Western Europe put together'. Apparently 'more than half the fertiliser is lost in transit'. 'Such wastage has nothing to do ... with any drive to accumulate capital.'

Let's look at each of his claims in turn. First, the claim that growth has been 'regular and uninterrupted' is refuted by the most perceptive East European economists. They long ago recognised that the development of the Stalinist command economies has been cyclical in character, repeatedly creating crisis situations. And the fluctuations in the course of the cycles have often been greater than those which the Western economies experienced during the long boom of the 1950s and 1960s. As the Czechoslovak economists Goldman and Korba told in 1969:

Analysis of the dynamics of industrial production in Czechoslovakia, the German Democratic Republic and Hungary supplies an interesting picture. The rate of growth shows relatively regular fluctuations ... These fluctuations are even more pronounced if analysis is confined to producer goods. [6]

These fluctuations were substantially greater for Czechoslovakia in the 1950s and 1960s than for France. In the period 1966–74, the difference between growth rates in minimum growth years and maximum growth years averaged 50 percent for East Germany, 100 percent for Bulgaria, 130 percent for the USSR and 228 percent for Poland.

A Western academic study 20 years ago, showed that such unevenness was already visible in the Soviet Union at the time of the First Five Year plan. [7] We now know, from post-perestroika Soviet accounts, that the massive expansion of industrial output in the early plan years led in 1932–33 to an exhaustion of food supplies and a famine which killed more than 5 million people, mostly in the Ukraine and Kazakhstan.

What is more recession – negative growth – was not completely ruled out in the way that Mandel claims: it occurred in Yugoslavia in 1951–52 and 1967, and in Czechoslovakia in the early 1960s. And it is occurring in the USSR today (October 1990), *before* reforms intended to introduce Western style market mechanisms.

In the early 1970s the Yugoslav economist Branko Horvat was able to publish a book called *Business Cycles in Yugoslavia* [8] which pointed out that even before the market reforms of 1968, the Yugoslav economy was ‘significantly more unstable’ than ten other economies that were cited, ‘including the United States’. [9] The very title of the book should have been an impossibility according to Mandel.

Today, of course, Mandel no longer repeats his old claim that crises cannot occur in the Eastern states: he can hardly assert that the whole Russian leadership are wrong when they point to such a thing. But he does still insist:

If there is a crisis ... it is one of underproduction of use values (of scarcity) and not of overproduction of exchange values (of commodities). To claim that the first is only a variant of the second is a gross fallacy. An empty shop is not ‘a variant’ of a shop stuffed with unsellable goods.

It simply is not good enough to assert that because two things are opposites they can have no connection with each other. As a Marxist, Mandel should understand that much. In fact, 'overproduction' is, according to Marx's analysis, only one moment in the development of the internal contradictions of capitalism. That is why Marxists could continue to insist on the reality of these contradictions throughout the long boom when generalised crises of overproduction did not materialise in many Western countries. [10]

As Marx points out in volume III of *Capital*, overproduction of commodities is a by-product of something else – overproduction of capital. But this is not some absolute overproduction in relation to the needs of society – which can always be expanded and, in fact, are never fully satisfied when 'overproduction' arises. It is overproduction of capital – overaccumulation – in relation to the surplus value being pumped from the workforce.

Marx spells out how overproduction comes about. At a certain point in any boom the competitive drive of capitalists to invest leads to a drying up of existing supplies of raw materials, labour and loanable capital (ie non-invested surplus value). The prices of all these things – commodity prices, money wages and interest rates – begin to rise until the least profitable firms suddenly find they are operating at a loss. Some go out of business. Others survive, but only by abandoning planned investments and closing down factories. Their actions in turn destroy markets for other capitals, forcing them to abandon investments and close down factories. The 'excess demand' (Mandel's 'underproduction') of the boom gives rise to the overproduction of the slump. But the slump, in turn, prepares the way for a new boom by raising the proportion of surplus value to capital: on the one hand, some capitals are driven out of business reducing the total stock of capital; on the other, slump conditions allow capitalists to increase the rate of exploitation and to enter a new cycle of accumulation with a greater amount of surplus value.

The secret of the Western long boom of the 1940s, 1950s and 1960s lay in the way the national state could reduce the pressures leading to over-accumulation (by diverting a portion of capital into non-productive, military channels), take direct action to try to

maintain a high rate of exploitation (through wage controls etc.), intervene to slow down the boom before it led key firms to become unprofitable and maintain a minimum guaranteed level of demand through military orders. The state monopoly capitalist arms economy was not able to do away with the cyclical pattern of capitalist accumulation. But it was able to prevent it leading to slumps of the pre-Second World War sort.

The situation was very similar with the Stalinist command economies of the Eastern states. As in Marx's picture of capitalism there was over-accumulation. The attempt to compete with bigger and more advanced foreign capitalisms led to a scale of investment in excess of the surplus available within the national economy. And the overaccumulation led to a cyclical pattern of development, involving crisis. Attempting an excessive level of investment inevitably led to growing shortages of raw materials, intermediate components and labour.

Bottlenecks arose throughout the economy, threatening the closure of vast sectors of production through shortages of inputs. Output never rose nearly as rapidly as planned. The monetary funds paid out by enterprises for materials and labour exceeded the output of the economy, giving rise to inflationary pressures which found direct expression as price rises or 'hidden' expression as acute shortages of goods in the shops.

Left to itself, the crisis of excess demand – the product of excess accumulation – would eventually have spilled over into the wholesale closure of enterprises and the destruction of the markets for the output of other enterprises. It would have become a crisis of overproduction of commodities. But as in the West in the long boom, the state stepped in to try and pre-empt this by 'cooling down' the economy. It ordered enterprises to 'freeze' certain investments and to divert resources to others. This involved factories suddenly switching from one sort of output to another. The myth of the pre-planning of production – a myth which Mandel still accepts when he speaks of 'a priori allocation' – gave way to the reality of after the event, 'a posteriori', allocation, with a repeated shifting of inputs and outputs.

One plan target which always suffered in the process was that for consumer goods production. Directly cutting into 'wage fund goods' released resources for completing other investments. The balance between investment and surplus value was restored, in part, by physically limiting consumption levels so as to raise the rate of exploitation. The result, of course, was to increase still further the discrepancy between the funds laid out by enterprises on wages and the goods available for these wages to buy – to increase open or hidden inflation.

Overall, the economy was subject to periodic crises, even if these did not express themselves exactly in accordance with Marx's model.

But that is not the end of the matter. Mandel is wrong in his second contention, that there was even growth until '20 years ago'. In fact, all the Eastern economies suffered for decades from a long term trend for average growth rates to decline. And this was not, as Mandel claims, something which only became visible in the course of the 1960s. Official USSR figures give the following growth rates:

<i>Average annual growth of national income produced</i>	
1951-55	11.3 percent
1956-60	9.2 percent
1961-65	6.5 percent
1966-70	7.8 percent
1971-75	5.7 percent

Other authoritative estimates show lower average growth rates, but the same trend. [11]

The difficulty in attaining the old rates of growth were certainly clear to the Soviet leaders as early as December 1956 when, for the first time, they abandoned a peace time 'plan' for being 'too taut', that is, for setting impossible investment targets. As one of the standard Western academic works on the Soviet economy notes, 'a slowdown in growth became quite noticeable after 1958'. [12]

Khrushchev's repeated and unsuccessful attempts to reorganise the economy in the mid-1950s and early 1960s (his 'hare brained

schemes', as they were called in the Brezhnev years) arose precisely because of these economic failings. Yet Mandel's theory led him to deny the reality of such failings at the time, and leads him now to claim that it was not until '20 years ago' (i.e. in 1970, not the mid-1950s) did 'the rate of growth began to fall'!

By contrast, whether Mandel was aware of it or not, Tony Cliff's theory did enable him in the mid-1950s to locate the economic problems behind Khrushchev's failures. [13]

When it comes to the present, Mandel's claims are even more amazing. He tells us that although the decline in Soviet growth rates 'may become zero growth ... there is no law making it inevitable'. In fact, while he was writing these words in the early summer of 1990, there was already not just 'zero growth' in the USSR, but the beginning of a sharp decline in total output. By October 1990 Tolkushin, the deputy chairman of the USSR state committee for statistics, was announcing, 'During September, by comparison with September of last year, industrial output was down by 3.1 percent.' [14]

The question Marxists have to be able to answer is how this economic contraction came about. And it is not good enough to try to duck that question by saying it was 'not inevitable'. That is to put yourself in a no better position than apologists for Western capitalism who claim that recessions are 'not inevitable' but just a result of mistakes in economic policy, without saying from where those mistakes come.

Mandel's claim that there cannot be accumulation because there is waste, is amazing. He would have us think there is not great waste in the West! In fact, calculations of waste in the West, whether by muck rakers of the Vance Packard school, by Baran and Sweezy [15] or by Mike Kidron [16] suggest that it exceeds the '30 or 40 percent of available productive resources' of which Mandel talks in the case of the USSR.

The claim that the USSR is a uniquely wasteful economy has long come from a group of theorists around the magazine *Critique*. They hold that the USSR is neither socialist nor capitalist. More recently, it has been taken up by many East European economists

and political leaders who see it as justifying a turn towards an untrammelled market model which, they believe, exists in the West.

But, as Mandel himself used to recognise (in debate with *Critique* editor Hillel Ticktin), it is not a contention that can stand up to even the most cursory historical examination of the Soviet economy. For between the late 1920s and the 1960s the USSR did 'catch up' with the Western economies sufficiently to become the world's second economic power. It could not have done so if it was only the waste sector of the economy, Department III, which grew.

In fact, as every serious study of the USSR has concluded, there was massive growth of the means of production, of Department I. The ability of the USSR to defeat Nazi Germany and then to match the US in the arms race (at least until recently) was testimony to this: although things like tanks, atomic submarines and nuclear missiles are part of Department III, they cannot be produced unless there exists a huge, productive, heavy industrial sector. And that requires a massive accumulation of means of production, a massive growth of Department I.

What is more, Mandel is completely wrong to say such accumulation could not be the cause of waste. The forced growth of heavy industry in the Stalin years could only take place because other sectors of the economy, especially those providing for the living standards of workers, were systematically robbed of resources. So under Stalinist 'collectivisation' there was a very low level of investment in agriculture, and those who worked the land did so for minimal wages. They survived mainly on the potatoes they grew on their own dwarf private plots, while the state took from them virtually all the grain to feed a burgeoning industrial workforce in the cities – and in the worst famine years of the 1930s, to export to pay for machinery imports.

In the first two decades after Stalin's death there were repeated attempts to improve the situation in agriculture, but every increase in military tension with the US led to a diversion of resources to heavy industry and armaments and away from rural investment.

Khrushchev's failure to improve agricultural output substantially was an important factor in bringing about his fall in 1964. Yet those

who overthrew him were unable to pour the resources into agriculture which they at first promised: tractor and truck output in 1970 was only about half that laid down in the 1966–70 ‘plan’, while fertiliser output was about 30 percent under target. [17] As Brezhnev’s statisticians explained:

Owing to the international situation it has not been possible to allocate as many resources as intended to agricultural investment and whilst the 1969 figure exceeds that for 1968, it is below that envisaged in the directives for 1966–70. [18]

The cumulative result of the low level of agricultural investment was a continual haemorrhage of young workers from the countryside until it was populated mainly by old people, and a failure to build an infrastructure of roads, storage equipment and so forth. So even when the regime did, out of desperation, boost agriculture after the grain crisis of 1972, it lacked both the skilled, motivated workforce needed to take advantage of the most modern methods and the facilities for shifting the crop in the years when there was a good harvest. [19]

And once ‘dÃ©tente’ gave way in 1979–80 to the second Cold War, agricultural investment was again sacrificed for industry and the arms budget: the capital stock in agriculture grew faster than that in industry between 1971–80, only to fall behind again in 1981–86. [20]

Mandel’s example of fertiliser illustrates the point very well. The diversion of resources from investment in fertiliser plants to heavy industry meant that in 1968 Soviet agriculture was using only 62 kilogramme of fertiliser per hectare, as against 227 kilogramme per hectare in the US and 766 per hectare in Britain.

Of course, waste contributed to the low Soviet level, but it was not the *main* cause. And what is more, the waste itself could be a by-product of the forced accumulation – as when the pressure to switch resources to ‘priority’ heavy industrial projects prevented the completion of a factory which was due to produce bags to carry increased fertiliser output, leading to much of it going to waste. [21]

Today, 20 years on, total mineral fertiliser consumption has indeed overtaken the US figure, as Mandel states. But he is grossly ill informed if he believes it is 'nearly as much' as that of 'the USA and West Europe put together'. Soviet consumption in 1986 was 23.08 million tonnes, combined US and Western European consumption 41.07 million tonnes. [22] The amount of fertiliser per hectare of arable land is only slightly higher than the US figure, although the innate average fertility of US land is considerably higher than that of Soviet land (although there is about the same amount of arable land in the USSR as the US, most of it lies in more northerly latitudes) and much Soviet fertiliser is low grade. [23] But, most significantly, low levels of agricultural investment mean there are 40 percent fewer tractors in the USSR than the US, making it much more difficult to transport and spread fertiliser without wastage. [24]

So inferior fertiliser is used on less fertile land by a workforce which has lost most of its younger, skilled members to the towns and heavy industry. And that fertiliser has to be distributed by an inadequate tractor fleet across a vast area of countryside lacking even the most minimal investment in roads and storage facilities. It is not surprising that Soviet agriculture remains much less productive and much more wasteful than that in the US. But you cannot see why unless you recognise the way in which the economy as a whole is dominated by the drive to accumulate.

But Mandel does not just accept fashionable 'new class theorist' arguments about waste. He also repeats arguments which used to be the basis of Stalinist apologetic for the Eastern states.

So he claims that 'unemployment has played no role in the USSR for more than half a century'. This 'gain from the October revolution' is something 'which has never existed in capitalist society and never will'. Yet the Soviet press has admitted in the last year to high levels of structural unemployment in whole regions of the USSR. *Pravda* has told that in 1986 there was 27.6 percent unemployment in Azerbaijan and 18 percent in Armenia [25] and *Moscow News* has spoken of 6 million unemployed in the Asiatic republics. [26] Even in its early, centrally directed version, perestroika included the sacking of workers by technologically backward factories. So a spring 1990

estimate by *Izvestia* of total Soviet unemployment of 8 million could be correct [27] – even though it would mean an unemployment rate in the USSR similar to that in a Western capitalist country like the US [28] and considerably greater than that of Japan!

More incredibly, Mandel claims that ‘the proportion of working class consumption in the USSR’ is ‘much bigger’ than in other countries with a similar level of economic development. In fact, it was possible last year for one of the heads of the official, state run unions to declare that ‘the proportion of the wages’ fund of workers and office workers in the country’s national income, at 35 percent, is considered one of the world’s lowest’. [29] He may have been exaggerating. But if Mandel is going to claim the proportion of workers consumption is ‘much bigger’ than in comparable countries elsewhere in the world, he had better provide some evidence.

Even more astonishing, however, than Mandel’s propensity to indulge in apologetics that even the Stalinists themselves have abandoned, is his ability to contradict himself over something which is central to his whole understanding of how the Soviet economy has functioned. ‘We have never defended the thesis’, he writes, ‘that the economic development of the USSR is dominated by the production of consumption goods for the bureaucracy.’ Yet only two paragraphs later he argues:

In order to preserve and extend its privileges the Soviet bureaucracy ... has to develop the economy up to a certain point ... Without car factories 3 million middle and top bureaucrats cannot acquire cars. Without enough steel, electricity or iron ore, the car industry cannot be developed satisfactorily.

If this is not saying that the bureaucracy’s need for consumption goods is the driving force of the economy, what is it saying?

He then goes on to see this drive for bureaucratic consumption as responsible for both the fast rate of economic growth under Stalin and its slower growth more recently:

For as long as the shortage of consumption goods kept them thirsty for more, the bureaucrats were fanatical about accumulation, about 'production for the sake of production' and about 'technological progress'. But as soon as the *nomenklatura* as a whole had reached a satisfactory level of consumption, this thirst began to disappear.

I can only explain such contradictory utterances in one way. Mandel momentarily grasped the stupidity of trying to explain in terms of the consumption needs of the bureaucracy an economy, like the Soviet one, characterised by a massive tendency for heavy industry to expand. But then he slipped back into his old explanations, for the only rational alternative would have been to locate the drive to accumulate in terms of competition with the West. That would have driven him to accept the contentions of the theory of state capitalism. He preferred to contradict himself than to travel that path!

There is a close connection between Mandel's theoretical starting point and his factual errors. Because he refuses to recognise the fundamental forces behind economic development in the past, Mandel cannot grasp the scale of exploitation of the Soviet workers, the crisis ridden cycle of economic development, the coexistence of labour shortages in parts of the USSR alongside vast pools of unemployment in other parts, the long term decline in the growth rate, and the sudden outbreak in recent years of generalised crises which have made 'inevitable' a fall in output and a catastrophic contraction of the economy.

By contrast, those of us who see the USSR as state capitalist have long recognised the way things are going. Tony Cliff *did* in 1948 locate the main factors leading the Soviet economy inexorably from the dynamism of the Stalin years to eventual economic crisis and he *did*, in the mid-1950s, spell out how this damned the Khrushchevite dream of reform. I myself pointed out 15 years ago how the long term decline in growth rates made it increasingly difficult for state planners to resolve the cyclical crises caused by overaccumulation.

[30]

It became more and more difficult for the state planners to find the resources needed to overcome bottlenecks in the economy. Growing sectors of the economy simply could not get the inputs they needed to turn out goods for which there was demand; other sectors produced goods which were stockpiled on a massive scale, since they were intended as inputs for investments that had been abandoned. 'Underproduction' in certain sectors of the economy (particularly 'wage goods' sectors) was accompanied by 'overproduction' in other sectors (particularly certain 'capital goods' sectors). The central planners could no longer prevent a physical decline in output and open inflation on a massive scale. This point was already reached in Poland in 1979–80 and has now been passed in the USSR, Bulgaria and Romania as well.

Those who ran the economy were driven to try to deal with bottlenecks by turning to the international economy. Cyclical crises in East Europe always led to foreign trade deficits as well as to inflationary trends. And in the 1970s Poland and Hungary turned to the world economy on a massive scale, seeking funds from the West for accumulation and expecting to repay them by sales on Western markets. In the 1980s the USSR and Bulgaria responded to internal crisis by beginning to move in the same direction, on a scale that has only become clear with official revelations over the last year.

But even if the turn to the international market provides temporary relief from the internal crisis (as it did in Poland in the early Gierek years, 1971–75), this soon gives way to aggravation of the crisis. The bureaucracy has to cope with the ups and downs of the world economy as well as the ups and downs of the internal economy. And the need to repay foreign debts forces the bureaucracy to worry lest the internal ratio of surplus value to investment (the rate of profit) falls below the international average.

The internal dynamic of bureaucratic state capitalism leads it into a crisis from which it tries to escape by opening itself up to the world market. But that opening reduces still further its ability to employ old mechanisms for coping with the effects of the internal crisis. Economic contractions do, indeed, become 'inevitable'.

State Capitalism in the West

There is a final, very important, theoretical point that escapes Mandel's understanding. The loss of the state's ability to suppress certain symptoms of economic crisis in the last two decades is not something unique to the Eastern states. There has been similar change throughout the West and the Third World.

The merger of the state and capital had been a trend throughout the world capitalist system between the 1930s and the 1970s, of which what happened in the Eastern states was the most extreme expression. In country after country there had been, for a longer or shorter period, the direct domination by the state of whole sectors of productive industry, the growth of an enormous military sector, the subordination of much of the economy to the dictates of military competition, and the overriding of the play of market forces by state direction.

The role of the state, and of military expenditure in particular, had influenced the way in which the crisis of the system expressed itself. In looking at capitalism during the 'long boom' of the 1940s, 1950s and 1960s it had not been good enough *simply* to talk in terms of a 'crisis of overproduction' (as Mandel does). This was not the characteristic form of economic crisis in the West. In Britain, for instance, there was no generalised recession, no fall in economic output due to lack of markets, between 1940 and 1971. What occurred was 'stop-go' – repeated intervention by the state to reduce 'excess demand' ('underproduction') and to head off inflation and balance of payments deficits.

There was in those years, as Tony Cliff pointed out at the time, a great similarity between the sort of economic crisis experienced in the advanced Western states and that experienced under Stalinism:

It can be shown that the process that leads to contradictions in the permanent war economy – subordination of means of consumption to means of destruction, the appearance of crises of underproduction, of disproportions between branches of the

economy, lack of raw materials, etc, etc – are equally applicable to Western capitalist countries and to the ‘socialist’ third of the world. [31]

But all this had begun to change by the early 1970s. The state capitalist arms economy began, inevitably, to be undermined by the very economic expansion it had brought about. The forces of production began to grow beyond the bounds of national states as never before. World trade grew faster than world output, and production itself was increasingly organised internationally. Capitalists were forced to operate internationally or, at least, to link up with other capitalists internationally, if they were not to lose out in terms of technological advance and competitiveness. And states which did not recognise this found the economies over which they presided in relative decline.

There was an ‘opening up’ to international investment and the world market of partial state capitalisms as varied as Argentina and Brazil, Spain and Ireland, South Korea and Egypt. And the internal economies of the established Western capitalisms were increasingly ‘restructured’ in accordance with a changing world division of labour.

These changes meant that the state began to lose its ability to suppress symptoms of crisis, to stop overaccumulation of capital (the ‘crisis of underproduction’) giving rise to a crisis of overproduction. Hence the generalised recessions of the mid-1970s and early 1980s. [32] Hence the sudden discovery by numerous Western and Third World states that the old ‘Keynesian’ methods or ‘import substitutionist development strategies’ could no longer work.

The same considerations were increasingly affecting the Eastern states as well. The old response to the bottlenecks and inflationary pressures arising from ‘overinvestment’ had been to shift resources from ‘non-priority’ to ‘priority’ sectors of the economy. But declining growth rates, on the one hand, and the increasing proportion of output dependent on international trade on the other, reduced enormously the resources that could be moved in this way. The strain on resources prevented many enterprises in ‘priority’ and ‘non-priority’ sectors attaining old output levels, let alone the new ones

specified in the 'plans'. The economy as a whole stagnated, or even began to decline, while shortages of consumer goods and even some producer goods proliferated. The state capitalist command economy had entered a period of generalised crisis.

For a time those who ran the state tried to ward off the growing crisis through 'reforms' ('acceleration', then 'perestroika', then a gradual introduction of market mechanisms). But reforms simply could not work and the whole of society drifted to social and political as well as economic crisis. At this point a section of the ruling class came to believe they had no choice but to allow the crisis to run its course, to allow enterprises to compete directly with each other for resources which were in short supply, even though this could only lead to the internal economy going into recession on a scale not experienced by the advanced Western countries since the 1930s.

Such a recession represents the transformation of an economy of shortages, of 'underproduction', into an economy of overproduction. That is why factories in Poland are shutting down because they cannot sell their output, and why foodstuffs are piling up in the countryside while growing numbers of people go hungry. Whether Mandel understands it or not, the dialectic of state capitalist development transformed the nearly empty Warsaw shops of 1989 into the Warsaw shops of 1990, overfull of goods that working people could not afford to buy.

It is similar shock treatment that Gorbachev says he intends to apply, under the Shatalin programme, to the USSR. I have argued at length in previous articles that the road of the market and recession will not solve the problems of the bureaucracy, and that, as in the West, the attempt to follow this path will be accompanied by continuing splits inside the ruling class. [33] The point here, however, is that significant sections of the ruling bureaucracies have felt driven in this direction by the dynamic of the command economy itself. It is a pity that people like Mandel are so blinded by inadequate theoretical formulations that they refuse to recognise this.

Two Traditions on Theory and Practice

Towards the end of his attack on me Mandel suggests that the only reason the British SWP is interested in such arguments is because we are 'scholastic', 'hopeless splitters', only interested in 'stirring up artificial distinctions with every other revolutionary current'. But, as Lenin used to put it, 'without a revolutionary theory there can be no revolutionary practice'. And a theory which is based on contradictions and falsities cannot lead to consistent – and therefore revolutionary – practice, however subjectively revolutionary its adherents.

Theory is not some abstraction, divorced from practice. It determines how you understand a rapidly changing reality and your tasks in relation to it. At key points in history your theoretical understanding determines on which side of the barricades you find yourself. So it was that those who had a correct understanding of imperialism in the years 1914–18 had no difficulty coming out against the war, while those who simply stuck to old formulae from Marx and Engels often succumbed to the pressures to back their own ruling classes. So it was that in 1917 those old Bolsheviks who stuck to the formula of 'the democratic dictatorship of the proletariat and the peasantry' were often led to support the provisional government.

We are witnessing enormous changes in the USSR and Eastern Europe today. We cannot come to terms with such changes simply by relying on common sense formulations. As Gramsci used to insist, to base yourself on common sense is simply to accept in an uncritical manner the prevailing ideas, the ideas of the ruling class.

For 60 years rulers East and West had a common interest in claiming that Stalinism was a version of socialism, indeed, as 'actually existing socialism' the only non-utopian version. This enabled the state capitalist rulers of the East to conceal their real purposes from their own peoples and from the most militant opponents of capitalism in the West. And it enabled the rulers of the West to weaken opposition to themselves by pointing to the East and

claiming that socialism entailed loss of freedom for the mass of workers. Pushed alike by both sets of rulers, it is hardly surprising that the notion entered in the 'common sense' of the great majority of the world's people.

The task of Marxist theory is to challenge such common sense. Unfortunately, instead of doing so, Mandel resorts to it in order to back up his own assertions, as when he argues that 'literally no one in these countries, or in the world, denies the evidence ... [of] a restoration of capitalism in several East European countries.'

If we are to accept ideas because of their popularity, we might as well also concede that nationalisation under capitalism is a form of socialism, that Labour parties always form 'socialist' governments, and, today, that the crisis of the East European economies proves the 'failure of socialism'. All those ideas have been held as widely as the view that Eastern Europe is moving from 'socialism' to 'capitalism'.

We have to reject all these ideas because a scientific understanding of society means starting from the relations of production and exploitation – and these are not changed simply by a change in the party which runs the government, by the state taking over the means of production ... or by the state giving up some of that ownership.

If you do not challenge such 'common sense' you cannot put forward a clear, independent working class politics. For a workers' state, however deformed or degenerate, to become a capitalist state must be a step back historically, a stage in a counter-revolutionary process which Marxists should oppose. But if this is so, should Marxists not be supporting those sections of the *nomenklatura* most resistant to such a change – supporting Ligachev when he argues against privatisation, supporting the Stalin-lover Nina Andreyeva when she denounces Gorbachev's 'restorationist' tendencies, supporting Iliescu when he crushes the Bucharest students? Should Marxists perhaps have supported Honecker's efforts to use force against a movement which so easily fell under West German hegemony?

Mandel argues that no section of the Fourth International has ever fallen into such a trap. But it has in the past created illusions in those who ran the East European states. Whatever his claims today, in 1956 Mandel did encourage the belief, widespread on the reformist left East and West, that the accession of Gomulka to power guaranteed 'socialist democracy'. He did write:

The power of the movement has become irresistible. Socialist democracy will still have many battles to win in Poland. But the principle battle, that which has permitted millions of workers to identify themselves again with the workers' states, is already won. [34]

He did praise the 'new leadership' of Polish Stalinism for keeping at the head of the movement, while complaining that the reformers inside the Hungarian party leadership had not been able to do so:

The subtle interaction between the objective and subjective factors, between pressure from below and the crystallisation of an opposition at the top of the Communist Party, an interaction which made possible the Polish victory, was missing in Hungary.

He did go beyond mourning the Hungarian premier Imre Nagy as a victim of Khrushchev to praising him for his 'attempt to conquer the leadership of ... the revolution'. [35]

The theory of the Eastern states which Mandel adheres to has allowed many people – including some with years of activity within the Fourth International – to go much further. Isaac Deutscher did support the crushing of the East German and Hungarian risings, and so did splinter groups from the Fourth International like those led by Cochrane in the US and Lawrence in Britain. The *Militant* group in Britain (for a number of years the official section of Mandel's International) did argue that Marxists should be prepared for 'tactical' alliances with Honecker in Germany and 'sections of the securitate' in Romania, and did support the crushing of the Bucharest students. And the American Socialist Workers Party did not change its politics

of Castro worship when, a couple of years back, it ended its 25 year old term as one of the biggest sections of Mandel's International and insisted it was no longer 'Trotskyist'.

Slipshod theoretical formulations do not inevitably lead to reactionary practical conclusions. But they make it easier to draw them. And Mandel's formulations are slipshod. He claims that in 'Hungary, Poland and the German Democratic Republic ... a significant section of the *nomenklatura*' has 'been seen to tiptoe away from the stage of society'. But, any objective analysis of what has happened in these countries points to something else.

There has been a change of the ruling party. But it has left virtually untouched those who organise and benefit from exploitation in the enterprises, the ruling class. Not only does at least 80 percent of industry remain in the hands of state appointees in Hungary and Poland at the time of writing, but most of the 20 percent or so which has been privatised has passed into the ownership of those with *nomenklatura* backgrounds. The hierarchies of control in the armed forces, the police and much of the media remain in very much the same hands as before. The individuals who hold ministerial portfolios might have changed, but the key structures of the state have not.

Things are more complicated in the case of what used to be East Germany. But it is former *nomenklatura* managers who are negotiating the joint agreements between East German and Western capital. Even when there are complete takeovers from the West, many senior managers from the *nomenklatura* remain at their posts as subordinate members of the newly unified ruling class. The East German section of the main German capitalist party, the Christian Democrats, is a former front party for the *nomenklatura*, full of figures who prospered in the old East German state. And West German capitalism has found a role for sections of the old East German officer corps and even many former members of the Stasi. [36]

If, as Mandel claims, a 'restoration of capitalism' is occurring in Eastern Europe, he ought to be able to say when the decisive change, the counter-revolution, from a state representing one mode of production to one representing another, occurred. Was it with the

changes of the autumn and winter of 1989? Was it with the formation of non-Stalinist governments? Was it with the privatisation of less than 20 percent of industry? Or is it still to happen?

He hints that privatisation is the key question for instance, when he says that privatisation could lead to recession in the USSR. But in that case with only 20 percent of the economy privately owned Poland must still have the economy of a workers' state (a workers' state with a bourgeois government?). But that economy is already experiencing a recession worse than any experienced in the West since the 1930s.

The logic of Mandel's argument is to say that the key struggle for workers is to defend what remains of the 'workers' state' – the nationalised form of property and the old mechanisms of the command economy. It is a logic which can be very dangerous for the genuine left in the Eastern countries.

Workers are only too aware that it is the old command economy that has led to the queues, the shortages, the ecological disasters, the rising unemployment and now the recession. They hate that section of the *nomenklatura* which identifies with the old methods. That is why in the USSR the new workers' organisations have been bitterly opposed to Ryzhkov and have easily succumbed to illusions in Yeltsin with his calls for rapid privatisation. That is why in Poland Walesa can build a populist campaign for the presidency based on demagoguery against the *nomenklatura* and, again, the demand for more rapid privatisation. That is why workers in East Germany fell into the trap of believing their future would best be protected by rapid incorporation into West Germany.

Genuine socialists have to warn workers that the market and privatisation offer no solution to the crisis. But we cannot do so if we give the impression that the alternative is to stick with the old ways, that somehow if the old ways had been left intact everything would be all right. Even worse is for socialists to call upon workers to make 'sacrifices' to protect the old ways.

Yet this is exactly what happened with the majority of the United Left in East Germany in the late spring of 1989. The Christian Democrats had won the general election through West German

Chancellor Kohl's promise of a one to one exchange rate between East and West German marks. He then tried to renege on this promise, and a huge protest demonstration of workers took place. The majority of the United Left opposed this demonstration, claiming that the most important thing was to protect the nationalised East German enterprises against international competition, and that this would be more difficult with an exchange rate that gave East German workers higher rather than lower wages.

Fortunately, a minority of United Left members rejected this position, arguing that the central question was of independent organisation of workers in defence of their own interests, both against their old bosses and against those West German interests who wanted to join with the old bosses in exploiting them. [37]

Such issues will arise again and again in the Eastern states. Some sections of the bureaucracy will try to mobilise workers behind their own programme of 'reforms' and the market. Other sections will claim their defence of the old system is a defence of workers' interests. Genuine socialists have to stand firm against both sections, insisting that both want workers to pay for their crisis. But we can only do so if we are clear that the move from the command economy to the market is neither a step forward nor a step backwards, but a step sideways, from one way of organising capitalist exploitation to another.

The importance of these arguments can be seen if you look at the history of restructuring and privatisation in countries like Britain. The biggest attacks on working class conditions and jobs usually occurred while firms remained in state ownership. Managements urged workers to accept these measures as the price of maintaining nationalisation, and, in key cases like British Leyland (now renamed Rover) and British shipbuilding, won support of union leaders and senior shop stewards to this position. Then after five or ten years of repeated closures, redundancies and speed up, those same managements endorsed privatisation and increased their own salaries enormously. Privatisation came *after* the biggest attacks on workers, not before it. And union officials and stewards who saw privatisation as *the* issue, as more important than the attacks, made

it more difficult for workers to fight back. We can only hope that Mandel's arguments do not lead some of his followers in the East to play a similar role today.

But it is not only in the Eastern states that an understanding of state capitalism is important. The crisis of the Eastern states has led, inevitably, to a world wide crisis among those sections of the left who used to be influenced by Stalinism. Vast numbers of people who used to believe that the Stalinist model was *the* alternative to the ruling classes of the West and the Third World are now wondering whether there is an alternative at all.

It has been this, for instance, which has allowed the leadership of the South African Communist Party – probably the only one in the world still to be growing – to justify its embrace of the mixed economy and foreign investment. [38] It is this which provided the leadership of the Greek Communist Party with its rationale for moving in two short years from Stalinism via an accommodation of Eurocommunism to the formation of a coalition government with the right wing New Democracy party.

It is certainly not sectarian for South African or Greek revolutionaries to try to provide a clear explanation of what is happening in the Eastern states. But they cannot provide such explanations unless they argue out the issue among themselves, without any fudging. Yet Mandel is calling for such fudging when he implies it makes no difference to revolutionaries in Eastern Europe whether they accept our views or his, and calls for them all to affiliate to his International. If he were really confident in his assertion that a counter-revolution is taking place, then he would surely be insistent that those of us who do not agree should be in a different organisation.

The argument over state capitalism has implications that go beyond the question of the Eastern states. In the Third World there are many regimes which have copied totalitarian features from the old Stalinist states. A state capitalist analysis enables socialists to understand where such features come from – and also to understand that they will eventually be blasted apart by the combined impact of economic crisis and a growing working class.

By contrast, without such an analysis, it is all too easy to fall into the trap of seeing these regimes as uniquely horrific, as worse than any conceivable alternative. There was such confusion in relation to Iran in the late 1980s – at the very time that the US was engaged in a massive military effort aimed at ensuring the defeat of Iran in the first Gulf War. Typical was an article by Val Moghadam which appeared in *New Left Review*:

How could it be seriously argued that the Islamic regime's economic policies – some populist, some statist, some anachronistic (eg on the ban on loan interest) – reflected 'capitalist laws of accumulation'? ... It was quite simply not a capitalist, still less a bourgeois government ... The fundamental problem was not that the regime was capitalist, but that it was incapable of organising a viable and just political economy based upon democratic rights and the socio-economic needs of the population ... This was despite the fact that in the summer of 1979, the government began nationalising all major industries, banks, insurance companies and foreign trade. [39]

So the lack of an understanding of the forms capitalism has taken in the 20th century led to the view that a Third World regime like Khomeini's was qualitatively worse than a 'normal' bourgeois regime. This was the conclusion which Fred Halliday drew in the same issue of *New Left Review*, contrasting the 'progressive position' of the 'liberal bourgeoisie' to 'the reactionary ideas and policies of Khomeini'. [40] Such analyses led to a refusal to oppose the US offensive against Iran.

Halliday had argued for years that the Eastern states were different from and superior to the West. In an article that appeared early in 1990 he still spoke of 'the degree to which there did exist in the "communist" states a system based on different social and economic criteria' to capitalism and of 'the internationalist commitments that were one of the brighter sides of the Brezhnevite era'. [41] He went on to describe what was happening in the Eastern states as involving 'recidivism of epochal proportions'. [42] Yet

without any analysis to explain these changes, he could only conclude that they undermined much of the classical Marxist analysis:

The greatest mistake of Marxist and socialist thinking ... was the underestimation of capitalism itself, both in terms of its potential for continued expansion and in terms of its not having within it a catastrophist teleology ... [43]

What this necessitates, and provides the opportunity for, is a reassessment and realignment not only of Marxism and the socialist movement but the whole radical and revolutionary traditions within Western society as a whole.

Central to this he argued was a return to the liberal values of the Enlightenment, a 'recognition of how relevant pre-Marxist radical currents may be, especially in the face of the resurgent challenges of the time, clericalism, nationalism and irrationalism.' [44]

What this meant in practice for Halliday was shown in the late summer of 1990 when, in radio interviews, he urged Western military intervention against Iraq, he maintained, 'I would not think that at a future juncture, if sanctions fail, that military action to oust Iraq from Kuwait would be unjustified.' [45]

The only way the genuine left internationally can deal with such disorientation is by subjecting all the old, commonsense accounts of the Eastern states to the most stringent scientific scrutiny. For this reason we make no apology for trying to build an international tendency based on our analysis of the world system, an analysis in which the notion of state capitalism is central.

But the national organisations that make up the tendency certainly do not simply talk about state capitalism, in the way that Mandel claims. If that were true, we in Britain would never have gained the 'roots in the working class' to which Mandel refers, OSE would never have become the biggest group on the Greek far left and been able to intervene in the recent general strike and the

German Sozialistische Arbeitergruppe would never have been able to win members within the United Left in the former DDR.

Even where the organisations in our tendency are small, their work is not characterised by any abstract and sectarian fixation around the question of state capitalism. The French group, Socialisme Internationale, has centred most of its activity in recent years around the demand that the left moves seriously to confront the Nazis of the *Front National* – a task which the biggest revolutionary organisation in France, *Lutte Ouvrière*, refuses to consider and which the second biggest organisation, the *Ligue Communiste Révolutionnaire*, only began to take seriously in the early summer of 1990. *Socialisme Internationale*'s most 'notorious' intervention on the political scene so far was in 1989 when it alone of the revolutionary organisations took an uncompromising stand on the right of girls from immigrant families to wear the Islamic veil to school in the face of a campaign against them orchestrated by the racist right.

Groups like those in the United States, Ireland, Australia, Canada, Denmark, Holland, Norway, are active in all sorts of struggles – from the defence of abortion rights to picket lines against union busting and opposition to racism and imperialism – while attempting to make revolutionary politics relevant to a new generation of activists through papers which combine theory and practice, propaganda and agitation. And all of our groups can boast an exemplary record in opposing Western war drives in the Middle East, both against Iran in 1986 and 1987 and against Iraq more recently.

Mandel complains that our tendency is small. So is his International: we have about 6,000 supporters internationally, and his International claimed 10,000 members in 1985 [46] and since then it has lost its once powerful American section, the US Socialist Workers Party. So we both count our supporters in thousands, while the world working class is about a 1,000 million strong. Neither of us should be ashamed of the fact. For two generations Stalinism dominated and disillusioned the left internationally, marginalising its

opponents when it did not murder them. The question is how to build now that Stalinism itself has collapsed.

Mandel believes a small organisation can become a bigger one if it fudges its analysis and avoids coming to terms with what is really happening in the world. We do not. Those of us with clear answers to the crisis of Stalinism can grow and play a positive role in the class struggle East and West. Those without such clarity may attract confused people around them for a period, but will just as surely lose them.

Notes

1. See V.I. Lenin, *Imperialism, the Highest Stage of Capitalism*; N. Bukharin, *Imperialism and the World Economy* (London, 1972); N. Bukharin, *The Economics of the Transformation Period* (New York, 1971) *The Politics and Economics of the Transformation Period*; web.ed.]; V.I. Lenin, *Marginal Notes to Bukharin's Economics of the Transformation Period* in *ibid.*

2. F. Engels, *Critique of the Erfurt Programme* (Cyclostyled Translation, London nd).

3. N. Bukharin, *Imperialism*, pp. 119–125.

4. L. Trotsky, *The First Five Years of the Communist International*, Vol 1 (New York, 1945), p. 23.

5. A. Amsden, 'Third World Industrialisation: "Global Fordism" or a new model?', *New Left Review* 182, London, July/August 1990, p. 21.

6. Goldman and Korba, *Economic Growth in Czechoslovakia* (Prague, 1969), p. 41.

7. R. Hutchinson, *Periodic fluctuations in Soviet historical growth rates*, *Soviet Studies*, January 1969.

8. Translated in *Eastern European Economics*, Vol. X nos. 3–4.

9. B. Horvat, *Business cycles in Yugoslavia*, translated in *Eastern European Economics*, Vol. IX, No. 3–4.

10. If Mandel had actually read the material produced by our organisation at the time he would know that, far from supporting the idea that something called 'organised capitalism' which had dispensed with these contradictions, much of our effort went into arguing with the proponents of that idea. See, for example, M. Kidron's 1956 critiques of R. Crosland and J. Strachey reprinted in *A Socialist Review*, (London 1965) and his 'Rejoinder to Left Reformism' in *International Socialism* (first series), Winter 1961–2.

11. See, for example, B. Kostinsky and M. Belkindas, 'Official Soviet Gross National Product Accounting', in CIA Directorate of Intelligence, *Measuring Soviet GNP, Problems and Solutions* (Washington 1990).

12. A. Nove, *An Economic History of the USSR* (London 1969), p. 361.

13. See, for example, 'The Future of the Russian Empire, Reform or Revolution', *Socialist Review* (December 1956), reprinted in *Neither Washington Nor Moscow*, (London 1992), *Russia from Stalin to Khrushchev*, (London 1958); part two of the 1964 edition of *State Capitalism in Russia*, published as *Russia: a Marxist analysis*.

14. Speech translated in BBC monitoring service, 12 October 1990.

15. In P. Baran and P. Sweezy, *Monopoly Capital* (Harmondsworth 1973).

16. M. Kidron and E. Dallas, *Waste US: 1970*, in M. Kidron, *Capital and Theory* (London 1974).

17. Figures given in W.G. Harm, *The Politics of Soviet Agriculture, 1960–1970* (Baltimore 1972), pp. 197–p. 9 and pp. 224–25.

18. *Finansy SSR* 28/69.

19. For a complaint about these questions in the early Brezhnev years, see Ladenkov, *Voprosy Ekonomiki*, 1967, no 20, translated in *Soviet Review*, IX no. 3.

20. Estimates for growth rates given in CIA Directorate of Intelligence, *op. cit.*, pp. 110–13.

21. For one account of this example, see D.W. Conklin, *Barriers to technological change in the USSR: the case of chemical fertilisers*, *Soviet Studies*, 1969, p. 359.

22. Food and Agricultural Organisation, *World Agricultural Statistics*, 1996, pp. 178, 176 and 11.

23. For an earlier discussion on the shortcomings of Soviet fertilisers, see D.W. Conklin, *op. cit.*, p. 353.

24. FAO, *op. cit.*

25. *Pravda*, 31 October 1989.

26. *Moscow News*, 3 September 1989.

27. I. Advion suggests a 'probable' unemployment total of 8.4 million, or 6.2 percent of the employed workforce in *A note on the current level, pattern and trends of unemployment in the USSR*, *Soviet Studies*, July 1989, p. 460.

28. The US unemployment rate in August 1990 was 5.6 percent. International comparisons of unemployment rates are difficult to make. Nevertheless it is clear that the USSR is not qualitatively different in this respect to the West.

29. Minayeva, deputy head of All Union Central Council of Trade Unions, reported on 12 January 1999 in *Trud*.

30. See my articles, 'Poland and the Crisis of State Capitalism', in *International Socialism*, first series, 93 and 94, (1976). There is a summary of my argument in the concluding chapter of my *Class Struggles in Eastern Europe* (London 1983).

31. T. Cliff, *The nature of state capitalism*, *Socialist Review*, March 1957, reprinted in *A Socialist Review* (London 1965).

32. The state did continue to play a role. The recessions of 1974–76 and 1990–82 were not nearly as deep as that of the 1930s. Unemployment in the early 1930s rose to one third of the workforce in the two countries where the recessions hit worst, the US and Germany. By contrast, it only rose to about 14 percent in the worst hit Western country of the early 1990s, Britain. It is stupid of Mandel to try to ignore this by naively comparing the last two recessions not with that of interwar years, but with the average over the past 150 years – an average that reflects the vitality of capitalism's youth, not the decay of its old age.

33. See C. Harman, 'The Myth of the Market', *International Socialism* 2:42, and 'The Storm Breaks', *International Socialism* 2:46.

34. E. Germaine (pseudonym of Ernest Mandel) *Quatrième Internationale*, December 1956, p. 21–22.
35. *Ibid.*, p. 23.
36. For the efforts of the CDU Interior Minister in East Germany to keep sections of Stasi functioning, see the reports in *Klassenkampf*, June 1990, p. 4, and October 1990, p. 4.
37. For a full report of these events see *Klassenkampf*, May 1990, pp. 9–11.
38. See J. Slovo, *Has Socialism Failed?* (London 1990).
39. V. Moghadam, ‘Socialism or Anti-Imperialism? The Left and Revolution in Iran’, *New Left Review* 166, November–December 1997, p. 20.
40. ‘The Iranian revolution and its implications’, an interview with Fred Halliday, *ibid.*, p. 37.
41. F. Halliday, ‘The Ends of the Cold War’, *New Left Review* 180, March–April 1990, pp. 12–13.
42. *New Left Review* 180, p. 22.
43. *New Left Review* 180, p. 18.
44. *New Left Review* 180, p. 23.
45. Interview in *Marxism Today*, October 1990.
46. When its Australian section left it.

1. [Debates in State Capitalism](#)
2. [Marxists Internet Archive](#)
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5. [Michael Kidron - Maginot Marxism: Mandel's Economics \(April 1969\)](#)
6. [Ernest Mandel - The Inconsistencies of "State-Capitalism" \(1969\)](#)
7. [Chris Harman - The Inconsistencies of Ernest Mandel \(December 1969\)](#)
8. [Chris Harman - From Trotsky to State Capitalism \(Summer 1990\)](#)
9. [Ernest Mandel - A Theory Which Has Not Withstood the Test of Facts \(Winter 1990\)](#)
10. [Chris Harman - Criticism Which Does Not Withstand the Test of Logic: A Reply to Ernest Mandel \(Winter 1990\)](#)