

## 1. PSEUDO-SOCIALIST CAPITALISM

In this chapter we analyze the Stalinist system as it arose in the USSR and then spread to other states. Even though the Soviet model never matched the designs of Stalinist theorists, a general interpretation of that model is necessary both to distinguish it from other forms of capitalism and to account for the deviations it inevitably went through.

Three decades ago Khrushchev brimmed over with confidence in the future of his socialism. “We will bury you,” he told the United States, boasting that the Soviet economy would soon out-produce the American. “Your grandchildren will live under communism.” Although Khrushchev was ousted by his fellow bureaucrats for “harebrained schemes,” the official optimism continued under Brezhnev. Today Gorbachev tells a different story. Since coming to power in 1985, the new General Secretary (now President) has repeatedly proclaimed that the Soviet economy is in critical shape and must undergo a “revolutionary” restructuring.

The Soviet crisis has been previewed by events in China and East Europe. Whereas Russia was able to become a superpower by usurping the gains of the Soviet workers, the newer Stalinist regimes had no way to overcome their inherited backwardness. They escaped only temporarily from the clutches of imperialism. After brief spurts of growth their economies now are in ghastly shape, no better off (in most cases far worse) than the traditional capitalist countries of similar development, and all again depend on the West for capital and technology. Their crises were apparent since the first workers’ revolts of the 1950’s, and the now-obvious devolutionary tendency towards orthodox bourgeois methods of exploitation was theoretically predictable.<sup>1</sup>

Until recently a Marxist analysis of the USSR would have had to prove at length that Soviet-style “socialism” had not accomplished what Stalinist mythology claimed (and millions of working people still hoped and believed) it had. Today the leading authorities admit the fact readily, with startling if self-serving candor. But there remains the task of theoretical clarification. In the words of former Soviet leader Yuri Andropov:

“Frankly speaking, we have not yet studied properly the society in which we live and work, and we have not yet fully discovered the laws governing its development, especially economic laws. Therefore we are at times forced to act, so to speak, empirically, in a quite irrational manner of trial and error.”<sup>2</sup>

Of course, the fact that the bureaucracy acts blindly, empirically and irrationally is itself a function of the laws of development that operate. The bureaucracy is as incapable of laying bare

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1. We wrote in 1976: “Internal competition has to be reintroduced for the sake of efficiency ... Capitalist decay means that state capitalism decays in the direction of anarchic state monopoly capitalism.” (*Socialist Voice* No. 1.)

2. Andropov, in Dusko Doder, *Shadows and Whispers* (1986), p. 122.

the laws of its own rule as is the bourgeoisie in the West. It is a task only for Marxists.

## THE SOCIAL GOAL OF PRODUCTION

According to Marx, capitalism is continually compelled by its internal dynamic to “preserve the value of the existing capital and promote its self-expansion to the highest limit.” This compulsion has different consequences in different stages of capitalism.

In pre-monopoly capitalism, maximization of value cannot be achieved by all capitals at once: some expand and others are destroyed. Maximizing individual capitals detracts from maximizing the total capital because of this periodic destruction, but the system as a whole benefits from the wiping out of its weakest members. For an individual capital, maximizing its value does not conflict with maximizing its rate of profit.

In the imperialist stage, a monopoly’s goal of maximizing its total value may prevent it from maximizing the profit rates of its branches or even of the whole firm. For example, introducing modern techniques in one branch may mean deadly competition for other branches and therefore devaluation of the overall capital. In such cases modernization will be avoided. Imperialists will even allow their national economy to run down for the sake of foreign investments and overall profits; Britain today shows the result of this policy, and the United States is moving in the same direction. Thus capital accumulation in the present epoch does not follow the same rules as in the progressive epoch of capitalism: centralized ownership often appears to contradict the motive of maximizing profit.

The Stalinist model follows this pattern but with its own peculiarities. Under Stalinism the primary social aim of production is *to preserve and maximize the value of the national capital as a whole* — that is, the state-owned capital within the national boundaries. This is a modification and extension of the overall capitalist motive: maintaining and expanding the value of the existing capital.

The Stalinist goal is reflected in the system’s dedication to autarky: “socialism in one country.” It is a natural choice for nationalist rulers in formerly colonized or economically backward countries since it helps them keep surplus value at home; it perpetuates the nation where traditional capitalism can no longer do so. In the case of the USSR, the nationalist goal means that the society motivated for over half a century by Stalin’s slogan has been really operating under a program of “capitalism in one country.”

As we saw in Chapter 2, centralization and monopolization of capital do not eliminate competition, contrary to the theories of Bukharin and Kautsky; not even statification does so. It therefore is no surprise that under Stalinism the primary goal of national capital accumulation has to operate in conjunction — and often at variance — with the narrower goals of local and sectoral bureaucrats: maximizing the value of the firm or sector they are responsible for. At both national and local levels the means of production are state property, so the goals are expressed as the maximization of the value of the state property controlled at each level. A significant feature of the Stalinist economy is its subdivision into separate ministries acting in many ways like the giant corporations of the West: they compete among each other for shares of the system’s overall

resources, but cannot completely suppress internal competitive tendencies.

It is no accident that Stalinism styles itself socialist. That is a necessary appearance, not a conspiratorial plot. Stalinist “socialism” mirrors the workers’ state they overthrew but whose vestiges it could not entirely erase. From a different angle, it reflects the socializing forms that decaying capitalism adopts to stave off the advance of the proletariat. While capital in its progressive epoch disguised its exploitative essence under the cloak of equality, in this epoch its garb is lawfully “socialism.” Therefore the Stalinist system is most accurately named **pseudo-socialist capitalism**. “Pseudo-socialist” indicates both the system’s pretensions and the fact that its peculiarities derive largely from its proletarian heritage.

The term **statified capitalism** is also accurate. The more common “state capitalism” is not wrong but can be misleading. For one thing, it often refers to the state-owned sector in traditional capitalist economies. Lenin also used it for one sector of the workers’ state economy in the NEP period, not the economy as a whole (Chapter 3). Cliff and others use “state capitalism” for a single-factory model of capitalism in which the law of value does not operate internally. Finally, the Cliffites and James/Dunayevskaya use “state capitalism” as a label for modern capitalism of both East and West, the end result of capital’s laws of motion. That too is wrong.

To understand this system requires analysis of the laws of motion of capitalism in their Stalinist mode. We will first describe several features of the Stalinist economy, showing how they fit the laws of motion. We take most of our illustrations from the Soviet Union in the pre-Gorbachev period. But our general interpretation applies to the other Stalinist states and to today’s USSR as well, even where countries have abandoned some key Stalinist features. Indeed, these changes often illuminate the true nature of the classical Stalinist patterns, for only through change can we understand a mystified world. As well, to paraphrase Marx, the changes show the more conservative Stalinists the mirror of their own future.

## **PSEUDO-PLANNING**

The Soviet bureaucracy employs a panoply of plans to direct its economy: the Five-Year Plans which summarize overall goals, and the more or less operational yearly and quarterly plans. The word “plan” is deceptive. It indicates the underlying socializing trend of capitalism that Engels and Lenin spoke of, not the conscious organization of production by the associated producers characteristic of socialism. It is bureaucratic management from the top, a mechanism of exploitation.

The “plan” refers above all to what and how much a firm will produce, and in some cases which enterprises it will buy from and sell to. The plans are bargained over by firms and ministries before adoption and constantly modified afterward, according to the power relations among them and what works out during production. As a result, the Five-Year Plans always postdate the period of their applicability (sometimes the short-term plans do too); they are hardly determined in advance of production by scientific methods. An extreme case is China during the Cultural Revolution, when the statistical bureaus needed for any pretense of central planning or administration were reduced to less than a handful of people. Not only has no Stalinist plan ever genuinely planned or predicted the economy, but the failures have diverged from the plans in

foreseeable directions.

These days horror stories about Stalinist planning are commonplace. We take two descriptions that reveal the underlying reality. First a leading Soviet theorist of Gorbachev's "restructuring" policy (perestroika), Tatyana Zaslavskaya, makes a direct comparison between Western monopolies and Soviet firms:

"One of the most important consequences [of the rising organic composition of capital] is the emergence and gradual intensification of 'monopoly effects' in production and research and development. Lacking competitors, industrial giants dictate to customers their own terms of delivery, going so far as to foist on the latter the output they find easiest to produce. Research institutes in a given ministry can keep valuable inventions by 'outside' researchers from gaining entry to 'their' branches for years."<sup>3</sup>

Second, Prime Minister Nikolai Ryzhkov condemns the anarchic results of the Soviet planning process:

"First and foremost, we must clamp down on the fragmentation of financial resources. More than 300,000 large and small construction projects are currently under way. It is an impermissible number, even taking the enormous size of our country into account. Projects are usually put into operation later than scheduled as a consequence of fragmentation."<sup>4</sup>

In one case the problem is monopoly; in the other, economic anarchy. But as Lenin pointed out, these seemingly opposite conditions are characteristic of capitalism in its imperialist epoch. Both are illustrative of Stalinist pseudo-planning.

Another telling example is competitive hoarding by enterprises which cannot otherwise guarantee that they will obtain the materials for meeting their official targets. For their part, the central planners assign targets beyond each firm's known capacities, hoping to force it to use its secret illegal reserves. This game ensures that supplies continue to be dispersed and wasted. Gaps have to be filled outside of the plan, either through a black market or private production. Firms typically employ semi-official "expeditors" to obtain needed, even planned-for, materials when they cannot be obtained through official channels. Or even worse, factories have to adapt themselves to producing their own supplies.<sup>5</sup> This is a centralization phenomenon, but not one that adds to the efficiency of accumulation.

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3. Zaslavskaya, "The Human Factor in Economic Development and Social Justice," *Current Digest of the Soviet Press*, Vol. 38, No. 41 (1986).

4. Ryzhkov, speech at the 27th Congress of the Soviet Communist Party (March 1986), *Soviet Life*, May 1986.

5. One survey showed that 71% of machinery plants in the USSR produce their own cast iron, 27% their steel, 57% their non-ferrous casting, 84% their forgings, 76% their stampings, 99% their pinions, 61% their industrial clamps — all outside the plan. (Gertrude Schroeder, "The Soviet Economy on a Treadmill of 'Reforms,'" Joint Economic Committee of the U.S. Congress, *Soviet Economy in a Time of Change*, 1979, p. 336.)

Soviet enterprises often acquire advanced technology from foreign sources. But even though such purchases have been handled (until recently) by the central state organs of foreign trade, the imported techniques normally do not spread within the USSR from one firm to another. Competitive secrecy prevents such dispersion, and technological conservatism frequently prevents spin-offs from the new technology. This situation is the opposite of an advancing capitalist power like Japan, where foreign techniques were traditionally first imported, then improved on and finally exported back to the original innovators.

Another way in which planning habitually fails is through unplanned price increases. Enterprises forbidden to raise prices on their products will make slight alterations and distribute their output as new products with higher prices. Since Soviet managers operate in a “sellers’ market,” and since they are rewarded by increasing their sales, there is an absolute incentive to inflate prices. As Trotsky pointed out, “Money regulated by administrative prices fixed for goods loses the ability to regulate such prices and consequently the ability to regulate plans.”<sup>6</sup> It is in this context that he concluded that “The Soviet economy is neither a monetary nor a planned one.” Of course, raising prices produces inflation, another capitalist disease. The total breakdown of planning is most evident in the skyrocketing inflation that wracked Yugoslavia and Poland in the late 1980's.

The fact that the system does not work according to plan is tacitly recognized by Ernest Mandel:

“Within the Soviet economy, given the bureaucracy’s material interests in getting the maximum possible resources for the minimum possible goals for the plan, not only is open information between the enterprises and the higher bodies not assured, it is practically excluded. It is even limited within one enterprise. The bureaucratic management system works largely on the basis of wrong information, as is recognized by all those concerned.”<sup>7</sup>

If genuine planning is excluded by the material interests of society’s rulers then some cause other than “the planning principle” must explain how the economy works. The entire black and grey market phenomenon throughout the Stalinist countries, including factory expeditors, self-supplying, and all, confirms Marx’s warning that the law of value is an objective law that “forcibly asserts itself like an overriding law of nature. The law of gravity thus asserts itself when a house falls about our ears.”<sup>8</sup>

## CONSUMER GOODS

In late 1988 the Soviet authorities admitted for the first time that budget deficits had become a habitual and serious problem. That is, the state spends more revenue than it takes in, resulting in a circulation of rubles in excess of the supply of commodities available for consumers. This inevitably leads either to inflation, as above, or the well-known shortages of consumer goods, the result of suppressed inflation. But this shortage is also a consequence of the bureaucracy’s notorious inability to produce enough consumer goods to meet demand — not to speak of need.

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6. Trotsky, “The Degeneration of Theory ...,” *Writings (1932-33)*, p. 224.

7. Mandel, “The Significance of Gorbachev,” *International Marxist Review*, Winter 1987, p. 12.

8. Marx, *Capital*, Vol. I, Chapter 1, Section 4 (p. 75).

In response to mass discontent the Soviet officials have at times announced their intention to increase the production of consumer goods. But even when these announcements are included in the plans, they end up not being carried out. A typical account:

“The preceding five-year plan (for 1981-85) had explicitly targeted an increase in the share of the consumption fund, at the expense of investment. But when anticipated revitalization and increased effectiveness in the investment sphere did not materialize, it proved necessary to increase investments and make cutbacks in consumption.”<sup>9</sup>

This tendency too is accounted for by our national capital approach. The reason for systematic violation of “planning priorities” is that the role of production goods is to increase the value of the state-owned capital, while the use of consumption goods does not do so; if workers get to eat too much of what they produce, accumulation suffers. So when a choice has to be made between priorities, production goods inevitably win out. That’s why investment increases “prove necessary.”

Likewise, private consumer goods production (the so-called second economy), even though often far more efficient economically, does not add to the *state’s* capital. So these markets were officially only tolerated (until recently), although they are a systemic necessity that fills gaps in state production. Marx’s law that production grows faster in Department 1 (production goods) than in Department 2 (consumption goods) holds in stratified capitalism just as in the traditional case. It is a law of capital operating behind the planners’ backs.

An exception that proves the rule is vodka, a consumer good produced under state monopoly that has brought in great profits. That is why it was one of the few consumer products encouraged by the Soviet rulers, despite its harmful effects, and had always been plentifully available. When Gorbachev took over as leader, alcohol consumption was drastically discouraged. Soviet economists had calculated that the cost to the state from industrial and traffic accidents, worker absenteeism, disease, etc. was about 40 billion rubles annually, more than the revenue from vodka. A capitalistic cost-benefit calculation, not concern for workers’ health and safety, caused the policy shift.<sup>10</sup>

The priority of production over consumption led to the Stalinist practice of placing responsibility for urban public services not in the hands of public officials (local soviets, as the ruling bodies are called) but with the industrial ministries which have plants in the region. As a result, matters like housing, transportation, schools, sewage disposal, water supply and telephones have operated under decentralized chaos. Not only in the tumultuous Stalin years but also recently, new factories have habitually been thrown up without regard for the availability of schools and shops for their workers. An official decree in 1970 condemned such abuses, and the 1977 Constitution assigned local soviets the right to “direct state, economic, social and cultural development within their territory” — but the problem remains. One reason is that enterprises that control their own housing and schools can better compete for workers and thereby fulfill their profit and produc-

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9. Boris Rumer, “Realities of Gorbachev’s Economic Program,” *Problems of Communism*, May-June 1986.

10. *Detente* No. 6, Spring 1986; *Labour Focus on Eastern Europe*, May 1986, p. 9.

tion goals.<sup>11</sup> In this respect the anarchic independence of Soviet enterprises is greater than that of firms in the West.

This last example illustrates the aura of indifference that pervades the economy: the newly built buildings that fall apart, the poor quality of goods at all levels, the disorganization of transport (most obvious in the apparent impossibility of obtaining agricultural produce from one region in another). The overall feeling is that no one is responsible.

Since Stalin's death, there have been several working-class rebellions in the USSR against price increases and the unavailability of consumer goods. Unlike similar revolts in Eastern Europe, only sketchy reports reached the Western press. Even so, it is clear that the workers' struggles have won them gains. For example, following the strikes and demonstrations in Novocherkassk in 1962, the Soviet grain traders increased wheat imports from abroad. Despite the limited information, there is no doubt that the Marxist laws of class struggle impelling the workers to defend their livelihoods apply in the Soviet Union, just as it is plainly evident that they hold in Poland and Hungary. The mass coal miners' strikes that broke out in the summer of 1989, stimulated by local living conditions even worse than described here, should have come as no surprise.

## DECLINING ACCUMULATION

Another law of capital clearly visible in the Soviet economy is the declining rate of accumulation. Growth rates in the USSR have steadily fallen from the 1930's on, with the exception of the postwar recovery years. In the other Stalinist states, after the initial spurts when the economies were nationalized, growth has stayed within the (declining) range typical of the traditional capitalist countries.

The political significance of collapsing growth rates is enormous, all the more so since Gorbachev himself announced that the growth rates for the last four Five-Year Plans were artificially boosted and should be effectively counted as zero.

“As you know, the economic development rates were declining in our country and hit a critical point. But even those rates, as has become clear now, were achieved in a considerable measure on an unhealthy basis, due to momentary factors. I am referring to trade in oil on the world market at the high prices which had formed then, and the totally unjustified intensification of the sale of alcoholic beverages. If we look at the economic indicators of growth separately from these factors, we will see that over four five-year plan periods we knew no increase in the absolute growth of the national income, and it even began declining in the early eighties. This is the real picture, comrades.”<sup>12</sup>

This picture contrasts sharply with the inflated enthusiasm of Soviet sycophants in the West as well as the East. A supposed virtue of the Stalinist system is its ability to accumulate capital

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11. For a vivid catalog of examples, see Gregory D. Andrusz, *Housing and Urban Development in the USSR* (1984), especially Chapter 3.

12. Gorbachev, cited in *Moscow News*, March 6, 1988.

faster than capitalism, without destructive periodic crises. The achievements of the Soviet state in the 1930's are the basis for this belief, but matters have turned out differently since the counterrevolution. In the postwar period as a whole Japan and several lesser capitalist states outperformed the Soviets, and in recent years many have done so.

It would be wrong to conclude from these failures that the Soviet economy is technologically inept. The USSR's overall labor productivity lags behind the West's, but in spheres of the highest priority like the military, it reaches the highest world levels. In part this is because priority spheres employ naked competitive bidding in order to get quality production. In comparison, military procurement in the United States notoriously suffers from diseases of bureaucratic self-preservation and profiteering corruption. The distortions of value that characterize most of the Stalinist system and hold back the progress of productivity can be understood in the West by anyone familiar with governmental or other large bureaucratic operations.

The conflicting goals of maximizing the state and local capitals have a distorting effect on the drive for capital expansion. The pressure to accumulate and modernize capital is focused on the central economic authorities, who are obliged to take into account class relations within the whole country and foreign competition. The urgent calls for higher productivity by top bureaucrats like Gorbachev and Ryzhkov express this. The pressure is transmitted to enterprise managers through the plans, which typically (and unscientifically) instruct each enterprise to produce a certain percentage above its previous target.

But from the local manager's point of view the planned targets can best be met without shutting down his plant for retooling. There is no economic compulsion for the managers to modernize since they have no fear of being forced out of business and no need to lay off excess workers. In fact, they need to keep excess workers on hand because of the periodic last-minute drives to meet production goals ("storming"), made necessary by the absence of planned supplies. As a result, accumulation in existing plants is almost always accomplished by expanding production under old techniques: hence the proliferation of obsolescence. If the central authorities want modernization they have to build new plants.

This explains the fact that Soviet economic growth has been largely *extensive*, in the sense that existing techniques are extended through the labor of newly industrialized workers — as opposed to *intensive*, which requires the advance of productivity through the displacement of living labor by capital. A recent economic survey of the 1928-1985 period noted:

"During the entire period, but more so with time, Soviet growth is generated by high rises in inputs and declining growth of overall input productivity. ... The relative contribution of inputs to growth grew to 80 percent in the postwar period and became its sole component from 1970 on, when productivity completely stagnated or even retreated."<sup>13</sup>

That is, declining overall growth has been accompanied by *increases* in the proportion of

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13. Gur Ofer, "Soviet Economic Growth: 1928-1985," *Journal of Economic Literature*, December 1987, p. 1782.



resources give to industrial investment. The predominance of extensive accumulation not only hurts the Stalinist system in its rivalry with the West. It also has its own limits to expansion, the availability of raw materials and labor — and the Soviet authorities are running out of both. But the fundamental reason for declining growth lies deeper.

## THE FRP AND FICTITIOUS CAPITAL

Declining economic growth rates are characteristic of the long-term development of capitalist society in general: they reflect the falling rate of profit tendency (FRP). As in the West, the FRP is most visibly expressed as a falling rate of capital accumulation: since investment funds for increased growth come out of surplus value (profit), when the rate of profit falls the rate of accumulation necessarily falls with it.

It might be argued that the FRP cannot apply under Stalinism because it derives from the capitalist drive for accumulation through increased productivity, a tendency which is so severely distorted in the Soviet system. But this is a misunderstanding. As we showed in Chapter 1, the FRP does not operate across the board by lowering the profit rates of all capitals uniformly. It lowers the *average* profit rate by bringing down the profits of the *backward* firms. On the world scale, since Soviet techniques normally lag well behind international standards, the Soviet economy is a prime exhibit of the FRP in operation.

The main countertendency to the FRP, the devaluation of fixed capital, is inhibited because Soviet firms have rarely been forced to liquidate. This shows again how the FRP dominates in this epoch even more forcefully than under classical capitalism. Statification inhibits the transmission of capitalism's laws but it does not abolish them. Since protected obsolete firms are overvalued, the falling rate of profit tendency is carried out through the medium of fictitious capital. The Soviet example reinforces our interpretation in Chapter 2 that fictitious capital is central to the operation of the FRP in the epoch of capitalist decay. It strikingly illustrates Marx's comment that if accumulation were left to giant capitals, "the vital flame of production would die out."

Abel Aganbegyan, the Soviet economist who was a leading adviser to Gorbachev, in effect observed the FRP in action during the "stagnation" period (the label given by Gorbachev's followers to the Brezhnev years): "The rate of growth of all indicators of efficiency in social production slowed down: in effect the productivity of labor did not increase *and return on capital investment fell.*"<sup>14</sup>

Another Soviet economist illustrates fictitious capital this way:

"The present financial system is based, in many respects, on inflation methods of financing. State incomes and expenditure are mere fiction, thin air, presenting an illusion of money with no material security behind it. The most obvious manifestation of such a situation is the levying of taxes from enterprises to the budget, *well before* their output is sold and irrespective of whether it will be sold. A similar role is played by the crediting of industrial and agricultural enterprises,

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14. Aganbegyan, *The Economic Challenge of Perestroika* (1988), p. 3 (emphasis added).

which has more or less turned into pure irrevocable financing (the pumping of empty money into the economy). The debts of agricultural enterprises alone amount to around 140,000 rubles. One of the gravest consequences of such ‘inflated’ financing is the number of launched construction projects in the country, which is nearly three times the amount we can afford.”<sup>15</sup>

Naturally, if so much capital is invested in projects which cannot produce useful output, then the overall rate of profit is bound to be forced downward. While the books can be cooked so that a fictitious profit is reported, the declining rate of accumulation has a material reality that cannot be suppressed forever. Fictitious capital, in the East as in the West, is a device for upgrading the profitability of certain sectors of capital at the expense of others or of capital as a whole. It indicates that the failure to shut down obsolete enterprises is not a progressive but a reactionary aspect of the system.

Fictitious capital flourishes in the Soviet system. If the Soviet ruble were suddenly made convertible with the currencies of the West, most Soviet goods would plunge in value; the economy would be in chaos. The state monopoly of foreign trade, introduced after the revolution to defend the backward Soviet workers’ state from imperialism, is still necessary in the present-day Soviet system but for a different reason: to defend the nationalist and sectoralist interests of the bureaucracy. As a result, overprotected Soviet enterprises cannot compete internationally.

Why are Stalinist enterprises allowed to operate unprofitably? This too is made clear by our “capitalism in one country” approach. Closing down a factory that still functions, even if inefficiently, would reduce the state capital’s total value (and would also displace the local managers). So it is preferable for such a firm to stay in production and be subsidized with state funds — that is, through surplus value supplied by other firms. Accumulation of new dead labor is sacrificed to preserve the value of the old. And raising the overall rate of profit is sacrificed in the attempt to preserve the value of the national capital as a whole.

## **OVERPRODUCTION AND CRISES**

Despite the enormous apparatus devoted to bureaucratic planning and the elimination of most direct competition for markets, there is still intense competition among ministries and enterprises for materials and labor. The results are surprisingly often parallel.

For example, under traditional capitalism the unplanned nature of the system (independent capitals producing for an imprecisely known market under uncertain conditions of supply and demand) leads to periodic overproduction. Under Stalinism, there is uncoordinated planning by competing firms and ministries producing for an imprecisely known market and anarchic conditions of supply. Both phenomena derive ultimately from the capitalist drive to expand production beyond all bounds.

One result of Stalinist “planning” is the continuous overproduction of capital goods, since every ministry seeks a growing share of the state budget to expand its own domain. Such a situation was exposed to view during the 1980-81 crisis in Poland, when the regime was forced to cut

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15. Nikolai Shmelev, *Moscow News*, No. 6, 1988.

back on borrowing from the West and had to leave its overambitious construction projects half-finished. Overproduction is most visible on the international scale in the Comecon economic bloc, which makes few pretensions to coordinated planning. Each country “needs” its own steel mill, for example, making overproduction of equipment and the consequent shortage of supplies inevitable. Comecon is living proof of the competitive national capital character of Stalinism. As much as traditional capitalism, the Stalinist economies are driven, as Marx observed, by the motto, “Accumulate, accumulate! That is Moses and the prophets!”

Stalinist overproduction is hidden by the fact that there are tangible shortages of consumer goods, for reasons already discussed. Many consumer goods, however, are overproduced in unwanted forms or of poor quality and therefore languish on the shelves or never reach them. Reports of warehouses full of unusable goods are plentiful. That market forces do not prevent this does not mean that overproduction is not at work.

There is a reason for the difference between the two variants of capitalism. In traditional capitalism, overproduction is periodic; it is brought to a halt by the systemic crises that eventually wipe out the excess capitalization of unprofitable firms. Under Stalinism where unprofitable firms are not thrown out of business, the overvaluation continues and the crisis is not resolved. That obsolescent enterprises survive shows that the Stalinist system suffers from a continual pressure toward crisis. But if the law of value is not allowed to force the system to restructure, that task is thereby left to inescapable material factors like the availability of raw materials. These finally force the bureaucrats to cut back investment and call a halt to excessive construction and production projects.<sup>16</sup>

Then the cycle begins again, but without having accomplished the cathartic benefits for the bosses that it ought to provide — disciplining inefficient firms and generating unemployment to induce workers to capitulate. Marx wrote that “permanent crises do not exist”<sup>17</sup> because crises normally lead to the destruction and devaluation of a part of the existing capital. Crises are the solution, a temporary bloodletting, not the problem. But under Stalinism the crises are never fully resolved, so they continue with the effect of permanence.

Since crisis is an essential component of a Marxist analysis of capitalism, those who say the Soviet system is not capitalist have over and over again argued that crises are not a problem there. A typical objection comes from an academic Marxist who claims that, whereas “capitalism has a tendency to chronic under-investment” because of its millions of unemployed, “socialism” generates “chronic over-investment.”<sup>18</sup> However, capitalist underinvestment in times of crisis is a result of overproduction (and therefore also of overinvestment) during its cyclical booms. The author also recognizes the “very broad margins of unutilized capital equipment in many industries” in the East — a situation parallel to Western capitalism in crisis periods and an indication of the underinvestment that results from overproduction.

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16. The “raw materials barrier” was first analyzed in 1965 by Kuron and Modzelewski in their “Open Letter to the Party.”

17. Marx, *Theories of Surplus Value*, Vol. 2, p. 497.

18. D.M. Nuti, “The Contradictions of Socialist Economies: A Marxian Interpretation,” *Socialist Register*, 1979; p. 249.

Mandel has been making similar arguments for decades. In 1968 he wrote that the Soviet economy “escapes completely” from the laws of capitalism and “is exempt from the fluctuations in the conjuncture of world economy.”<sup>19</sup> He repeated in 1980:

“The countries with planned and socialized economies *have not* been hit by the same phenomena that have, without exception, marked all the industrialized capitalist countries: a recurring absolute decline in industrial production during the phases of recession; massive unemployment; the shutdown of numerous enterprises and the collapse of whole branches of industry; the accumulation of huge quantities of unsalable commodities.”<sup>20</sup>

Two years later, as the reality of crisis in the Stalinist states became apparent, Mandel admitted “the exception of Poland” but quickly added that it “has been hit by a crisis of underproduction and not overproduction” — in order to distinguish the Soviet system from capitalism.<sup>21</sup> Even if this interpretation were true, it would hardly reflect a progressive mode of production: underproduction is a plague of pre-capitalist, pre-industrial societies, not industrialized “post-capitalist” countries like Poland.

Mandel makes even more contradictory arguments about China. He insists that China is still progressive because of the fact “that labor power is no longer a commodity, that there is no longer a labor market in China, that workers have job security and a guaranteed minimum wage.” But he also writes of “the enormous extent of rural unemployment and urban unemployment,” “the rise of youth unemployment,” the ten percent of Chinese peasants “who do not eat enough to still their hunger” and inflation rates of 15 to 20 percent. In a postscript he adds, “As a result of retrenchment, thousands of factories have been idled or shut down” so that urban unemployment doubled from early 1980 to late 1981; in addition, “the threat of dismissal now hangs over the heads of 100 million wage earners in China.”<sup>22</sup> So much for job security and guaranteed minimum wages.

Whenever he admits the existence of the Stalinist crises, Mandel denies their lawfulness; he blames them on the world capitalist crisis or mismanagement by the ruling bureaucracies rather than on internal laws of the system. It is true that the economy of a small country like Poland or one long victimized by imperialism like China will be inevitably buffeted by its more powerful neighbors. And there is no doubt that the bureaucrats mismanage. Nevertheless, Mandel’s claim that “post-capitalist” societies are not subject to capitalist consequences collapses in the face of reality.

## UNEMPLOYMENT

The preservation of obsolete capital is officially called a socialist principle because it maintains

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19. Mandel, *Marxist Economic Theory*, Vol. 2, pp. 561-2.

20. Mandel, “The Impact of the World Capitalist Recession on Eastern Europe,” *Intercontinental Press*, July 14, 1980.

21. Mandel, “The Second Postwar World Recession,” *Intercontinental Press*, June 28, 1982.

22. Mandel, “China: the Economic Crisis,” *Socialist Register*, 1982.

full employment. The policy of jobs for all, although distorted by the vast waste of labor, is indeed one of the few gains which came as a consequence of the workers' revolution that the Soviet workers did not lose in the counterrevolution. But it is no accident that this surviving revolutionary achievement turns out to be the one that fits the bureaucracy's nationalist and localist goals — or did fit them before its toll on the stratified capitalist economy became clear.

In this respect the Soviet system functions in exactly the opposite way from a genuine workers' state, which would aim to close outmoded plants as quickly as possible. New techniques would be introduced and generalized; full employment would be maintained by the progressive diminution of working hours as labor productivity improves — not by keeping productivity backward. A workers' state has as its goal the self-elimination of the working class, not its preservation for exploitation.

Soviet planners and managers openly complain about their dissatisfaction with full employment: they cannot use mass layoffs to discipline the work force. Their comments are reminiscent of a Swedish businessman's complaints about *West* European employment policies:

“In the U.S. you can still fire people if you don't need them. In Europe you can't reduce your work force through dismissals unless a business is hopeless ... . However, well-managed European firms have learned more about working with their employees because you can't dispose of them.”<sup>23</sup>

Sweden is untypical with its small, specialized economy; moreover, Northern European firms do manage to fire “guest workers” from southern Europe and the third world when they need to. Nevertheless, there is considerable similarity over job security between the market-oriented East and the social-democratic countries of the West. The Soviet managers, whose economy is not as prosperous as Sweden's or Austria's, would much prefer unemployment policies like those of the more socially backward countries of the South and the West (including the U.S.) to what they have now, and they are taking steps to get it.

It is indeed a weakness of Stalinist capitalism not to be able to deploy the reserve army of unemployed workers as a brake on proletarian combativity; the consequences were seen in Poland in 1980-81. The Stalinists, of course, rely heavily on police measures to restrain the workers — as did Nazi Germany, which also achieved full employment. But a police state is an inefficient economic tool; a stick without a carrot, it offers workers no incentive to work harder. Maintaining full employment is a policy that goes hand in hand with enterprises that are typically overmanned and labor productivity that is notoriously low. Labor intensification, including slave labor, was usable as a substitute for capital only at a primitive stage of industrial development.

Not every “socialist” state maintains a full employment policy. Yugoslavia suffers one of the highest unemployment rates in all Europe, East or West. China too, in the aftermath of Mao's death, was revealed to have a permanent reserve army of unemployed, despite the voluminous testimony by Western sycophants about masses of ever-so-contented people. In both countries

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23. Pehr Gyllenhammar of Volvo, *New York Times*, February 3, 1987.

the Stalinist model of national accumulation is strongly modified by provincial independence and inequality. When workers from one province find jobs in a richer one or outside the country, the rulers still gain from wages sent back home or straightforward labor contracts signed with foreign firms.

Even the USSR has revealed some startling figures under the climate of Gorbachev's glasnost (openness) policy. Unemployment is now admitted to exist, at least in some regions and among some categories of workers. According to Soviet sources in 1987, there were 200,000 unemployed in Tadzhikistan, over a million in Uzbekistan (for an unemployment rate of over 10 percent), and 250,000 in Azerbaijan (again at a 10 percent rate). In Baku, the oil-producing capital of Azerbaijan, the adult unemployment rate is 12 percent.<sup>24</sup>

Confirmation comes from Igor Zaslavsky, head of the employment sector at the Research Institute of Labor in Moscow. "We've been brought up on Stalin's 'full employment'," he said:

"But we plugged our ears and turned a blind eye to reality. Unemployment existed and still exists: concealed, structural, seasonal, temporary. It is only now that we have learned about the massive unemployment in Central Asia."<sup>25</sup>

The same paper reports that, as a result of new layoffs under perestroika, in the republic of Moldavia the number of unemployed workers is estimated at 150,000, approximately seven percent of the work force. But the figure cannot be checked, because according to the government newspaper *Izvestia*, "Officially, there is no unemployment in this country. The status of the unemployed has not been defined and there are no figures."

In addition to the misery bred by unemployment itself, the fact that it is still officially concealed means that labor force planning is all the more fictional. If the employment statisticians don't have reliable information, plans based on labor allocation have no scientific basis.

## WOMEN WORKERS

The comparative situation of men and women workers is one of the most pivotal indicators of social relations. In the USSR, more women work outside the home than in the West; nevertheless women earn on the average 60 to 70 percent of what men earn, a similar ratio to that in the United States and Britain.<sup>26</sup> Women tend to work in distinct industries and job categories, especially those requiring less training — despite the fact that their average level of education is higher.<sup>27</sup> That results from outright discrimination in hiring as well as from the often explicit assumption that women must carry out the great bulk (if not all) of domestic labor and child rearing. It is another lawful tendency of traditional capitalist society reflected in the Stalinist

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24. Cited by Alexander Amerisov, *In These Times*, September 9, 1987.

25. Zaslavsky, interviewed in *Moscow News*, September 10, 1989.

26. Alastair McAuley, *Women's Work and Wages in the Soviet Union* (1981), p. 21.

27. David Lane, *Soviet Economy and Society* (1985), pp. 173-7.

system.

Some of the most oppressive measures against women's gains taken during the counterrevolutionary period were reversed after Stalin's death, including those restricting divorce and abortion. But discriminatory conditions remain. Gorbachev cites Marx's observation that the degree of women's emancipation reflects a society's social and political level and boasts of Soviet achievements in granting women equality and security. He goes on to show what Stalinism's reformers have in mind, which has nothing in common with Marx:

“But over the years of our difficult and heroic history, we failed to pay attention to women's specific rights and needs arising from their role as mother and home-maker ... Women no longer have enough time to perform their everyday duties at home — housework, the upbringing of children and the creation of a good family atmosphere. We have discovered that many of our problems — in children's and young people's behavior, in our morals, culture and in production — are partially caused by the weakening of family ties and slack attitude to family responsibilities. This is a paradoxical result of our sincere and politically justified desire to make women equal with men in everything. Now, in the course of perestroika, we have begun to overcome this shortcoming. That is why we are now holding heated debates in the press, in public organizations, at work and at home, about the question of what we should do to make it possible for women to return to their purely womanly mission.”<sup>28</sup>

Equality is a fine thing in moderation, apparently, but it has gone too far! Outrageously, Gorbachev says that women's hard-won gains are responsible for declines in Soviet morals, culture and production. So they had better get back to their “womanly mission” and domestic duties. There are similar campaigns in the West to restore traditional family values and thereby re-enslave women. Gorbachev's admirers abroad ought to recognize that their hero has views on women's liberation as advanced as those of Jerry Falwell and Jesse Helms.

For someone who claims the heritage of Marx, it is significant that Gorbachev does not mention the traditional Marxist solution for women's double burden (domestic plus wage labor): the deeper socialization of domestic labor. (The USSR has better maternity provisions and a more extensive network of child care facilities than, for example, the U.S., but they are still inadequate.) Gorbachev's remarks point in the opposite direction. He is setting the stage for threatening working women with unemployment, supplying a conservative ideological rationale for driving up the intensity of labor — one of the major tasks of perestroika (Chapter 8). As in the West, a ruling-class retreat on the condition of women accompanies a projected assault on the gains of the working class.

## 2. THE LAW OF VALUE UNDER STALINISM

Having seen the consequences of the law of value under Stalinism, we turn to the law itself. As we showed in Chapters 3 and 4, the law of value was inherited by the Soviet workers' state and

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28. Gorbachev, *Perestroika* (1987), pp. 102-3.

could not be quickly overcome, given the revolution's isolation and backwardness. The counter-revolution enforced the exploitation of the working class, thereby bringing the law and its consequences into full play. But the continuation of nationalized property conceals the operation and even the existence of value.

Of course, the law of value is impeded under both Stalinism and a genuine workers' state. But that doesn't make the two equivalent. A workers' state attenuates the operation of value in the interest of the workers, in the direction of communism. Stalinism distorts value to help exploitation survive. Whereas a workers' state opposes the law of value consciously, Stalinism interferes with it blindly but lawfully. Statified capitalism only intensifies the system's laws of decay.

We focus on the various forms of denial of value by Marxists. Several are variations on one theme: the law of value is not an objective law that governs production "behind the backs" of the producers and planners, but a technique that planners can use to decide what and how to produce. Sometimes they use it well, often badly, but it is theirs to use or not. The rulers and their theorists believe that they plan according to use-value needs — and only employ value, or allow it to operate, to organize use-value production. This theme is the practical application of the notion that the law of value is the rational way to run an economy.

## **CAPITAL FLOWS**

The law of the equalizing tendency of the rate of profit under capitalism is often invoked to prove that Stalinism is not governed by the law of value. Stalin, to begin with, took profit equalization as the defining law of capitalist economy and argued that it represented a significant difference between capitalism and the USSR:

"Totally incorrect ... is the assertion that under our present economic system, in the first phase of development of communist society, the law of value regulates the 'proportions' of labor distributed among the various branches of production. If this were true, it would be incomprehensible why our light industries, which are the most profitable, are not being developed to the utmost, and why preference is given to our heavy industries, which are often less profitable, and sometimes altogether unprofitable."<sup>29</sup>

Totally idiotic, however, is any assertion about Marxism that doesn't recognize that capitalism's law of value did not prevent it from developing heavy industry "to the utmost." As we have seen, the Soviet economy today is dominated by heavy industry and continues to favor it whatever the plans decree; that is the capitalist norm. In asserting that Soviet planning controls the flow of investment capital and concentrates it in heavy industry, Stalin, contrary to his intention, is illustrating the Marxist law of the accumulation and concentration of capital reflected in the domination of Department 1 over Department 2.

As well, in claiming that light industries are "most profitable," Stalin is recalling Marx's point that industries of low organic composition produce proportionately more surplus value. But he

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29. Stalin, *Economic Problems of Socialism in the USSR* (1952), Chapter 3.



forgets the law of profit equalization: the surplus value produced by a given enterprise is not the same as the profit it obtains on the market. For Marx there was nothing incomprehensible about surplus value flowing to heavy industry: capitalism cannot accumulate otherwise.

Stalin's intervention into theoretical disputes has been echoed by analysts who ought to know better. For example, Max Shachtman cited the above passage from Stalin and gave his opinion: "This is very well put, and no Marxist could reasonably quarrel with it."<sup>30</sup> The academic expert Alec Nove agrees: "Stalin in his last work made the point clearly enough: in a situation in which resources could be much more profitably devoted to light industry than to heavy industry, resources none the less go to the latter."<sup>31</sup> Nove notes that Soviet factory prices are set by the planners to yield higher profits for production goods than for consumer goods and blames "politically determined plan-priorities" — but he cannot see that there is lawfulness to such political determination.

Then there is Ernest Mandel:

"Capitalist economy, subject to the tyranny of profit, develops in accordance with quite precise laws — tendency of the rate of profit to fall; flow of capital into sectors with rates of profit higher than average; concentration and centralization of capital leading to the seeking of monopoly super-profit, etc. — from which result the particular features of its present-day phase. Soviet economy escapes completely from these laws and particular features. ... Despite the huge accumulation of 'capital' in heavy industry, investments continue to go primarily into this sector, instead of spilling over more and more into the marginal sectors, as happens in capitalist economy in its declining phase."<sup>32</sup>

Mandel echoes the fallacy that high profit rates and therefore capital in a capitalist economy are attracted to industries with low organic compositions of capital. He adds an argument about the prominence of marginal — i.e., wasteful and unproductive — sectors, in the declining phase of capitalism. But it is ludicrous to imply that Soviet investment avoids waste — or that in this epoch, with investment dominated by giant enterprises and the state, the laws of capital concentration and centralization have been cancelled. The Soviet economy, far from "escaping completely" from capitalism's laws, instead fulfills them in a form suitable to the epoch.

It is remarkable that the masters of state property, even though they are told by theorists that they have the power to escape capitalism's laws, nevertheless seem condemned by some mysterious force to obey them. Just as "capitalist communism," the equalization of profit rates in the pre-monopoly epoch, appears to violate the law of value but only does so on the basis of the law of value itself, the same is true of the Stalinist system. And just as the proportionate sharing of surplus value by the capitalists creates the illusion that capital itself — not labor power — is productive, so does the statification of capital produce the illusion that state property is

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30. Shachtman, "Stalin on Socialism," *The New Internationalist* (1952), pp. 291-2.

31. Nove, *The Soviet Economic System* (1977), p. 186.

32. Mandel, *Marxist Economic Theory*, Volume 2, Chapter 15, pp. 561-2. Mandel's arguments that the USSR cannot be imperialist are omitted from this passage; the question is covered in the next chapter.

independent of economic restraint. The illusion is strongest in the minds of middle-class Marxists who see the state as the agency for the benevolent allocation of society's resources.

## THE TWO-SECTOR THEORY

Another favorite argument is that in the Soviet system the means of production are not commodities — unlike consumer goods which are still exchanged for money. That is, the law of value is said to apply only in the consumer goods sector. This distinction between the laws of state and private production was originated by Preobrazhensky and, after the turns and twists of the 1930's were over, was adopted by Stalin himself:

“As a matter of fact, consumer goods, which are needed to compensate the labor power expended in the process of production, are produced and realized in our country as commodities coming under the operation of the law of value. It is precisely here that the law of value exercises its influence on production.”<sup>33</sup>

For Stalin the law of value governs only consumer goods because they are produced for a market. Mandel also holds that an economy can be disconnected into public and private sectors. In a revealing discussion, he develops the difference between state and private distribution to an absurd conclusion:

“In distinction to the distribution of capital goods among the state enterprises, distribution of consumer goods among individuals is not regulated by the plan. Thus, work performed in the enterprises producing consumer goods is not automatically social labor recognized as such. A portion of these products may prove unsalable. Their use-value cannot be realized if their exchange-value is not realized.

“The Soviet workers cannot use a suit if it is too expensive ... And, if the garment remains unsold, the labor extended for its production is pure loss. In contrast, nothing prevents the state from making use of machinery even if its prime cost was extremely excessive. In the first case the use-value is wasted. In the second case it is realized. That is a difference which no mountain of more or less scholastic arguments can dispose of either in theory or in practice.”<sup>34</sup>

Mandel is absolutely right about the Soviet suit, a typical example of overproduction in any capitalist economy. If it is too expensive for anyone to buy, its use value is wasted and its exchange value is lost. However, to test Mandel's opposite conclusion about Soviet machinery, consider the equipment that was used in the production of that suit. Suppose, with Mandel, that such machinery were excessively costly. These excess costs would inevitably lead to overly expensive suits, for the value of constant capital is transferred to the commodities that it is used to produce. Thus expensive production goods produce expensive consumption goods.

Mandel insists that nothing prevents the state from making use of its excessively expensive

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33. Stalin, *Economic Problems of Socialism in the USSR* (1952).

34. Mandel, “The Soviet Economy Today,” *International Socialist Review*, June 1972.

machinery. This is true only in a formal sense, not in reality: the machinery would be used to produce piles of unused, unsold goods. But *if the value that a machine produces is wasted, so is the value of the machine itself*. The luxurious machine's value may have been "realized" by the enterprise that produced it when it was sold, but then the purchasing firm and the state as a whole have been swindled: they have not realized the value paid for the machine. To blithely call the labor wasted on the machine "social labor recognized as such" clashes with reality.

Soviet economists know better. One report says: "The population had enough money to buy, they just refused to buy goods of bad quality. At the same time producers' goods also remained unmarketed, or kept accumulating in some parts of the economy when they were badly needed in some other."<sup>35</sup> And so does the Soviet bureaucracy. In a speech to auto workers in Togliatti, the "Soviet Detroit," Gorbachev warned that "Vast labor and material inputs may turn out to have been wasted if the articles and goods made do not meet modern requirements."<sup>36</sup>

Further, consider Mandel's argument that the distribution of capital goods, like the machinery making unsuitable suits, is "regulated by the plan." That doesn't make the goods any less commodities. They are produced by one firm to be sold (for money, even if the sale is assigned in advance) to another, which uses them to produce consumer goods for a third, and so on. Despite the plan, the result is not consciously controlled. The value expended can be altered, diminished or as in Mandel's example, destroyed. This is precisely the after-the-fact valuation characteristic of commodity production. It has nothing to do with socialism or social labor.

Despite Mandel, the two departments of production are intimately connected, integral parts of the same economic structure. You cannot have value production of consumer goods without having it for producer goods; one sphere cannot be socialist if the other is capitalist. Mandel's "socialism in half an economy" is even more unrealizable than Stalin's slogan.

## **PRODUCTION FOR USE**

There is another common argument similar to Mandel's: Soviet enterprises are said to produce use values but not values because they are planned according to physical criteria ("material balances"); the monetary forms that exist are simply leftovers from capitalist days, or possibly the NEP period. Soviet material balances and indicators are intended to govern the narrow relations between firms, ministries and enterprises, etc. But they have nothing to do with use values. They are devices used by the planners to make the producing firms conform to the planners' intentions. They specify one or a few aspects of production — gross output, net output, weight, etc. — which have to be maximized.

There is a popular Soviet joke about a hardware factory which, when directed to maximize the weight of its output, produced one gigantic nail. This exaggeration reflects unexaggerated reality.

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35. Cited in Moshe Lewin, *Political Undercurrents in Soviet Economic Debates*, p. 143.

36. Gorbachev, *Soviet Life*, July 1986.

“Let us take an example. It is well known that the compilation of optimal schemes of freight shipment can yield a quite substantial saving. This is not a complicated task. Many articles and books have been written and not a few dissertations defended on the subject. Still, hardly any freight is shipped according to optimal schemes. Why not? Simply because the transport organizations, contrary to the dictates of common sense, are given plans based on ton-kilometers, while optimal schemes minimize ton-kilometers. One can establish computer centers, and conceive superb algorithms, but nothing will come of it as long as transport organizations reckon plan fulfillment in ton-kilometers.”<sup>37</sup>

For example, if truckers are told to maximize the tonnage carried and the distances traveled (and are compensated accordingly), they can do this without maximizing socially useful labor — they can, for example, take long detours, carry excess weight back and forth, etc. Such a system, far from being based on the production of use values, is precisely the opposite. It is production of values *which need not be use values* at all. Mandel’s suits and the related suit-making machinery are additional illustrations.

This also happens, of course, under the law of value in traditional capitalism when goods are overproduced; eventually a crisis ensues. In the Soviet system, where one enterprise can often pass on its futile expenses to another without suffering any consequences, it takes longer for the true value (or lack of it) of a commodity to be learned. Hence the production of non-use values in value form is even more prevalent than in traditional capitalism. A vivid description of how the Stalinist economy can produce for waste was given by a local Solidarity spokesman in Poland in 1981:

“The government gives the workers directives, ‘You must produce this much; you must work this long. This factory must produce this type of shoes, this style, this amount.’ There is no concern about use value. The workers produce. The stores must stock the items. The people, however, refuse to buy. Then we end up wasting everything: money, material, human energy. For what? It doesn’t serve any purpose.”<sup>38</sup>

It serves no useful purpose to produce useless goods, of course. But it can serve the purposes of sectors of capital to gain value — if necessary, fictitious value. Stock market swindles and other forms of speculation are a growth industry in the United States, “wasting everything” and producing nothing. They survive because the economy turns not on use value but on value, a category easily and often distorted — lawfully. It is necessary to recall that for Marx the law of value becomes a restraint on production; it is not the rational distributor of resources it is taken for.

The necessity of “storming” at the end of each planning period in order to fulfill assigned quotas on time also destroys the usefulness of use values. A British reporter cited this example:

“‘We never use a screwdriver in the last week,’ one production line worker at a Lithuanian

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37. Cited from a 1964 article in *Izvestia* by two Soviet economists, in David Dyker, *The Soviet Economy* (1976), p. 34.

38. *Intercontinental Press*, May 25, 1981.

television factory told me. ‘We hammer the screws in. We slam solder on the connections, cannibalize parts from other TVs if we have run out of the right ones, use glue or hammers to fix switches that were never meant for that model. And all the time management is pressing us to work faster, to make the target so that we all get our bonuses.’ ”<sup>39</sup>

Workers in factories of the indisputably capitalist West know well that quality and safety are often sacrificed in the interest of profitability. That the same occurs in the East, and as a result of the drive of the managerial bureaucracy to maximize its earnings, is further proof of the anti-social (and therefore non-socialist) nature of Stalinist production.

Despite all the additional indicators, the primary one in the Soviet Union was gross output, measured in rubles. This naturally encouraged the production of capital-intensive goods and discouraged attention to labor productivity or economies in material and equipment. Under Brezhnev it was shifted to “normative net output,” meaning newly produced value as opposed to total value. This shifted the bias to wasting labor instead of capital — but it still allowed value determinations, however biased, to overcome use-value needs of society.

## USE-VALUE THEORIES

Our formula that the Stalinist economy aims to preserve and maximize the value of the state-owned capital as a whole is superficially similar to other analyses. A prominent neo-Marxist theorist, Gyorgy Markus, says that the goal of production under Stalinism is “the maximization of the material means (as ‘use-values’) under the global disposition of the apparatus of power as a unified whole.”<sup>40</sup> However, the bureaucrats do not care primarily whether the output of their enterprises is actually useful; they are rewarded by quantitative indicators, not use value. Markus and others who reason like him are deceived by the deviation of the Soviet indicators from genuine value, but *distortion* of value is not the same thing as *use* value.

Moreover, on the theoretical level, the unbounded increase of use values, unlike the maximization of value, is not an internally contradictory goal; if the system were accumulating use values by leaps and bounds (even those of the bosses and not the workers) it would be a success. Thus such a theory cannot account for the chronic failure of the system to actually produce the goods its rulers need.<sup>41</sup> The implication of use-value theories is that no revolution is needed under Stalinism: it is only necessary to incorporate reforms and democracy into the system so that use-value production can expand without contradiction.

Kuron and Modzelewski argued that the “class goal of production” in Stalinism is production for the sake of production, “to obtain the maximum surplus product.”<sup>42</sup> But they stressed that they

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39. Martin Walker, *The Waking Giant* (1986), p. 42.

40. Markus, “Planning the Crisis: Remarks on the Economic System of Soviet-Type Societies,” *Praxis International*, Vol. 1, No. 3; also in *Dictatorship Over Needs*, with F. Feher and A. Heller.

41. Aside from this, the *maximization* of use values is a mistaken conception. As Marx pointed out, whereas value is a quantitative property of commodities, use value is qualitative; without value, use values are not quantitatively comparable. (*Capital*, Vol. I, Chapter 1, Section 2, p. 45).

42. Kuron and Modzelewski, “An Open Letter to the Party” (Merit Publishers edition, p. 32).

meant “the surplus product in its physical form,” not value. Although their theory analyzed the Stalinist law of motion in sufficient depth for them to predict the continued decline of accumulation rates, this misconception prevented them from foreseeing the tendency toward devolution of the Stalinist economies towards traditional capitalism, a tendency driven by the need to enforce value more accurately in order to discipline bosses and workers (see below). Because they excluded value from their theory they overlooked its very real determination of production in the system.

This error was bolstered by their argument that the managers form a separate class, the “technocracy,” distinct from the “central political bureaucracy,” the ruling class proper. (The technocrats were even said to be the ruling class in Yugoslavia.) Since it is the technocrats whose specific class aim is to expand value, and since they are only the bureaucracy’s hired overseers, Kuron and Modzelewski argued that the ruling bureaucratic class is under no compulsion to use value as a criterion of planning.

The kernel of truth in the use-value theory is that in this epoch of state economic intervention, the central authorities of every state, East and West, strive to introduce use-value goals instead of mere value accumulation. But the attempt to bypass value inevitably falls victim to the reality that capitalism is based on exploitation; value, and the class struggle that accompanies it, distorts every effort at conscious planning. And so even the Stalinist rulers, as we will see, now know they have to strengthen value accounting in order to boost the production of the goods they want, even if they do not know why.

## **VALUE WITHOUT WAGE LABOR**

Whereas Mandel, Markus and Kuron/Modzelewski hold that value is inapplicable to the Soviet system, Cliff argues that the law of value is brought into the system from outside. Labor power there, he says, is not a commodity because the state is the only legal employer. He identifies the division of labor under Stalin with that under the slave society of the ancient Egyptian Pharaohs — it is “different in degree but not in essence.” That is because the Soviet worker is not free in Marx’s double sense. Workers are “free” of the means of production — they do not own the tools they work with. But they are not free to change employers for better wages or working conditions, since every factory is owned by the same boss, the state. Cliff writes in his book on the USSR:

“Hence if one examines the relations within the Russian economy, one is bound to conclude that the source of the law of value, as the motor and regulator of production, is not to be found in it. In essence, the law prevailing in the relations between the enterprises and between the laborers and the employer-state would be no different if Russia were one big factory managed directly from one center, and if all the laborers received the goods they consumed directly, in kind.

“The Stalinist state is in the same position vis-a-vis the total labor time of Russian society as a factory owner vis-a-vis the labor of his employees. In other words, the division of labor is planned. But what is it that determines the actual division of the total labor time of Russian society? If Russia had not to compete with other countries, this division would be absolutely arbitrary. But as it is Stalinist decisions are based on factors outside its control, namely the world

economy, world competition. From this point of view the Russian state is in a similar position to the owner of a single capitalist enterprise competing with other enterprises.”<sup>43</sup>

As for Cliff’s monolith theory of a whole country as one big factory, we have already seen the independence and rivalry that exists within the Stalinist bureaucracy. This notion ignores the material reality of decentralization, competition and the labor market — and it also accepts the Stalinist planners’ notions that the only restrictions on what they can do are imposed from outside. Dialectical materialism dictates that every phenomenon must fundamentally be understood through its *internal* dynamic, which conditions the result of external influences as well. We will say more on the monolith theory in discussing Sweezy below.

But Cliff has a worse problem. If his interpretation were right then Soviet workers would not be proletarians. If they do not live by exchanging their labor for wages, then labor power is not a commodity — so genuine wages, and workers, cannot exist. Cliff doesn’t draw this conclusion: it is too obviously false. In fact he speaks of the Soviet workers as proletarians; he cites their wages, rate of exploitation, etc. But he never explains how this can be.

Elsewhere, in an article against Shachtman’s bureaucratic collectivism, he criticizes this theory for suggesting that the Soviet workers are not proletarian. “If Shachtman is right and there is no proletariat in the Stalinist regime, Marxism as a method, as a guide for the proletariat as the subject of historical change, becomes, superfluous, meaningless.”<sup>44</sup> This precise refutation of Shachtman also refutes himself.

Under any form of capitalism the second “freedom” of the workers is illusory. “The period of time for which he is free to sell his labor power is the period of time for which he is forced to sell it,” Marx said aptly.<sup>45</sup> Under capitalism a worker is free if he or she chooses — to starve. Soviet workers have about as much freedom to sell their own labor power as any others: they can switch employers within the USSR, and they are often persuaded by competitive wages and benefits to do so. Cliff himself provided documentation for the immediate post-Stalin period:

“Even prior to the decree of 25 April 1956, which allowed workers to change their jobs after giving a fortnight’s notice, labor turnover took place on a large scale. Thus, according to Bulganin, 2.8 million workers (out of some 12 million) left their jobs in ... industrial enterprises ... in 1954, and 1.45 million left building sites; 90 percent of building workers have been in the trade continuously for less than 5 years, and 60 percent for less than 2 years.”<sup>46</sup>

More recently, according to one Western summary, 20 percent of industrial workers and 28 percent of construction workers leave their jobs each year on average, and the figures are much

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43. Cliff, *Russia, a Marxist Analysis*, pp. 157-9; *State Capitalism in Russia*, pp. 220-21.

44. Cliff, *International Socialism*, No. 32. Oddly, this article was added to the 1988 edition of Cliff’s book. We now can read on one page that Soviet workers are tantamount to slaves, and on another that Shachtman’s idea that slave labor is fundamental to Stalinism is “absolutely wrong.”

45. *Capital*, Vol. I, Chapter 10, Section 7.

46. Cliff, *Russia: A Marxist Analysis*, p. 307; he cites Soviet sources.

higher — 50 to 65 percent — for those in the 20 to 25-year age bracket.<sup>47</sup> Another: “There are ... ample statistics showing that millions of people change their jobs annually of their own volition, as they have the formal right to do, and migrate from area to area in total disregard of the planners’ intentions.”<sup>48</sup>

True, and individual enterprises — also in disregard of the best-laid plans — often bid for labor, in effect recognizing that the lure of value is the only effective way to distribute labor according to need. For example, the state pays much higher wages to lure labor to Siberia. Workers accept such offers not because they are flighty and irresponsible, as the bureaucrats and their academic mouthpieces charge, but because they are selling the one commodity they have for the best deal they can get. Any worker recognizes this universal proletarian condition.

The right of Soviet workers to change their jobs at will was restricted severely during the fascism-like apex of Stalin’s rule just after the triumph of the counterrevolution. In Victor Zaslavsky’s words, “It took only a little over twenty years to devolve from the October Revolution, which declared factories to be the property of the workers, to Stalin’s decree, which reduced workers to property of the factories.”<sup>49</sup> The restoration of the workers’ right to change jobs after the anti-Stalin revolts in the early 1950’s was a major victory. But it also serves the interests of the central bureaucracy in that it intensifies competition for labor and thereby compels enterprise managers to deal with labor productivity.

The Shachtman position sometimes shared by Cliff was dissected effectively by another IS leader, Duncan Hallas (here the “exceptionalist case” means third-system theories of Stalinism):

“What is at issue here is nothing less than whether there is a proletariat (in Marx’s sense) in the USSR or whether there is not. To concede that there is not is to accept the substance of the ‘exceptionalist’ case and to undermine the fundamental basis of the bureaucratic state capitalist analysis. If labor power is not a commodity in the USSR, then there is no proletariat. Moreover, if labor power is not a commodity then there can be no wage labor/capital relationship and therefore no capital either. Therefore there can be no capitalism in any shape or form.”<sup>50</sup>

Exactly. But Hallas could not admit that the problem permeates the entire IS theory. His point was elaborated in a subsequent article by Alex Callinicos, who correctly concluded 1) that wage labor is necessary in capitalism, and 2) that wage labor genuinely exists in the Soviet Union — that is, the payment of wages for labor power is not just an accidental form masking a really non-proletarian content.<sup>51</sup> But Callinicos stopped short, too. He did not draw the conclusion that if the producers are proletarians then they exchange their labor power for wages and in turn transfer value and add surplus value to the goods they produce for the capitalists. Nor did he notice that

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47. Jacques Sapir, *Travail et Travailleurs en URSS* (1984), p. 60.

48. Nove, *The Soviet Economic System*, 2nd edition (1980), p. 205.

49. Zaslavsky, *The Neo-Stalinist State* (1982), p. 47.

50. Hallas, *International Socialism* No. 9 (1980).

51. Callinicos, “Wage Labour and State Capitalism,” *International Socialism* No. 12 (1981).



these goods are in fact commodities, since they contain the value the workers have given them and are produced for exchange among the different enterprises and ministries that make up the Soviet national economy (Callinicos does observe that these institutions compete for labor power). To do so would undermine Cliff's claim that the law of value is not generated internally in Russia.

In their halfway critique, Hallas and Callinicos are hardly original. Granting the existence of wage labor but not generalized commodity production is an old idea, as we have seen, originating with Stalin and given theoretical weight by Mandel. The bourgeois empirical perspective simply notes that the existence of wages is a "fact." But for Marxists wage labor is more than just payment for labor; it is the sale of labor power as a special commodity whose specific function (use value) is to transfer and add value to other commodities. That is why Marx insists that "capital presupposes wage-labor." (In exceptional cases like the U.S. South before the Civil War of the mid-19th century, capital could even exploit slave labor — as long as the relation remained fundamentally capitalist; that is, as long as the task of the slave was to add value to commodities.)

Callinicos's attempt to repair Cliff's theory by inserting wage labor as the mode of exploitation while changing nothing else is only cosmetic. To get to the roots of the problem it is necessary to refute Cliff's theory that the law of value does not arise from internal forces in the Stalinist system. Callinicos instead notes politely that Cliff's "framework" is still the basis for analyzing state capitalism. In fact, Callinicos's adjustment makes Cliff's framework collapse.

A telling answer to the denial of wage labor is the account by the Hungarian poet and factory worker, Miklos Haraszti, originally titled *Piecework*. He describes the effects on workers of the "norms" set by the bosses' timekeepers:

"He who sells his time, his strength, his abilities for wages, whether bit by bit or for piece-rates or in a more transparent total form, knows that he does not work for himself. He knows that he has sold everything, including his right to determine how much he will produce. The norm is nothing other than the quintessence of those connections between men that the social scientists call the relations of production in wage labor. Under favorable circumstances the wage can be adequate, even generous: the norm, never. The norm is the thinly veiled constraint within the apparently voluntary framework of wage labor. Incessantly it reminds those who dream of a fair wage of the true nature of wage labor, so that as a result of the constant threat to our conditions of life, we 'freely' pave the way to ever-growing output."<sup>52</sup>

What Marx and Engels did for factory work of the 19th century, Haraszti does for the 20th: he describes not only the surface attributes of labor but also the meaning underneath. And that is the same for 20th-century "socialism" as for 19th-century capitalism. Wage labor exists to yield surplus value.

Mandel's formula that the Stalinist system combines "post-capitalist relations of production" with "basically bourgeois" relations of distribution (Chapter 3) is almost precisely backwards.

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52. Haraszti, *A Worker in a Worker's State* (1977), p. 131.

The relations of production are most clearly capitalist, based on the exploitation of wage labor. The distribution relations diverge from bourgeois norms, but they too stay within the “infinite variations and gradations” that capitalist relations allow.

## NON-CAPITALIST COMPETITION

Another critique of a capitalist analysis of the Stalinist system comes from Sweezy. In reply to Bettelheim’s assertion that a competitive struggle for accumulation of value occurs “through the demands for investment credits and allocations of means of production which continuously emanate from the various enterprises and ‘Soviet’ trusts,” Sweezy replies:

“It is indisputable that under capitalism the separate capitals struggle ‘for the appropriating and accumulation of the largest possible fraction of surplus value.’ In an economic sense this is a life-and-death struggle: the victorious capital thrives and absorbs smaller and less successful ones; the vanquished capital suffers bankruptcy and disappears. Bettelheim equates this process with the efforts of Soviet enterprises to get larger credits and allocations of means of production from the state bank and planning commission. ... If this comparison were indeed a valid one, Bettelheim’s argument would make a very strong case for the real (as distinct from the formal) similarity of the competitive processes in classical capitalist and Soviet societies.

“But in fact the comparison is totally inappropriate. Managements of Soviet enterprises are not independent entities struggling to survive and get ahead in the jungle of the capitalist marketplace; they are appointees in a political bureaucratic structure, which is something entirely different. If one wants a valid comparison with capitalism, it would be between the Soviet managers and the managers of subordinate units of large capitalist corporations like Exxon or General Motors. Both groups of course do compete among themselves, and individuals can win advancement or be fired. But this has nothing whatever to do with the survival and/or growth of the larger units on which they are dependent. By claiming that these larger units are governed by the same ‘laws’ in the capitalist and Soviet systems, Bettelheim is actually foreclosing investigation of what are precisely the most fundamental differences between the two systems.”<sup>53</sup>

Sweezy insists there is nothing comparable about Soviet and Western societies — and yet himself chooses to compare Soviet managements with Western corporate executives. His claims that the internal bureaucratic rivalries on both sides are parallel but that there is no competition between capitals in the East. But Sweezy’s analogy shows the opposite of what he intends. The chief job of Western managers is not to compete but to exploit proletarian labor, and in that role they are entirely comparable with their Eastern counterparts.

As well, the law of value *does* operate within giant Western firms. Monopolies stimulate competition between plants they own in order to pressure managers and workers to boost profits; in U.S. auto firms it is called whipsawing. Of course, the conscious pushing of competition does not mean introducing the law of value; it simply reflects the demands of a law already there.

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53. Sweezy, “After Capitalism — What?,” *Monthly Review*, July-August 1985. Note that Sweezy sneaks surplus *value* back into his description of capitalism — as “indisputable,” to boot. In *Monopoly Capital* he had “preferred” a different “concept.”

Recall that for Marx competition is not the driving force of capitalism but the mechanism for carrying out the underlying laws of exploitation and accumulation. In Stalinism the mechanism of direct competition has been replaced by pseudo-planning, but the drive for accumulation still dominates the economy. That economic units do not live and die according to their competitive success is an intervention into the “pure” operation of the law of value, but it is on the basis of that law itself; it extends the “violations” of value that apply in capitalism’s monopoly epoch.

Sweezy’s comparison of Stalinist bosses with Western sub-managers illustrates this point: corporate units *do* get lopped off or shut down for reasons of profit, even if they are sometimes propped up by the parent firm when their immediate profits are poor. The propping up is characteristic of the Soviet system, and the shutting down has also begun to occur under the new reforms. Not only is there a deformed competition between capitals in the East but there is a similar phenomenon between subordinate units of capitals in the West. Both occur because even the largest capital can only wage the class struggle successfully through competitive methods. They can hide the law of value, but they can’t hide from it for long.

## THE BUREAUCRATS’ LAW OF VALUE

In contrast to Mandel, Cliff and Sweezy, Soviet theoreticians after Stalin’s death determined that value operates throughout the economy. We will discuss shortly what they mean, but first it is necessary — given the widespread impression that Stalinist economy is independent of the law of value — to prove that Soviet economists indeed invoke it. We cite three Western authorities.

“In the period 1956-8 there began a series of discussions on economic theory and practice which culminated in recognition of the fact that prices would have to be based on the law of value as outlined by Marx.”<sup>54</sup>

“The economics profession debated the scope and relevance of the ‘law of value’ in the Soviet economic system. A large majority came to assert that it operates throughout the economy, including transactions within the state sector, and that Stalin’s contrary ideas were wrong.”<sup>55</sup>

“Eventually, enough proof accumulated to show that value categories still existed. Against the still very vigorous ‘antimarketees,’ the majority of Soviet economists yielded to evidence and accepted that, in all its sectors, the Soviet economy was and is a commodity producer. This meant that on the whole the products were exchanged and not just directly appropriated and distributed. Producers could not appropriate products without selling their own in exchange. Pricing and money were indispensable economic categories, and the existence of the market, albeit a ‘socialist market,’ could no longer be denied. Rather, all the necessary consequences of this compelling reality should be drawn, and practices based on negating such realities of Soviet economic should stop.”<sup>56</sup>

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54. Marie Lavigne, *The Socialist Economies*, pp. 225-6.

55. Nove, *The Soviet Economic System*, 2nd edition, p. 340.

56. Lewin, *Political Undercurrents in Soviet Economic Debates*, p. 171.

A pioneer theorist of such “use” of value was Oskar Lange, a top Stalinist economic official in postwar Poland. He wrote:

“Marx considered the ‘law of value’ as a guiding principle which will regulate the allocation of resources in the socialist economy. There is, of course, a difference in the mode of operation of the ‘law of value’ under capitalism and under socialism. Under capitalism it asserts itself through the impersonal automatism of the market; in a socialist society it serves as a normative principle for the allocation of resources by the planning authorities.”<sup>57</sup>

Marx considered the law of value to be nothing of the sort, as we saw in Chapter 3. Lange’s rationalist approach is ideally designed for planning bureaucrats who prefer to ignore the consequences of exploitation and class struggle — until they find that, law of value or no, they too cannot avoid the crises and decay of capitalism.

How is the law of value “used”? So-called “value balances,” openly expressed in monetary terms, are adopted to align the broad sectors of the Soviet economy.

“Value balances ... determine the ratios of the main elements of the economy in money terms. Value balances of the national economy are used as a basis for establishing the most general socioeconomic proportions, for example, the ratio between consumption and accumulation in the national income, between the output of means of production and consumer goods, between the real incomes of the population and their provision with goods.”<sup>58</sup>

The Soviet economy’s monetary record-keeping is so essential that it is inscribed in the new 1977 Constitution. We read in Article 16:

“The economy is managed on the basis of state plans for economic and social development ... and by combining centralized direction with the managerial independence and initiative of individual and amalgamated enterprises and other organizations, for which active use is made of management accounting, profit, cost and other economic levers and incentives.”

Not even the arch-capitalist United States so blatantly embraces the profit motive in its Constitution; this bourgeois document hides it under the nostrum of the “pursuit of happiness.”

Anti-value theorists are always eager to point out that “profit” in Stalinist countries is not the same as in the West: it is a planner’s category, they say, not the result of true competition. True, Stalinist profit is a device used as a substitute for competition to carry out the inner laws of capitalism. But it too is driven by the law of value and limited by the total amount of surplus value extracted from workers. Just as capitalists think that their profits arise not from exploitation but rather from competitive success, so too the middle-class Marxists believe that the planners’ profit is independent of value, that is, of exploitation.

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57. Lange, “Marxian Economics in the Soviet Union,” *American Economic Review* (1945).

58. Gosplan (the Soviet state planning commission), *Soviet Planning: Principles and Techniques* (1972), pp. 85-6.

The planners hope by “taking market realities into account” to run their economy better with more accurate measurement of the values of commodities. They cannot measure labor time scientifically, given the competing separate interests that bring about hoarding, suppressing information from the center, etc. Nor do they have an even approximately adequate method to determine value after production, as under traditional capitalism. In one sphere they have an easy solution: trade between “socialist” countries is conducted according to world (capitalist) market prices, so each country can be sure that it is not getting cheated. This method cannot be so easily adopted internally, lest the bureaucrats give up all semblance of control over their economy. But all they can do when they try to use the law of value for setting prices is to shift their problem — from arbitrary pricing to inaccurate pricing.

Marx’s theory, after all, was not designed to determine precise prices but to show the course of development of *capitalism* — above all its class contradictions and impermanence. It was not designed to be “used” — least of all by those who would more rationally exploit the proletariat. Hence there was nothing in the Marxist books about what to do. The Stalinist theorists have had to wrestle over questions Marx would never have thought to ask. Do we apply the original value of commodities or prices of production? Do we take into account interest? Rent? Supply and demand? All these problems are fundamentally unanswerable: they might just as well debate how to “use” the law of gravity in learning to fly by jumping off buildings and flapping their arms.

What the price-setting bureaucrats can do is look at the monetary cost of each commodity, assuming (falsely) that this measures the underlying labor time with some approximation of reality. But they apparently also ignore the problem of *socially necessary* labor and take into account only what a commodity has actually cost, necessary or not. (That is another result of insisting that value is a rational, not an objective, category.) Thus they arrive at the formula “the higher the expenditures, the greater the price”<sup>59</sup> — a procedure guaranteed to make prices increase across the board. This often forces them to offset price increases with massive subsidies, which becomes less and less possible as the crisis deepens.

The measurement of value according to cost led a perceptive scholar to come to a highly realistic overall conclusion:

“Because of the unique character of many investment projects it is in practice very difficult to value design and construction work except in terms of the *actual* costs involved. Thus crude output maximization can easily turn into crude cost maximization. ... Thus the area of the Soviet economy which most badly needs to get altogether away from the cult of the gross is the one still most at its mercy. While one can place the crudity of early Soviet industrial planning into historical perspective, and see a certain hesitant logic in the course of planning reform since 1965, we must now really raise the question of *whether Soviet investment is, or ever has been, planned in any way whatsoever.*”<sup>60</sup>

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59. From a 1985 editorial in *Pravda*, cited by Rumer, “The System — at What Price?”, *Problems of Communism*, May-June 1986.

60. David Dyker, *The Future of the Soviet Economic Planning System* (1985), p. 116.

The inability to plan according to value has led some Soviet (as well as Western) economists to reject the labor theory of value as having no relevance to modern society.<sup>61</sup> Interestingly, when Soviet planners turn away from the law of value because it doesn't serve their purposes, they then look to the bourgeois theory of marginal utility. But this too is an attempt to describe a law of *capitalist* society. However they flounder, they seem unable to use any tools except those derived from theories of capitalism to run their economy. Appropriately, it is the true laws of capitalism that rebound against them and destroy all their tools.

Marxist theorists who deny the existence of value in the Stalinist system have a major problem. If the law of value does not regulate the economy, then the "planning principle" or some other manifestation of human consciousness must do so. If so, whose consciousness? Obviously not the workers', who have little to say about how the system runs. It can only be the consciousness of the bureaucrats: the planners, economists, etc. But *their* understanding is that they operate under the law of value. Thus denying the law of value leads right back to it.

Of course, when the planners' ideas prove inadequate and the economy does not develop according to "plan," it is because it follows capitalism's laws behind their backs. There is no escape: value rules the bureaucratic economy, whether the bureaucrats deny it or try fruitlessly to use it to strengthen their system.

## EVADING THE LAW OF VALUE

The law of value was belatedly recognized by Stalinist theorists, well after they had learned to wield it in practice against the working class. Thus ended an old debate. Bukharin had advocated that the law could be *utilized* by the plan, since value and plan were non-antagonistic. Preobrazhensky had countered that the two were antagonistic but that the law (in the spheres we he admitted its operation) could be *limited* by the plan. However, the governing conception during the period of breakneck industrialization was that the law of value had been *eliminated* by planning. No change in this dogma was permitted for some time.

Voznesensky wrote in 1940 that "The law of value has been abolished in the USSR, although the quantity and quality of labor are the measure of production, consumption and exchange." In its place, "In the Soviet economic system the plan as a directive of economic policy has obtained the force of law."<sup>62</sup> This was an echo of the Stalinist "teleological" theory of the late 1920's, according to which nothing prevented Bolsheviks from carrying out what they wished.

But in the early 1940's the question was in effect reopened. Preobrazhensky's conception was a subtler cover (and therefore is reflected in current pseudo-Marxist theories), but Bukharin's better described the reality of Stalinist capitalism. So a new official line revised the dogma that the law of value could be ignored:

"There took root in our teaching practice and textbook literature the false idea that in socialist

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61. See Rumer, *Problems of Communism*, May-June 1986, p. 30, for both Eastern and Western viewpoints.

62. Voznesensky, cited by Mark Harrison, *Soviet Planning in Peace and War 1938-1945* (1985), p. 224.

economics there is no place for *the law of value*. This idea is in plain contradiction to numerous statements in the classics of Marxism and to the whole experience of socialist construction. ... The idea that under socialism the law of value plays no part of any kind is in its essence contradictory to the whole spirit of Marxist-Leninist political economy. ... On the contrary, it functions under socialism but it functions in a transformed manner.”<sup>63</sup>

On the contrary, Marx and Engels stated repeatedly that value was inimical to socialism (while it would only gradually be eliminated under the transitional workers’ state). In addition to our discussion in Chapter 3, we can cite Engels’ pithiest statement:

“To seek to abolish the capitalist form of production by establishing ‘true value’ is therefore equivalent to attempting to abolish catholicism by establishing the ‘true’ Pope, or to set up a society in which at last the producers control their products by the logical application of an economic category which is the most comprehensive expression of the subjection of the producers by their own product.”<sup>64</sup>

The idea of suppressing the law of value contradicted the whole experience of *Stalinist* construction; the point of the transformation of the mid-1930's was to enforce it. Readopting the law in theory was a tacit recognition that capitalist discipline was required, for the work force first of all, but also for the bureaucrats. It meant that production was in the hands of separate, autonomous units which had no alternative but to relate to one another through the exchange of value-embodying products, i.e., commodities. The shift in Stalinist theory was an acknowledgment that the system operates under an alternative form of competition, which in any form executes the inner laws of capital to maintain and deepen the exploitation of the proletariat.

The timing of the theoretical switch was no accident. When a capitalist state gears up against a foreign enemy it has to lock together all classes in support of the rulers — all the more so when the existence of the nation was at stake, as with the USSR in World War II. Maximization of the national capital is the goal, so value was approved. But circumstances changed. The liberated law of value was too much of a restriction when the Soviet Union had to be built up again after wartime devastation and the onset of the Cold War. That is when Stalin codified the two-sector theory. He told the planners that in heavy industry, the sphere central to the needs of the ruling class, no arbitrary “laws” should dictate to the bureaucracy what it can or cannot produce. Whereas for consumer goods granted to the masses, the planners needed the law of value to “exercise its influence” — i.e., keep consumer production as low as wages, but allow the consumers “free choice” within that constraint.

Middle-class Marxists whose objection to Stalinism is its bad planning have in all essentials the same goals. They too wish to “use” the law of value rationally — of course, for good ends, not evil. Putting aside its theoretical absurdities, this means if taken seriously that Stalinism is a reformable system, one in which good planners can substitute for bad within the structure as it is.

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63. “Teaching of Economics in the Soviet Union,” *American Economic Review* (1944). Voznesensky expressed similar views: *The Soviet Economy during the Second World War* (1949), pp. 119-23.

64. Engels, *Anti-Duhring*, p. 347.

The proper program therefore is democracy. We will see the consequences of such reasoning in Chapter 8.

### 3. THE STALINIST RULING CLASS

Even though the underlying laws that govern Stalinism are the same as those of traditional capitalism, many of their manifestations differ. As we have seen, the chief divergences lie in the contradictions induced by the remnants of the revolutionary workers' state — the “socialist” trappings of Stalinist society. These are key to why stratified capitalism is proving so unstable and indicate the direction in which the Stalinist countries are moving. Another important difference lies in the nature of the Stalinist ruling class, whose origins we traced in the previous chapter.

It is sometimes argued that a capitalist theory of Stalinism is preposterous because the bureaucrats have no awareness that they are capitalist. For example, Ernest Mandel mocks “those who [contend] that capitalism still rules in Russia, China, Eastern Europe, Cuba and Vietnam. Suffice it to say that they can hardly find any capitalist, whether Russian, Chinese, East European, or Vietnamese, to share their bizarre conviction.”<sup>65</sup>

True, the bourgeoisie does not see the world with Marxist insight. But Western economists report that some Soviet professional colleagues privately refer to the Soviet economy as state capitalist. And no less an authority than Fidel Castro reassured Mexican investors that “We are capitalists, but state capitalists. We are not private capitalists.”<sup>66</sup>

Of course, neither the Stalinist rulers nor their Western counterparts admit to being a ruling class. But those they rule over know better. Workers in the Stalinist countries habitually distinguish between “us” and “them.” In Poland in 1980, workers mobilized in one of the most class-conscious movements to arise since World War II labeled their bosses the “red bourgeoisie.” In 1988 Yugoslav workers demonstrated against high-living Communist officials with posters reading, “Down with the socialist bourgeoisie!” In the same year a group of Soviet workers from the Urals wrote to a leader of the suppressed Novochoerkassk strike in 1962: “We would like to know your advice on the methods of struggle against the enemies of the working class — the bureaucratic bourgeoisie, or, as Lenin called them, the ‘sovbours’.”<sup>67</sup>

Such terms may not be chosen for analytical purposes, but they are deeply felt conclusions on the essence of the matter and therefore are far more realistic than the evasions of the rulers' apologists. Understanding forged in struggle is always the best test of theoretical formulas.

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65. Mandel, *Long Waves of Capitalist Development* (1980), p. 64.

66. Translated from *Proceso* (December 4, 1988) by Sam Farber. For further excerpts from this interview, see *Proletarian Revolution* No. 34.

67. Cited by David Mandel in *The Socialist Register 1989*, p. 126; we will see more of this letter in Chapter 8. Trotsky had also recalled that Soviet workers called privileged dignitaries by the name *sovbours* (*The Revolution Betrayed*, p. 100).



## BUREAUCRACY AS RULING CLASS

The Stalinist ruling class is properly called capitalist since it embodies the capitalist relation in opposition to the proletariat: it is the exploiter of labor power, “personified capital” in Marx’s phrase. Since it did not evolve historically like the classical bourgeoisie that grew up under feudalism and does not operate in the same way, we do not call it a bourgeoisie. Like Trotsky we label it a bureaucracy. “We cannot deny that it is something more than a bureaucracy. It is in the full sense of the word the sole privileged and commanding stratum in Soviet society.”<sup>68</sup>

It is argued that the Stalinist bureaucracy cannot be a ruling class because bureaucracies in general are not classes — only servants of ruling classes, as in the despotisms described by Marx. We reply first that bureaucracy is not an abstract suprahistorical phenomenon. The Stalinist rulers dominate a society vastly different from pre-capitalist ones of any form. Theirs is a system driven by accumulation and its contradictions, whereas the bureaucracies of old lived for the privileges of consumption. The despotic bureaucracies squashed all attempts at primitive accumulation (by merchants and incipient bourgeois elements); Stalinists depend on such accumulation by the state. Chattel slavery was vastly different from ancient slavery. So too modern bureaucracy is historically specific to capitalism.

Under capitalism, bureaucracy is a method of social organization that qualitatively expanded at the dawn of the imperialist epoch when entrepreneurial ownership gave way to socialized forms. It is capitalism’s answer to conscious planning, substituting hierarchical organization and “networks” for the interplay of a conscious working class carrying out the productive process. Capitalist bureaucracy attempts to overcome the divisions imposed by the law of value; it regards itself as the soul of pragmatic rationalism. Top bureaucrats and managers understand that their job is profit maximization; however, given their social penchant to believe that they stand above narrow class interests, they sometimes justify this goal as a means for achieving human welfare. Of course, the lower layers interpenetrated with the new professional and white-collar layers often see themselves as devoted only to the national (or even social) good. They regard their role as an alternative to the greed of the bourgeoisie and proletariat.

Bureaucracy is one of capitalism’s objectively generated forms that cover and carry out its real power relations. It grows out of the relations of production, in enterprises and the state. The degeneration of the USSR also produced such a bureaucratic layer. When it became conscious of its distinct status and its need to exploit the workers, it violently broke its ideological and human links with the proletariat and transformed itself into a ruling class. As a result of its counter-revolutionary civil war, it no longer balanced between layers of society but stood clearly and consciously for its own distinct interests. (It identified those interests with those of “the whole people,” but any capitalist class does that.) When it achieved dominance as a class in the workers’ state, it became the embodiment of capitalist relations, not just officiousness and corruption.

As Trotsky implied, a sociological term like “bureaucracy” is inadequate. The Stalinist ruling class is not just an organizational form, not even as specific a form as the nomenklatura (the list

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68. Trotsky, *The Revolution Betrayed*, p. 249.

of a half million or so official posts and people qualified to fill them by Party appointment). In Marxism classes are defined by relationships reflecting the social organization of production; a capitalist ruling class is determined by its direct or indirect appropriation of surplus value through the exploitation of the proletariat. Of course, sociologically the Stalinist ruling class is headed by the nomenklaturists, but there are millions of lower echelon administrators in the bureaucratic class. And especially in recent years, the exploiters of surplus value have included a peripheral layer of private capitalists separate from but increasingly interpenetrated with the bureaucracy.

To define the Stalinist rulers as an identifiable layer of individuals is to make the same error as the Stalinists and sociologists who characterize Western ruling classes as “ruling circles,” “power elites” or the “military-industrial complex.” Aside from the inaccuracy of such terms, they suggest that the ruling class can be transformed by ousting the specific people or layer. Likewise, replacing the bureaucratic nomenklatura with a democratically selected cadre of officials would not alter the exploitative production relations as such. The middle-class (including middle-class Marxist) view of classes as sums of individuals leads easily to reformist conclusions.

Since World War II and especially since 1960 there has also emerged, as in the West, a vast layer of intelligentsia or “specialists” situated between the nomenklatura and the working class. Since these millions of people mostly hold state posts (as is inevitable in a stratified economy), they might be thought of as part of the bureaucracy. But it is necessary to distinguish between the ruling bureaucracy and the intermediate layers, or middle class. Like the Western bourgeoisie, the ruling class recruits new members largely from the middle class; it also guarantees that its children become part of the middle class if not the ruling class itself. Not since the counter-revolution has it recruited significant numbers from the proletariat. The recent upheavals in East Europe show that middle-class elements, as in the West, can hold state office without being part of the ruling class.

In Trotsky’s day it sufficed to describe the class structure of the USSR as composed of a politically dominant bureaucratic caste with a small professional intelligentsia on top of the workers and peasants. Today’s structure is more complex, even though Trotsky’s self-described followers use the same terms.

Not only has the middle class grown under Stalinism because the rulers need its technical functions and its political support as a buffer between bureaucracy and proletariat. The ruling bureaucracy itself has become much more articulated. For comparison, in the West the ruling class is highly variegated, with widely different spheres (finance, industry, merchandising) maintaining a semi-independence despite their interconnections. While the big bourgeoisie has always been the heart of the ruling class, there have always been local owners of medium-sized capitals who are not corporate giants but are also not in the petty bourgeoisie or intermediate middle class. This category still exists but has diminished. Its social, political and economic functions have been superseded by the middle-level manager-owners who serve in the intermediate rungs of the monopoly corporations.

In the East there is a different but comparable layering within the bureaucracy. Local and ministerial officials do not share the same interests as the central state and party bureaucrats who

make up the heart of the ruling class. They too are not the same as the middle class professionals below them; they are part of the ruling class and articulate its interests as they see them. The constant disputes over perestroika between Gorbachev and the “conservatives” reflects this division. And as in the West, the middle-class professionals can be counted on to act for the ruling class and even hold power for it, when the beleaguered system needs the aid of populists and reformists.

The variegated ruling-class structure no longer conforms to the notion of a “caste.” The complexity of the rulers’ inner relations, their longevity at the peak of state power — as well as their control over surplus value — all demonstrate that they constitute a full-fledged class, not a simple privileged stratum risen above the aristocracy of the working class.

## **BOURGEOISIE AND BUREAUCRACY**

The bureaucracy that rules in the name of socialism is a peculiar capitalist class. Its members have no legal title to the property they dispose of, which belongs to the “state of the whole people.” Members of the nomenklatura can be transferred from one post to another; they are therefore seemingly independent of any single segment of the national capital, although they do develop ownership-like attachments.

As a ruling class, the bureaucracy reflects the split between ownership of capital and its managerial function. As we saw in Chapter 2, Marx already observed that “the capitalist exists in a dual form — juridically and economically” when the receiver of interest or dividends becomes functionally separate from the manager, who may get only a salary for his labor. The Western manager or bureaucrat is removed from ownership but remains part of the capitalist class. Likewise the Eastern bureaucrat, except that it is the bureaucracy as a whole that owns the state property.

Even when separate, the two functional spheres are always interlinked, socially and practically. The Western manager may well own shares himself, linking him to specific capitals. Still, capitalists are relatively independent of the specific location or use-values they have invested in; they can pack up and move their industries from time to time, or invest their capital elsewhere. The latter “freedom” is symbolized by the stock market, through which capitalists take out shares of each others’ capitals. It also illustrates Marx’s observation that the bourgeoisie as a whole exploits the proletariat as a whole.

In the East the capital belonging to the various enterprises is tied to specific plants and machinery (although there are now small beginnings of bond and stock markets). Fixed capital appears to be fixed not only in the technical sense that it doesn’t circulate, but also in the sense that one bureaucrat cannot transfer “his share” to another. But although a Stalinist official cannot move his assets to another sphere, he can himself be transferred, normally in the course of moving upward in the hierarchy. (In Mao’s China transfers were made deliberately to prevent special interests from taking root.) This characteristic of the bureaucracy also reflects the capitalist exploitation of the workers as a relation between classes, not just between individuals.

In the West, each capital seeks the greatest possible mobility between different means of production, in order to maximize its value independently and at the expense of all others. Hence the permanent anarchy, periodic crises, imperialism and unemployment that characterize traditional capitalist life. In the East the capitals are tied down physically, but they also seek to maximize their own value and are content to let the others go to the devil. Hence the sense that no one is in charge: the unconcern for quality, the disdain for consumer needs and the apparent permanent crisis. The ultimate absurdity is the international competition and even wars that have broken out between rival statified capitals.

What the Eastern and Western variants have in common is that they extract surplus value by exploiting proletarian labor, and bosses are rewarded by how well they do this according to the prevailing standards. For this purpose the economy is divided into separate capitals. Bosses' interests are always sectoral: they are tied to a specific capital in the West, or to a local enterprise, ministry or region in the East. Both systems have a central state apparatus which normally develops its own particular interests; a current confirmation of this in the East is the resistance of powerful wings of the bureaucracy against the Gorbachev reforms that threaten to reduce their strength. Although the state in the East plays a wider and more varied role than in the West, the picture of a super-organized economy in which all economic events are dictated from Moscow and carried out accordingly is, as we have seen repeatedly, a myth.

There are parallels in the juridical sphere as well. Monopoly capital in the United States has acquired full legal rights: the U.S. Constitution was interpreted in the 19th century to say that corporations are "persons" under the law. Although the predominant form of capitalism has changed drastically, bourgeois legal theory understands that underlying class relations remain the same; the legal fiction that speaks of monopolies as individuals incorporates the new reality and masks the change in form. Likewise in the USSR, the legal form of one national capital (through the Constitutional specification of profit, etc.) reflects both the country's past history as a proletarian state as well as the nationalist needs of the rulers. It too both masks and reflects reality.

The aim of the system created by Stalin in the 1930's was to build up the national capital by tying each bureaucrat to some specific capital, either locally or further up the hierarchy. It was a necessary step in separating the bureaucracy from its original base in the working class, and therefore in ultimately wresting state power from the proletariat. There have always been conflicts between locally and nationally oriented bureaucrats. The Gorbachev reform campaign can be interpreted as the assertion of national interests over local and parochial ones — despite superficial evidence that the reforms mean decentralization of power.

## **FROM FASCISM TO SENILITY**

There are striking parallels between the Stalinist economy and that of a bourgeois state during or just before a war. We cite a description of a typical firm in a "centrally administered economic order":

"Our leather factory produces on the orders of the Leather Control Office, ... [which] allocates raw hides and auxiliary materials. It gives the firm its instructions to produce, and disposes of the

leather it produces. For knowledge as to how the plans are formed by which the economy is guided in a centrally administered system, we must go to these control offices. ... First, there was the collection of statistical material. ... They formed the foundation for the planning itself which was the second stage of the process. This consisted of drawing up the programs for requirements and supplies, and for the means by which the two were to be balanced. It is an essential point that the figures planned for requirements had their source only partially in the demands of the higher authorities ... . Another part originated with other users, that is, mostly other control offices. ... After the centrally administered economy had been working some time, the planning offices often used the figures for earlier planning periods. ... The third stage was the issuing of production orders to individual firms. The production of the firms was fixed in terms of quantities for particular periods of time, and with regard to varieties and qualities.”

This picture could be of Stalinist Russia, but it was written about Nazi Germany.<sup>69</sup> The writer notes that such an economy inefficiently measures the value of goods produced, but is very capable of handling the mobilization of labor and materials that is necessary for major projects in wartime. “Where an economy is under the direction of a central administration, it is usual for an exceptionally large amount of investment to be undertaken.” Moreover, the traditional role of the banking system is bypassed.

“The amortization period and the rate of interest were not taken into account. Neither acted as a brake. So huge investment projects were undertaken, stretching ahead for very long periods into the future. ... Of necessity, the banks will have an insignificant place in a centrally administered economy.”

Further, the programs drawn up by the sectional control offices were highly competitive. “Each control was out to produce as much as possible, for each held its own line of production to be specially important. ... The resulting struggle between the controls for the factors of production, and particularly for labor supplies, had ... to be decided by orders from the center.” As a result of this competition and central decision-making, the economy took an unbalanced appearance in comparison with traditional profit-based capitalist firms.

“Side by side with investment in some fields went a disinvestment or capital consumption in others. This capital consumption was an essential aid to investment in other branches. ... On the one side there were firms with stocks falling and machinery deteriorating, and on the other new construction and the expansion of equipment.”

In the Nazi case this central administration was handled mainly without nationalizing property but rather by imposing governmental controls over privately owned firms. Indeed, most of the arguments that the Soviet system is non-capitalist would apply equally well to the “private” economy of Hitler’s Germany.<sup>70</sup>

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69. Walter Eucken, “On the Theory of the Centrally Administered Economy: An Analysis of the German Experiment,” *Economica*, 1948.

70. For example, Hillel Ticktin’s remark that “The fact that no genuine union can exist in those societies and no form of collective action of any kind, without immediate repression, raises the question of the meaning of class in that context.” (*Critique* No. 20-21, 1987.)

The parallelism with fascism can be looked at from a different angle. When Trotsky described Stalin's rule in the 1930's as "symmetrical" to fascism, he meant that the methods of rule were similar, even though the state power rested on a different class. Following up the implications of his position, Trotsky concluded that if the process of counterrevolution were to continue, it would mean that "the state regime will in that case inevitably become fascist."<sup>71</sup> And so it happened.

In his analysis of German fascism, however, Trotsky had pointed out that fascism cannot maintain forever the iron-fisted movement that brings it to power, the counterrevolutionary mobilization that smashes the proletariat and forges a monolithic unity out of the ruling class. Before long the class struggle must re-emerge, and different sectors of capital will reassert their competing claims. He applied parallel reasoning to Stalinism:

"A totalitarian regime, whether of Stalinist or fascist type, by its very essence can be only a temporary transitional regime. Naked dictatorship in history has generally been the product and the symptom of an especially severe social crisis, and not at all of a stable regime. Severe crisis cannot be a permanent condition of society. A totalitarian state is capable of suppressing social contradictions during a certain period, but it is incapable of perpetuating itself."<sup>72</sup>

Even under Stalin's dictatorial regime, the Soviet economy showed signs of anarchy. Ruthless attacks on the workers were accompanied by selective concessions, and Stalin could never erase completely the gains workers had made in the Bolshevik revolution. Nevertheless, during the first period of the restored capitalist state, especially from the end of the war until Stalin's death, control was tightening. Just as war prolongs the life of ordinary fascism by allowing it to lock together the disparate forces it straddles, so too did war extend Stalinism's fascist period.

The fascist-like regime came to an end after Stalin died. Soviet rulers enjoyed a period of imperial stability; they crushed revolts but generally adhered to a policy of granting concessions as needed. Given the history of Bolshevism, they understood how dangerous it can be to push the workers too hard. Thus consumer goods production increased, although never as much as promised or even planned. Likewise, after the Hungarian revolution of 1956, a reform regime under Janos Kadar was established, not a fascist garrison state. The fact that Hungary was one of the first Soviet-model countries to introduce consumer-oriented reforms was an unacknowledged gain of the workers' armed struggle.

Khrushchev's "revelations" of Stalin's crimes (Trotsky had exposed them decades beforehand) assured the ruling class that it could now relax and enjoy the spoils of power — no more early-morning knocks at the door from the secret police. The USSR was no longer totalitarian but rather, under Brezhnev especially, a senile semi-totalitarian regime. Nor is it Bonapartist: certainly not in Trotsky's sense of a regime carrying out the counterrevolution in a workers' state, nor in the traditional sense of a popular leader governing in place of the owners by balancing between classes. The Gorbachev reforms expose a badly divided ruling class debating,

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71. Trotsky, "Does the Soviet Government Still Follow the Principles Adopted Twenty Years Ago?", *Writings 1937-38*, p. 128.

72. Trotsky, "The USSR in War," *In Defense of Marxism*, p.13.

among other things, whether a new form of Bonapartism should be attempted in order to enforce the needs of perestroika on a working class unwilling to sacrifice its living standards further.

## **NATIONALIZED PROPERTY AND ITS DEVOLUTION**

The triumphant period of the Stalinist counterrevolution lasted for less than a decade after World War II. Dedicated to “socialism in one country,” the ruling party attempted to constitute itself as the ideal accumulator of capital operating through the state. But as Marx had foreseen, when capital “seeks refuge in forms which, by restricting free competition, seem to make the rule of capital more perfect,” it only succeeds in adopting forms which are “the heralds of its dissolution and of the dissolution of the mode of production resting on it.” Indeed, not only could it not create an isolated socialism — even “capitalism in one country” proved chimerical.

The nationalized property that defines the Stalinist regimes enabled them to mobilize resources in times of acute stress (war, postwar recovery). But it has not proved an unmixed blessing. On the one hand, state property is the end result of capitalism’s inherent tendencies of centralization and concentration. Today in Western economies, nationalized industries serve to shore up the national economy as a whole, its monopoly profit-making sectors in particular; they help absorb the brunt of crises and are to this end allowed to deteriorate under government control. Of course, they are still subject to the limitations and laws of capital.

On the other hand, nationalized property is a proletarian form of property; it was cited by Engels as part of the “invading socialistic society.” It is proletarian since it is a necessary component of working-class rule: it permits the workers to centralize economic control and establish conscious planning. As Lenin pointed out in his writings on the new epoch, capitalism borrows this tool of the proletarian revolution to prolong its own class rule; in the hands of alien class rulers it becomes a weapon wielded *against* the workers. Stalinism is the extreme version.

Even so, nationalized property is a two-edged sword. Designed to free the productive forces from their capitalist fetters, it typically fails this purpose because it mirrors the underlying decay of the system. The great advance of the productive forces in the USSR took place in the 1930’s when it was still a workers’ state and could mobilize cadres and workers dedicated to building socialism even at great sacrifice.

But now that the ruling class with its established and parochial interests has long been in power, the barriers of capitalist relations that Marx spoke of all come into play. Defense of large concentrations of capital conflicts with the growth of the system as a whole. Thus the expansion of the 1930’s contrasts sharply with the Stalinist decay of today. The concessions to the working class embodied in Stalinist state property — guaranteed employment, overmanning in the factories, leeway to slack off at work — reflect both the strength of the proletariat even after its defeat and the inherent weakness of a ruling class that hides behind socialist pretensions and cannot own property in its own name.

A stratified capitalist economy is inherently fragile. The working class faces one boss, a thin layer of state bureaucrats, from whom all economic decisions emerge. The bureaucracy naturally gets the blame for all the workers’ misery; the state cannot pretend to be neutral between bosses and

workers, as in the West. To hold onto power in a situation of naked exploitation, the rulers need a huge apparatus of repression as well as a vast layer of middle and petty bureaucrats to shield them from the workers. Both are evident drains on production and hindrances to the accumulation of capital, the basis of their rule.

The bureaucracy can be thought of as a regent class for the traditional bourgeoisie. This applies in two senses: 1) The weakness of stratified capitalism makes its rulers dependent on world imperialism for capital and technology and therefore opens the system to foreign exploitation. 2) As its weakness becomes obvious, the system tends to devolve back in the direction of traditional capitalism by adopting openly bourgeois economic measures. Devolution means that the bureaucracy is laying the groundwork for deeper bourgeois characteristics to develop within itself, and even for a future bourgeoisie from both inside and outside its own ranks to replace it. However, the regency analogy should not suggest that the bureaucracy *as it is* is not the embodiment of the national capital.

The theory of permanent revolution teaches that capitalism in its epoch of decay is unable to complete the fundamental tasks of the bourgeois revolution. Were it not for the working-class revolution usurped by the bureaucracy, no stratified capitalism would ever have been possible. The achievement of a “single capital” on the verge of its annulment as capital is only possible by a genuine workers’ state.

As if to prove this, as the Stalinist economies grind to a halt today, many of their unique characteristics are being called into question by their own creators. Stalinist rulers are committed to the defense of state property only to the extent that it supports continued exploitation. As East European states threaten to destroy nationalized property through privatization, it is the proletariat that defends it.

If the Stalinists retain state power, the devolution towards traditional capitalism does not mean that the economy will tend to become less centralized. It too is subject to the law of increasing concentration and centralization. As greater economic authority devolves from the center, the strongest enterprises and combinations will tend to grow disproportionately, while the smaller, less economically efficient and less politically influential will be shut down or swallowed up.

The “orthodox Trotskyist” view that China, East Europe, etc. became deformed workers’ states after World War II (Chapter 7) is linked with the mechanistic belief that the proletarian form of nationalized property necessarily implies a dominant proletarian content. (If this were true, Marx and Lenin’s description of joint-stock companies and monopolies as socialized forms of property would mean that they were socialist.) A symmetric counterposition is the denial of any proletarian content in the nationalized property form; this is the view of Shachtman and Cliff. Against both, Marxists must recognize that form reflects content but does not determine it. Form and content continually come into contradiction — which is temporarily resolved at a new level as the content, itself changing, exercises its dominance. In the Stalinist states, the socialized forms



are remnants of the proletarian past, with the capitalist content now clearly dominant.<sup>73</sup>

The full development of capitalist rights to property has not yet taken place, but every day brings new reports of reforms that open the door wider. The fall of each pillar of Stalinist orthodoxy, the eagerness of wide sectors of the bureaucracy to slide over into being truly bourgeois, proves that the state form readily conceals capitalist relations. Thus the Marxist understanding of form and content is increasingly confirmed.

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73. Leftists who defend the Stalinist *state* as progressive risk defending it when it dismantles the property form that embodies its alleged progressiveness. In parallel, those who see no proletarian character in state property risk denying support to workers defending past gains.