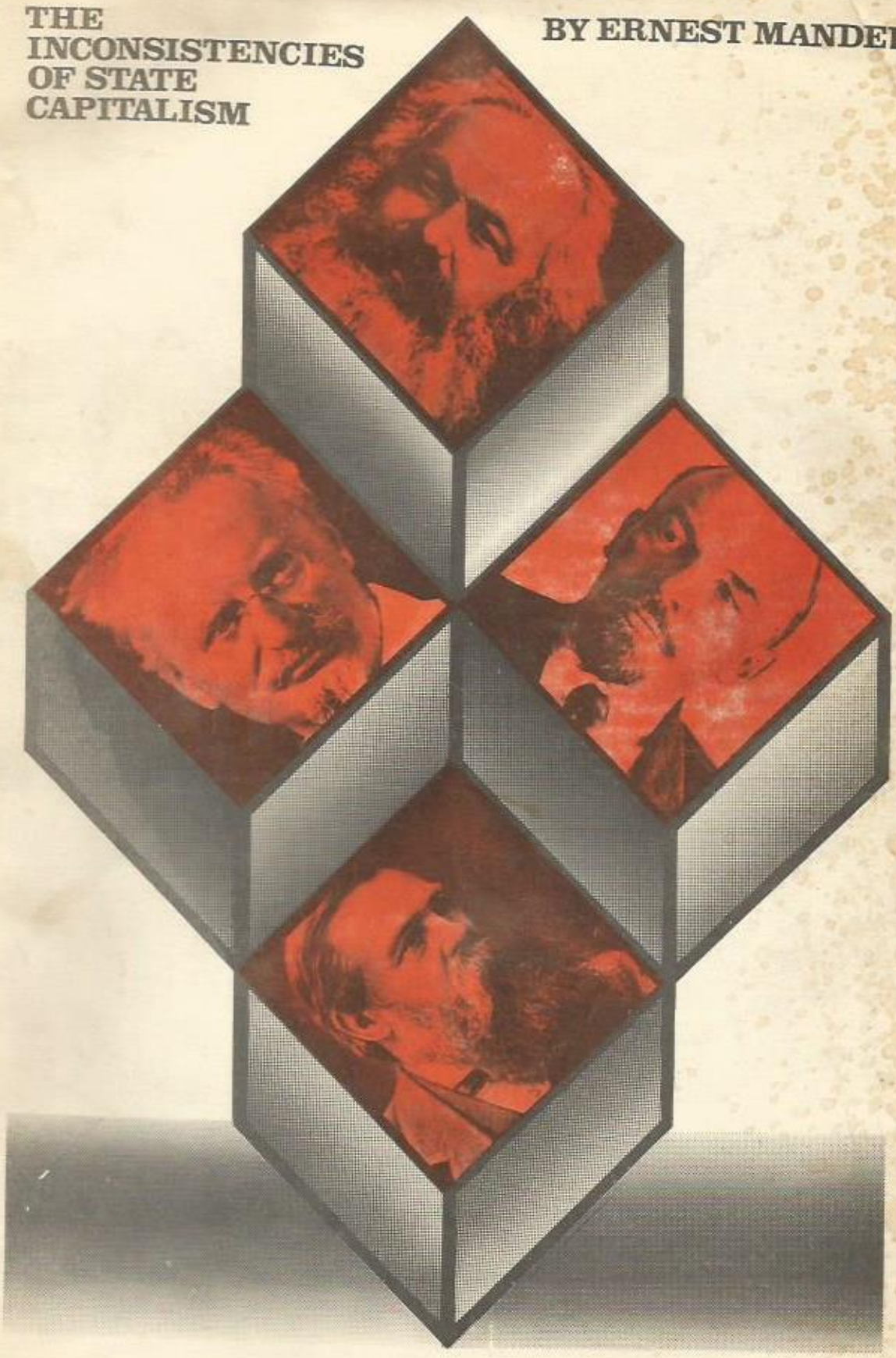
THE INCONSISTENCIES OF STATE CAPITALISM

BY ERNEST MANDEL



THE INCONSISTENCIES OF "STATE-CAPITALISM"

Ernest Mandel

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INTRODUCTION

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

Normally one tends to ignore shallow and vulgar criticisms, particularly when they give the appearance of being hurriedly written (possibly without having read the entire book). However crude though it was the review had a thread running through it: a thread of assumptions, vulgar concepts, and economic deterministic prejudices which represent the ideology of the theory of state capitalism. In replying to Kidron and in analysing his arguments, Mandel was, therefore, able to examine the economic basis of the theories of the **International Socialism** group as a whole in a comprehensive manner. Mandel does more than this: he demonstrates how it is impossible to isolate theory from practice and how, in fact the Menshevik theories of **International Socialism** lead to a very bad political practice.

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

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

Some of us predicted that its looseness would soon begin to catch up with it and that I.S. would be faced with organisational and political crises. That this has happened is abundantly clear. But a considerable number of young revolutionaries have been made sour and cynical as they passed through this organisation and in the building of a revolutionary party these casualties can not be afforded. Because the building of such a party is an important and urgent task which faces the revolutionary left in Britain.

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

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

"The Central Capitalist Dynamic"

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

So in order to teach us a lesson, Kidron starts explaining what this "central capitalist dynamic" is in his opinion. First he says that what is peculiar to capitalism, among class societies, is the fact that "there is no central, public arrangement to ensure that the process (of pumping a surplus product systematically from the mass of producers) will go on in an orderly, continuous and predictable way. Key choices about the deployment of resources are left to individual capitals, big and small, public and private". Then he continues to say that under capitalism "growth is the ultimate compulsion," "the primacy of growth is essential to Marx's model of the system at work".

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

With his second definition, Kidron has no more luck than with his first one. The "primacy of growth" is not only true for capitalism; it is true for several other historic formations. The transition from dry to large scale irrigated agriculture, sometime between the 35th and the 30th century B.C., triggered off a tremendous process of growth which led us in the course of no more than 400 years from small isolated villages to large cities, extended international trade and the building of empires. The victory of the socialist world revolution tomorrow will also trigger off tremendous economic growth (and, perish the thought, even large-scale "accumulation"), unless of course we conceive of a world socialism with two-thirds of mankind condemned to the miserable standard of living they are "enjoying" to-day.

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

It is sufficient to open "Capital" and to read chapter 1 of the first vol. to understand what constitutes this "central dynamic" of the capitalist mode of production. Capitalism is the only form of class society in which *commodity production becomes generalized*, in which all elements of production (land, labour power, labour instruments, etc.) become commodities[2]. Generalization of commodity production creates a constantly growing but also constantly uncertain and changing anonymous market, and this implies in turn universal competition. It is this universal competition between separate capitals (owned by separate capitalists) which is the main driving force for the accumulation of capital, the only means to systematically reduce production costs, because any individual capitalist who stays behind in this race will be pushed out of the market through being forced to sell at a loss (or at too small a profit). Capitalism is therefore a mode of production in which the generalization of commodity production unleashes a historic process of accumulation of capital, which is in turn a constant (be it discontinuous) growth of *commodity* production, of production of *exchange values* and reinvestment of surplus-value.

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

Competition, economic compulsion and "psychological mechanisms"

It is true that Kidron uses, in passing, the concept of "competition" which would normally imply the notion of commodity production. He writes: "The behaviour of individual capitals is narrowly determined by the competition between them . . . If an individual capital did not grow, it would ultimately be unable to afford the rationalization and innovation with which to meet those that did, or unable to ride as successfully the sudden changes in market conditions which are part of the system. For an individual capital growth is the ultimate compulsion" (p. 33). We fully agree with this description. But a moment's thought will show that this is true only if one assumes a generalization of commodity production and competition between indivdual owners and sellers of commodities[3].

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

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

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

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

For Marx capital implies commodity production, i.e., the need to sell commodities before one can reconstitute and expand capital. "Returning to the money form of capital", "thirst of profit" (i.e., drive to profit maximisation) and compulsion to accumulate capital are therefore exactly identical expressions, which uncover the basic tissue of capitalist society and capitalist mode of production: a dialectical unity between a class structure (*based upon the interests of the ruling class*), a specific mode of production (*generalized commodity production, which, be it repeated again, implies that labour power has become a commodity, which implies therefore the existence of a proletarian class, forced to sell its labour power*), and a specific set of laws of motion resulting from them (*capital accumulation and its contradictions, among them, of course, the class struggle*).

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

According to Kidron, Mandel confuses "social control" and its "form". This argument is especially unfortunate, because Marx himself made explicitly the point that it is precisely the specific *form* of the social surplus product which implies the dynamic of the system[6]. Kidron seems to be under the impression that if precapitalist class societies did not know the kind of growth which capitalism witnesses, it was because the ruling classes had "everything under control". We were then presumably living under "economic law and order". The truth is of course quite different. Precapitalist ruling classes had no economic compulsion to capital accumulation because the form of the social surplus product was essentially that of use-values, and unlimited accumulation of use-values is economicaly irrational and meaningless: the limit to economic growth was more or less given by the limit of luxury consumption of the ruling class and its retainers (including of course conspicuous consumption, *vide*: the pyramids).

Acceleration of economic growth could start on a tremendous scale only when the social surplus product took the *form* of money, which could be used not only to acquire consumer goods, but also to buy land, means of production and labour power, and when the generalization of commodity production, the creation of an expanding market, and the appearance on this market of independent producers and sellers of commodities, made it not only profitable but indispensable to reinvest money in expanding production. It is this *economic compulsion for a social class to productive accumulation of the social surplus product*—which was only possible because this surplus

product had taken the form of money, had become surplus value—which created capitalism. And for marxists, the tremendous revolutions involved in these transformations are inconceivable without a social class whose interests must be served—and indeed were served—through them; because for marxists, unlike for vulgar "economic determinists", no economic transformations are possible without social forces imposing them, and no social forces impose such transformations if these are against their basic economic interests.

That's what Marx taught about capital, capitalism, the capitalist class (and incidentally, more generally about historical materialism. That's what we tried to illustrate, with new empirical data, and at least in the historical parts of *Marxist Economic Theory*, in a more extended way than Marx had found time to do. We don't say of course: this is true, because Marx said so. We only say: Marx truly said this. Kidron can either claim to approve Marx's analysis of capital—and then he has to withdraw his clumsy criticism of our dealing with the "central dynamic" of the system. Or he has the perfect right to challenge Marx—but then he must come up with an analysis which covers the whole history of capital, from its inception till to-day, and which distinguishes this system from all other modes of production, either previous or ulterior, and that he hasn't done so far. Perhaps he is, after all, afraid that he will look a bit silly pretending to know better than Marx what is the real essence of "Capital" . . .

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

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

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

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

Let us first state that Kidron's way of summarizing the laws of motion of capitalism contains several "classical" oversimplifications, fashionable in academic circles and in the Kautsky-school of vulgarized marxism; this is no accident, as we shall presently note. Kidron will have a hard time finding any evidence in Marx's "Capital" that there is a tendency for labour power to decline in absolute terms under capitalism; that "booms become progressively less profitable and shorter; slumps more lasting and severe".[7] But be this as it may, let us now follow Kidron's argumentation of how the absence of a "closed system" of capital upsets the workings of the laws of motion of capitalism discovered by Marx:—

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

"Yet in principle a leak could insulate the compulsion to grow from its most important consequences . . . If 'capital-intensive' goods were drawn off, the rise would be slower and—depending on the volume and composition of the leak—could even stop or be reversed. In such a case there would be no decline in the average rate of profit, no reason to expect increasingly severe slumps, and so on.

"Capitalism has never formed a closed system in practice. Wars and slumps have destroyed immense quantities of ouput. Capital exports have diverted and frozen other quantities for long stretches of time.

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

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

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

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

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

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

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

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

In order to destroy capital, they must not only destroy consumer goods, including durable ones like houses, but also destroy industrial equipment to a larger degree than is newly built. Wars, it should not be forgotten, not only can *destroy* capital but also can lead to a tremendous *increase of capital accumulation* (*as happened, for example, in the USA both during the first and second world war*). Often the two processes occur side by side (*like in Britain during the second world war*), and only if the first process is larger than the second one is there real capital destruction (*i.e., does overall capital accumulation become negative*). We have described the mechanics of this process of contracted reproduction under war economy in *Marxist Economy Theory;* incidentally one of the examples of "fresh exploration" which Kidron somehow managed to miss in the book. Kidron seems to labour under the impression that wars and war production are "unproductive" and "destroy

capital" because weapons are "destructive goods". He forgets that a manufacturer of tanks, munitions and fighter planes makes a huge profit, uses a large part of it to accumulate capital (*i.e. to buy new machinery and to hire new men*) and that this represents a process of capital accumulation identical to the similar steps embarked upon by a manufacturer of tinned milk or by a firm producing turbines.

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

The whole construction is completely artificial and misses the main "law of motion" of capital accumulation altogether. For arms production is not conducted on some mysterious planet Mars, but on this wicked planet of ours; it is not conducted under conditions of some mysteriously unknown mode of production, but under "normal" and "classical" capitalism, with a constant flow of capital between *all* sectors of profitable investment, including arms production. So the calculation of an "organic composition of capital" in the arms industry, separate and apart from that of the "civilian sector", is completely meaningless to establish the trend of the average rate of profit, which results precisely from the *social average* between *all* sectors, including the arms sector. What Kidron would have to prove, to show that the effect of capitalist arms production is to weaken or to stop the tendency to a declining rate of profit, is that the average social organic composition of capital (including of course the arms sector itself) has become lower than it would have been if that arms production sector would not have existed. And that conclusion just does not make any sense, if one assumes that the organic composition of capital in the arms production sector is actually higher and not lower than the average organic composition of capital in the "civilian" production sector, because it is nearly entirely situated in the "capital intensive" sector of heavy industry[10].

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

Kidron would have spared himself much confusion, if instead of talking about "leaks" and "drains", he would have started from the key-difficulty which monopoly capitalism has encountered for three-quarters of a century. This is *not* the difficulty of disposing of *surplus goods* (thereby welcoming any turn in development which would lead to a sudden decline in the "surplus" of consumer goods and investment goods), but the difficulty of disposing of *surplus capital*, which derives from the very nature of *monopoly capital*[11]. Thence both the drive to increasing capital exports, and the drive towards arms production. The economic function of arms production is to provide additional fields of investment for capital surplus, not to reduce the increase in the organic composition of capital and/or the declining rate of profit. Its overall effect—if it is large—will be to ensure a higher rate of overall growth (obviously, because the alternative would be not to use at all the capital invested in arms production) and to reduce the volume of investment and output fluctuations (because arms production, unlike "civilian" production, generally does not decline in phases of recession). But whether all this leads to a rise or to a decline in the average rate of profit depends on other circumstances (e.g., on the effects of arms production on the rate of surplus-value), not on the nature of arms production as a "drain".

Contemporary Capitalism and Vulgar Economics

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

That's what we tried, in *Marxist Economic Theory* and subsequent writings, and we think we can prove our case. As we have shown, between 1869 and 1919, the output of producers' goods increased more than twenty times in the USA, whereas the output of consumer goods only increased twelve times. Between 1919 and 1964, the output of machinery and instruments in the U.S.A. rose from 14.1% to 20.5% of total manufacturing production. Again, the output of machinery increased threefold between 1947 and 1968, whereas total industrial production rose by 250% in the same period. So one might infer that for one century the output of department I has indeed grown more rapidly than the output of department II, which implies that there is a definite tendency for the organic composition of capital to rise[12], and that, from a long term point of view, this tendency is neither stopped nor reversed during the last decades (although it obviously slows down percentwise, when the *absolute* volume of department I reaches a higher and higher level. The same *rate* of growth of the organic composition of capital would require, starting from a certain absolute volume of constant capital and given the average rate of capital accumulation, an *absolute decline* in variable capital—or in output of department II—which has obviously not been the case, and could not be the case given the existing reltionship of forces between Capital and labour in the U.S.A.).

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

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

In the first place, the average rate of profit marxist economic theory is concerned with is the rate of profit on the flow of current production $\left(\frac{pl}{c+v}\right.$, in which is the fraction of the total capital stock actually used up in annual output and not the rate of profit of the *stock* of total capital investment $\left(\frac{pl}{K+M}\right.$, in which K is the value of all fixed capital invested and M the value of total circulation

capital available in capitalist industry). Most statistics—and balance sheets of capitalist firms—calculate profit rates on the stock and not on the flow—and the difference can be quite striking.

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

In the third place, ever since corporation taxes became "burdensome", a whole new "service industry" for doctoring balance-sheets has arisen. Most marxist commentators have insisted especially upon the profit-concealing function of this doctoring (e.g., camouflaging important part of surplus-value as constant capital consumption, through the method of accelerated depreciation)[14]. They seem to have forgotten that this also implies a systematic under-valuation of capital itself, in the first place an under-valuation of the total capital stock—which is all the more formidable because it becomes cumulative—but also an under-valuation of current capital expenditure (part of which is marked down in the books as "current costs of repair", another part of which does not appear at all, because the value has already been "written off" before). Now if the real value of capital is much higher than appears in the balance sheets, then of course statistical series which appear to show uncertain fluctuations of the rate of profit, or even an increase of that rate, can actually hide a long-term tendency of a declining rate of profit[15].

All this being said, do the statistical series really warrant any conclusion that the trend towards a declining average rate of profit has somehow been reversed by contemporary capitalism? Kidron's own series, whatever may be its serious shortcomings indicated above, actually prove the opposite. In order to interpret them, we have to understand that the rate of profit-oscillation works on two wavelengths, so to speak. They work within the span of each cycle, going up in the boom and going down under conditions of recessions; and they work in longer-range periods, tending to reach peaks, during booms, which have a tendency to become lower (*which does not mean naturally that each boom must have automatically a lower maximum rate of profit than the previous one had. Increases in the rate of surplus-value can momentarily offset the effects of increases in the organic composition of capital*). One can dispute the first type cyclical decline only if one disputes the inevitability of cyclical variations of capitalist production at all; and one cannot dispute this inevitability neither in fact (*recessons have occurred in the USA economy in* 1949, 1953, 1957, 1960, *and one is starting right now*) nor in theory (*it flows precisely from the fragmentation of productive resources between different owners, i.e., from the existence of "different capitals", viz., from capitalist competition without which as we have seen above, captalism cannot be conceived*).

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

The same applies to the two main European capitalist countries, West Germany and Great Britain. In West Germany, net profits as a percentage of net capital worth declined for all industry from 20.9% in 1951 to 18.5% in 1955, 18.4% in 1960 and 14.9% in 1965 (each peak years of the cycle; the rates for the intermediary years are each time lower than the peaks). And for Britain, the *Financial Times*' "Annual Trend of Industrial Profit" series indicate a similar trend: for all industrial companies, the rate of profit as against net assets declines from an average of 9.3% for the 1952-1960 period to an average of 7.8% for the 1961-1965, and an average of 6.9% for the 1965-1968 period.[16]

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

It is true, that *Marxist Economic Theory* does not treat in a systematic way the problem of the sharp rise in the rate of growth of the capitalist economy after world war II, a rate of growth which is now declining—as we foresaw correctly since the early sixties, and as the very same issue of "International Socialism" which prints Kidron's critique also confirms (p. 31). The reason for this

does not lie in our "maginot marxism" (it is not difficult to explain that rise with Marx's analytical tools). It lies simply in the fact that most of *Marxist Economic Theory* was written in the late fifties, i.e. more than ten years ago, when many of the postwar trends were not yet clear.

The further development of what we believe to be the explanation of the peculiarities of "contemporary capitalism" can be found in a few of our later writings.[17] Briefly, we think that what we have been witnessing is a third industrial revolution, similar in effect to the second one which ushered in the phase of monopoly capitalism in the last quarter of the nineteenth century. We believe that each of the three industrial revolutions which capitalism witnessed till now have had a similar effect of pushing the rate of investment and of growth upward during a first series of cycles, while inevitably preparing thereby the grounds for a later "long cycle" with a much lower rate of growth. We believe, in other words, that the cyclical movement of the rate of profit is three-fold: inside each 5 to 10 years cycle (first up, then down); between the peaks of several cycles constituting together a long-term period of 20-25 years (generally down); and between several long-term periods (more erratic, but downward in the "secular" sense: obviously, the average rate of profit is today lower than it was in the first half of the 19th century).

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

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

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

In any case, the key aspect of this development is to understand the oversimplification of the assumption (of which even Lenin and Trotsky were at moments victim of) that the structural crisis of the world capitalist system, which undoubtedly began with the first world war and the Russian revolution, somehow is identical with an absolute decline in the development of productive forces. There is no trace in Marx's "Capital" and his mature economic thought of such an idea.

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

In other words: the basic notion here is that there are no "economic situations without a way out" for the imperialist bourgeoisie, as Lenin rightly stated. Capitalism cannot collapse simply out of its own inner economic contradictions. This Kautskyist conception—which, through the intermediary of English mechanistic "marxists" of the Strachey type, has exercised a deep influence on marxist thought in Great Britain—is the underlying assumption of much of Kidron's misplaced critique against *Marxist Economic Theory*. We don't share this conception, and Marx had nothing to do

with it. The only thing he showed was that the inner contradictions of capitalism lead towards periodic economic crisis and social explosions. The fact that even in a period of accelerated investment and growth a tremendous inverted pyramid of monetary inflation and personal indebtedness had to be erected to keep the system going—a pyramid which cannot be expanded in an unlimited way—clearly shows that *all* these contradictions are still very much with us, like in Marx's time. But whether capitalism collapses or not depends on the successful revolutionary action of the working class. And what happens when it does not collapse depends on a variety of factors, some of which we have just sketched.

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

Kidron does not understand at all the point we made about "recessions" and "slumps": that the difference is purely quantitative and not qualitative (and very often quantitative only after a certain stretch of time; the first manifestations of a recession are very often as violent as the first manifestations of the 1929 slump, as we statistically proved). Recurrent recessions prove precisely that capitalism is *not* capable of regular, harmonious growth, is *not* capable of avoiding unemployment and is *not* capable of avoiding fluctuations of income; all this for the simple reason that it is generalized commodity production conducted under conditions of private property (of "many capitals") which *inevitably* implies irregular, spasmodic ups and downs of investment. A mild recession is a recession, i.e., a crisis, after all; and a million unemployed in a country like West Germany or Italy are, after all, a million unemployed, and not full employment. That they don't have the gravity of the 1929 and the 1938 slumps, we concede willingly. But what does that prove? How about comparing them to the pre-1929 or the pre-1913 crises of overproduction (these were, after all, those which Marx wrote about)? What about determining their tendency? Will they tend to become "milder" and "milder" till they fade away? Or will they become stronger and stronger?

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

Capitalism and "State Capitalism"—the Nature of the Soviet Economy

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

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

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

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

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

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

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

Would there be *threat* of encroachment by capitalism? Of course there would be such a threat; capitalism, by its very nature, is adverse to any part of the earth and any potential market being taken out of its grip. This threat would take the form of a threatening poice action (or a military action) to restore private property and "free enterprise" in the domain of the collectivised outfit. It would take the form of trying to lure away the G.M. workers, by showing them at least that elsewhere they could enjoy a higher standard of living. These threats would, obviously, influence the behaviour of whoever administers collectivized General Motors. Part of output would have to be diverted for arms production, for purposes of self-defence, and there would be a powerful incentive for technically more and more advanced arms production. Plans would also have to be drafted (and redrafted) in order not to fall too much behind capitalist production technique for consumer and investment goods too (or even for overtaking them). The division of total output inside the collectivized domain would be influenced by these challenges and the desired response to them. This would be true, incidentally, independently from the fact whether collectivised domain were administered under a perfect scheme of workers control and workers self-management, or whether it were administered by a hideous gang of foremen and engineers, who grabbed power inside the domain in order to reserve for themselves the cream of hte output, achieving thereby a much higher standard of living than the modest average made possible by the given capacity of output.

standard of living than the modest average made possible by the given capacity of output. And the possibility of political power and self-administration being taken away from the workers of the plant would in its turn depend on the degree by which general consumers needs would be satisfied (if they were, there would be no "incentive" for anyone grabbing power in order to satisfy consumer

needs!), on the degree of political activity, awareness and socialist consciousness of the workers (in its turn depending at least partially on their standard of consumption, of leisure and of culture), and on their class cohesiveness (in part a function of the existence and leading influence of a revolutionary organization).

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

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

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

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

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

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

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

We cannot here reproduce the whole argument; but let us concentrate on the main points. As we have said above, it is simply not true that all ruling layers (classes and castes) in history have had an urge to pump more and more surplus product out of the producers. And it is even less true that they all have an urge to "accumulate capital". This "urge" is typical only for the capitalist class, under the concrete conditions of the capitalist mode of production (universal commodity production and private property of the means of production, i.e., the existence of "several capitals", i.e., competition). Now the Soviet bureaucracy is *not* a capitalist class. It does *not* manage factories under conditions of universal commodity production. It is *not* in the process of competition for markets with other capitalists. *So it is under no economic compulsion to maximize output and under*

even less economic compulsion to optimize resource utilization. In fact, it accepts the "tyranny of the plan" (as Kidron states, without seeming to understand that this is a qualitatively different "tyranny" from that of profit) only because it wants to keep its managerial position, as a means of achieving the optimum standard of consumption available under the given conditions. In other words, the *consumption desires of the bureaucracy* (like the consumption desires of precapitalist classes) *and not the need to maximize accumulation and output*, are the motive force behind bureacratic management. And this unavoidably clashes with the inner logic of a planned economy which calls for maximising output[22] and optimizing deployment of resources.

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

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

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

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

But do these reforms mean a smooth and rational use of the planned economy's resources, in order to achieve the maximum growth of output? By no means. They only substitute one set of contradictions for another. Income of the bureaucracy is now increasingly tied to the factory's "success" on the "market". But this "success" does not depend only, or even essentially, upon a rational utilization of given resources available to the factory. It also, and above all, depends upon the technology of the factory (i.e., new investment taking place) and upon a given relationship between the "prices" the factory has to pay for what it "buys", the amount of manpower it has to

use and its wages bill on the one hand, and the "prices" the same factory receives for what it "sells" on the other hand. As long as these prices, the mass and form of investment, the amount of manpower and wages, are determined by the plan, the bureaucrat will quickly feel cheated by the new arrangements. He will say: "You want us to perform "optimally", but you fix things so from the start, that such a performance is, in fact, impossible"[24].

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

Let us assume for a moment that the factory managers were to be successful in their demands, and gradually conquer these supplementary rights (this is the actual formula used to-day in Soviet discussion: "increasing rights for the factory managers"). What would be the outcome of that process? Surely, we would have to drop the inverted commas around the words "market", "buy" and "sell". Surely, each factory making its own investment, trying to establish its own prices, negotiating its own wages, would have become an independent firm, and the market would then "arbiter" between these firms and give birth to prices which would no more be determined by plan, but would result from the inter-play of market forces. Surely, in that case, capital would flow from less to more profitable branches. It would no more be the plan, but this flow of capital which would determine the general lines of growth of the economy. Surely, more and more firms would then find it profitable to export part of their goods instead of selling them in the inner market, and would establish direct connections with foreign firms which would increasingly also sell on the Russian market, as well as export capital to that country. Surely, the growth of individual investment would inevitably lead to overinvestment which in a market economy could only be corrected through periodic crises of overproduction and unemployment (never mind whether "mild" as recessions, or "grave" as slumps).

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

One could say that all this is purely imaginary and only invented for argument's sake. But is it indeed? Hasn't that process actually begun in the Soviet Union? Have not the managers received the right to fire some "excessive workers"? Has not pressure to grant them the right to "fix their own prices" (i.e. to have them fixed by supply and demand on the market) already started, and isn't it referred to in the Soviet press? Have not certain ideologues of the "managerial layer" (whose existence is now openly admitted and whose formation and education is surrounded with the greatest care by the leaders of the bureaucracy) claimed the right to decide upon the closure of "unprofitable factories"? Has not even Liberman raised his voice in favour of the enterprise becoming more and more "self-financing"? Isn't there already an experiment with a whole industrial branch financing "its own" investment?[25] Haven't the trends towards a disintegration of planned economy begun to assert themselves in Yugoslavia, since the "economic reforms" of 1965? Hasn't even an open conflict arisen between "workers self-management" (in its distorted Yugoslav version) and "socialist market economy", the most "aggressive" wing of the Yugoslav factory managers openly defending the idea

that management should be freed from day-to-day "encroachments" by the workers' councils, whose functions should presumably be reduced to one of "deciding income distribution", e.g. to similar functions of a capitalist firm's general stockholders meeting? And isn't the possibility of this process going further and further in that direction conceivable to-day, with all the social forces and contradictions involved in it before our eyes, in broad daylight so to speak, in the Yugoslav case?

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

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

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

Second, if one presumes that the process of disintegration of planned economy proceeds till the bitter end, and that "classical" capitalism, based upon the private ownership of the means of production, is restored in the Soviet Union, what would Kidron call that process, and what would be his political attitude towards it? Would it be just the change of one form of "capitalism" into another? Would Kidron's attitude be one of indifference, or even of glee, "liberal capitalism" replacing a "totalitarian" one? Would the change in the mode of production and in the nature of the state be a historical progression or a historical regression? If it would be a regression (and the more intelligent "state capitalists" tend to admit that), wouldn't Kidron then be in the unfortunate position of having to call it a *social counter-revolution*, and to give a positive connotation to what he calls the "ruling class" in the Soviet Union, rehabilitating it and "defending" it against its "reactionary enemies"? And if he were "indifferent", how could he reconcile this with the obvious economic and social regression encompassed in this process? If he were even to deny this regression, how could he reconcile this with his own admission that there reigns to-day in Russia "the tyranny of the plan" and not the "tyranny of the market"?

The society in transition between capitalism and socialism

The most irresponsible of Kidron's statements is the one that denies the existence and the very possibility of a society in transition between capitalism and socialism. (In all fairness, one must state that Tony Cliff does not agree with him on this point.) Calling such a society a mere "verbal convenience" is not only in opposition to the whole body of theory of Marx, Lenin and Trotsky and

to more than a century of experience of the revolutionary labour movement (it is not Mandel who invented that category, after all), but also puts a question mark over the possibility of socialist revolution anywhere in the world to-day, to begin with in Britain and Western Europe.

Kidron's argument is again a typical example of his mechanistic and unhistoric thought. True, he says, there can be a transition between feudal society and capitalist society[27], because capitalism can grow piecemeal within the interstices of feudal society. Then he goes on: "But socialism is a total system. It cannot grow piecemeal within the interstices of a capitalist society. How does workers' control of production coexist with control by a ruling class when the means of production in dispute are one and the same? How does self-determination and consumer sovereignty ('production for use') coexist with the external compulsion and blind accumulation that results from capitalist dispersal? There may be (!) room for transitional forms in distribution, but at the level of production and control over production the only possible transition is a sudden, revolutionary one" (p. 35).

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

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

Now the working class is perfectly capable of overthrowing capitalism in a single country (it did so in Russia, Yugoslavia, China, Cuba, North Vietnam, and is busy doing so in South Vietnam right now). But it is not capable of building a socialist society in a single country, not even in the U.S.A. (not to speak of Britain or Western Europe). When it has taken power and has organised a planned economy it is not able to suppress commodity production completely because output is not yet high enough to cover all social needs. If it tries to do this artificially, commodity production (with some "private" monetary standard) will re-emerge spontaneously from universal rationing, independently of the will of the "associated producers"[28]. Commodity production will therefore still prevail in the realm of consumer goods. Economic automatism will not reproduce "socialist" relationships in society; state coercion will be necessary to correct that. And we will therefore have a society in transition between capitalism and socialism, characterised (like the Soviet Union) by the basic contradiction and combination of a non-capitalist mode of production and essentially bourgeois norms of distribution[29]. It is no more capitalism, because there is no universal commodity production, no capitalist competition, no capital accumulation, no laws of motion of capital. It is not yet socialism, because there is still partial commodity production, not yet universal production for use, there is still money, there are still social conflicts, and there is still a state.

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

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

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

So a society in transition from capitalism to socialism, far from being a mere "verbal convenience" of Mandel's, is a basic historic category which maintains its fundamental significance for the whole epoch of world revolution. That's what was built in Russia by Lenin and Trotsky. That's what still will subsist in the Soviet Union when the working class will have overthrown the parasitic rule of the bureaucracy, through a political revolution, and when it will have restored full Soviet democracy. That's what we shall have to build, when the workers take power and establish "genuine workers control", in any country of the world tomorrow. That and not fully fledged socialism and "production for use" without commodities, money, at state and—alas—weapons. Anybody who promises otherwise is only creating meaningless illusions among workers, which will cause havoc and deception when reality exposes them. "A society in transition between capitalism and socialism (i.e., the historical epoch of the dictatorship of the proletariat, under whatever form this may appear) doesn't exist", thunders Kidron. "A society of transition between capitalism and socialism, i.e., nationalisation of all means of production under workers control, democratically planned economy, but still with commodity production of consumer goods, with the survival of money, with foreign trade and with a workers army as long as the threat of strong bourgeois states subsists: that's the only thing we can build immediately, when we overthrow capitalism tomorrow", revolutionary socialist workers in Britain will answer.

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

The politics of "state capitalism"

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

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

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

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

In Western Europe, basing himself on his assumption of capitalism triumphant, Kidron, as late as 1967, while recognizing that some slowdown of growth would probably occur, saw as the only possible strategy for the working class movement the perspective of . . . "mass reformism" from below[30]. We, on the other hand, understanding, we believe, much more correctly the structural crisis of the world capitalist system, could make the prediction that notwithstanding the temporary increase in the rate of growth of the Western economy in the fifties and the early sixties, this remained a deeply crisis-ridden system, in which periodic social explosions, which would put the revolutionary conquest of power on the agenda, were unavoidable[31]. The French May 1968 events have shown who has been right and who has been wrong in that respect, and what Kidron's analysis objectively leads to: to furnish a theoretical apology for all those reformist and neo-reformist tendencies in the Western labour movement—to start with the French CP!—who all claim that no more than a defence of workers' real wages and the like is possible to-day.

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

"Ceylon is poor. She is terribly dependent on the export of plantation products, primarily tea, whose prices are steadily falling. Unless she can break into new export markets for manufactured goods, she will simply become poorer.

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

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

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

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

If all this were true, one should have to draw two conclusions. One that it is useless to try today to make a socialist revolution in Ceylon; things could only become worse, and a socialist should limit himself to fight for modest democratic and economic reforms, postponing "revolution" till some better age. Second, that it would be utterly irresponsible to condemn, not only the reformist LSSP of entering a bourgeois coalition government, but also and above all the various reformist CPs of supporting national bourgeois governments (as the Brazilian, Iraqi, Persian, Indonesian CPs have done and the Indian CPs are doing now, one knows with what magnificent results!) Because they had no more choice than the reformist LSSP, and wasn't it preferable, after all, to have the

capitalists do the dirty job of squeezing the workers' standard of living themselves, rather than do it for them under the false signboard of "socialist revolution"?[33]

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

No wonder that Kidron scolds us for "shifting easily" from urban workers to "third world" peasants, to "students as the revolutionary focus" (p. 35). If world revolution is some vague prospect for a distant future, then of course the only thing to do today would be—outside of studying—to involve oneself with the day-to-day economic struggles of the workers, meanwhile preaching socialism, as good social-democrats did around 1890.

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

The inconsistencies of "state capitalism" do not stop there. The adherents to "state capitalist" theories were at least consistent when they refused to back North Korea and China against American imperialism in the Korean war; why back one "imperialist camp" against the other? Now, all of a sudden, they back North Vietnam and the South-Vietnamese Liberation Front (the nucleus, presumably, of the 'bureaucratic class' which is going to extract tomorrow the last drop of surplus-value from the South Vietnamese labourers under the "state capitalist" system they are busy establishing): What has happened? Isn't Russia "state capitalist" or "imperialist" any more? Has China ceased to be "state capitalist"? Is the conflict no more a conflict between two "imperialist camps"? Have the South Vietnamese communists suddenly more "choice" than the "tropical trotskyists" in Ceylon? Could they—God forbid!—actually lead a socialist revolution and build a society "in transition form capitalism to socialism", instead of state capitalism? One can't make head nor tail of this "logic". Here all the inconsistencies of the theory of "state capitalism" are revealed quite nakedly[34].

Let us add that Kidron's dilemma for the Ceylon trotskyists (and revolutionists in the backward semi-colonial countries in general, at that) does not make much sense from an economic point of view either. Kidron assumes that the "terrible dependence" of Ceylon on the capitalist world market is somehow the result of that country's poverty and backwardness; but couldn't it be conceived as the *origin* rather than the *consequence* of that poverty? What does Ceylon (or rather the Ceylonese capitalists and foreign plantation companies) receive in exchange for tea, rubber and coconut exports, and what do they do with these results of unequal exchange? Do they use it for industrializing the country? Only to a small extent. Don't they rather import a lot of consumer goods, to begin with food? Couldn't most of these consumer goods, to start with food, be produced in Ceylon itself? Isn't there a tremendous reserve available for this, half a million unemployed plus all the underemployed able-bodied adult men (not to speak about the unemployed adult women)? Shouldn't this underemployment of the nation's resources be viewed as one of the main roots of underdevelopment too? Shouldn't the enthusiasm of the population be mobilized for these productive purposes, rather than for having them "accept sacrifices in their standard of living"? Couldn't this "labour investment" under conditions of socialist democracy (i.e., majority consensus and workers control) lead to an increase in output, where increase in the standard of living could go side by side with increase in investment (in fact, isn't that the economically *optimum* solution, i.e., the one which guarantees fastest economic growth)? Wouldn't the main condition for such a "take-off" be the expropriation of foreign and native capital and the establishment of a state monopoly of foreign trade and isn't the trouble with the reformist LSSP that it can achieve this neither in alliance with

the bourgeois SLFP nor by electoral means? Couldn't Ceylon answer an economic blockade by Britain (if it came about) like Cuba did, by exchanging rubber, tea and other goods for Russian, Czechoslovak and East German industrial equipment? Couldn't the administration of the tea estates by the Tamil workers, and the subsequent rise of their standard of living, create tremendous sympathy and enthusiasm for a Ceylon workers and peasants republic among the starving, downtrodden but politically already alert or even radicalized population of South India and Bengal? Couldn't a victorious Ceylonese revolution become a powerful factor for triggering off a revolution in India, which would be one of the most important and far-reaching upheavals in the history of the human race? That is the answer to Kidron's dilemma, which any revolutionary marxist could have mapped out to him. If he himself hasn't found it, it is not because of lack of intelligence, but because the theory of "state capitalism" makes him colourblind to the real problems of world revolution today and their answers.

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

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

August 10, 1969

Ernest Mandel.

NOTES

1. Michael Kidron, "Maginot Marxism: Mandel's Economics", in "International Socialism", April-May, 1969.
2. Capitalism is the transformation of labour power into a commodity and of means of production into capital, which means that they have to become commodities too.
3. "Objects for use only become commodities because they are products of private labours, conducted independently from each other. The complex of these private labours constitutes global labour. As the producers establish social contact only starting with the exchange of the products of their labour, the specific social character of their labours appears only through this exchange" (Volume I, chapter I, p. 39)—"In order that these objects may enter into relations with each other as commodities, their guardians must place themselves in relation to one another as persons whose will resides in these objects. . . . They must, therefore, mutually recognize each other as private proprietors" (Volume I, chapter II, pp. 50-51)—"In the existence of the product as commodity, determined historical conditions are embedded. In order to become a commodity, the product couldn't be produced as means of immediate subsistence for the producer himself. If we would have pursued our investigation and asked: 'Under what conditions do all or even the majority of products take the form of commodities?', we would have discovered that this happens only on the basis of a very specific mode of production, the capitalist one" (Volume I, chapter IV, p. 132)—"The transformation of a sum of money in means of production and labour power is the first movement which a quantity of value passes through, if it has to function as capital. This takes place on the market, in the circulation sphere. The second phase of the movement, the production process, is finished as soon as the means of production are transformed into commodities, whose value is greater than the value of their component parts, and thus contains the advanced capital plus surplus-value. These commodities must then be thrown back into the circulation sphere" (Volume I, 7th part, preface to chapter XXI, p. 527). All references are to the German edition of "Das Kapital" of Karl Marx, edited by Engels (9th printing, Hamburg, Otto Meissners Verlag 1921), and have been translated by us.
4. "This absolute drive (Trieb) of enriching himself, this passionate chasing after value, is common to both the capitalist and the hoarder, but while the hoarder is but a mad capitalist, the capitalist is a rational hoarder. The indefatigable increase of value, which the hoarder tries to attain through salvaging money out of circulation, the more intelligent capitalist realizes it by throwing money again and again into circulation" (Volume I, chapter 4, p. 116)—"Commodity production presupposes commodity circulation, and commodity circulation presupposes the representation of commodities as money, monetary circulation; the duplication of commodities in commodities and money is a law of the appearance of products as commodities. In the same way capitalist commodity production presupposes—from a social as well as from an individual point of view—capital in monetary form or monetary capital as *primus motor* for each new beginning business, and as a continuous motor. . . . The whole advanced value of capital, i.e., all component parts of capital, which are composed of commodities, labour power, labour means and productive material, must constantly be bought by money and bought again. What is true here for individual capital, is also true for social capital, which can function only in the form of many individual capitals" (Volume II, chapter 18, p. 328)—"Money is the form in which each individual capital (abstraction made of credit) must appear, in order to transform itself into productive capital, this follows from the nature of capitalist production itself, in general from commodity production" (ibidem, p. 332, for source, see note 3).
5. "Capital exists and can only exist as many capitals, and its self-determination appears therefore as interaction of these many capitals on each other," (p. 317)—"The concept of capital implies that the objective conditions of labour—and these are its own products—become embodied in confrontation with labour (literally: take up a personality in confrontation with labour, E.M.), or, which is the same, that they are posed as property of a personality alien to the worker. The concept of capital implies that of the capitalist" (p. 412)—Karl Marx: "Grundrisse der Kritik der politischen Oekonomie, (Rohentwurf) 1857-1858", Dietz-Verlag, Berlin 1953. our own translation.
6. "The specific economic form, in which unpaid surplus labour is pumped from the direct producers, determines the conditions of domination and submission (Knechtschaft) as they emerge directly from production itself, and react in its turn in a determining way upon production" (Volume III, chapter 47, p. 324 of "Das Kapital", source as in note 3).
7. Marx made the point, in several parts of "Capital", and in "Theories of surplus-value", that real wages are higher in the capitalist countries with higher productivity of labour than in the less developed capitalist countries. As for Marx the reserve army of labour is the regulator of wages, this implies that there is no absolute decline of labour foreseen by Marx, when capitalist industrialization unfolds. The movements of accumulation of capital can produce several results: absolute increase of labour accompanied by relative increase (in comparison to the mass of production and the mass of capital); absolute increase accompanied by relative decline; and absolute decline accompanied by relative decline. The first case (which implies a decline in social productivity of labour) is exceptional under conditions of industrial capitalism, and so is the third one, characteristic for periods of primitive accumulation of capital; the second case is the more common one.
8. Karl Marx, Theorien ober den Mehrwert, 2er Band, pp. 267-8 (2nd edition by Kautsky, Stuttgart, Dietz Verlag 1910).
9. Karl Marx, Das Kapital, Volume III, chapter 15, pp. 236-7 in the edition indicated in note 3.
10. There is of course one peculiarity of arms production which we stressed in "Marxist Economic Theory": the fact that its products do not enter the enlarged *reproduction* process, as they are niether means of production nor means of consumption, and reconstitute neither constant capital nor labour power. But capital invested in the arms sector is part of total social capital; its profits enter the accumulation process, exactly like any other capital; and its own organic composition of capital enters in the determination of organic composition of global social capital, hence in the determination of the average rate of profit, exactly like any other capital.

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

11. This Kidron does not want to admit, because he labours under the impression that there exists not a plethora but a scarcity of capital. The "proof" he produces is the high rate of interest, i.e., high demand for money capital. If conjunctural factors—as those which exist in the USA in 1968-9—are abstracted from the general rise of interest-rates during the last decade is a result of inflation and not of scarcity of capital. When secular inflation—which Kidron could have linked to the weight of arms production, among other things—becomes a permanent feature of the economy, the interest rate is composed of two factors: the "price" of loaning money capital plus an insurance premium to offset annual losses of purchasing power of the currency. When this premium is evaluated at 3%, then the "price" for loaning money capital is much lower than it appears to be. Evidence for the plethora of capital can be found (1) in the movement of capital export from the main imperialist powers, which is today stronger than ever before; (2) in the high rate of self-financing; one of the striking changes of today's monopoly capital as compared to monopoly capital in Hilferding's and Lenin's description (a change which we noted and explained in "Marxist Economic Theory"). Incidentally: inflation can increase the demand for *money capital* side by side with the existing plethora of productive capital. As capitalists big and small don't want to hold cash, they buy up all kinds of "real values", and have an interest to do this on credit as far as possible. Thus inflation creates credit expansion, which in turn feeds inflation. Whether this leads to a scarcity of productive capital can be studied in the annual reports of the big corporations. Do they have difficulties in selling stocks and bonds? Can't they finance important expansion projects due to lack of capital, etc., etc.? Posing the question is answering it. The excess productive capacity in key sectors of industry is the real basis of this plethora of capital.
12. The figures 1869-1919 from "Historical statistics of the USA, from colonial times till 1957"; the figures 1919-1964 from "Long Term economic growth 1860-1965 (US Department of Commerce, Washington 1966)
13. In "Marxist Economic Theory" we have clearly indicated the counter-acting tendencies, which slow down and, momentarily, even reverse the tendency for the average rate of profit to decline.
14. Cf. Baran-Sweezy: Monopoly Capital, pp. 372-378, Monthly Review Press, 1966, New York.
15. We have already indicated elsewhere a very telling example: when the Mobutu regime of Congo nationalized the Union Minière du Haut-Katanga and proposed to pay compensation on the basis of the net book value of assets, the gentlemen concerned cried out like wounded animals: "But our assets are worth three times as much. . . ."
16. West German figures "Zeitschrift für allgemeine und textile Marktwirtschaft", Heft 2, 1968—The British figures are not completely comparable, because till 1965 they express the relation between net profits (gross profits less depreciation and taxes) and net assets, whereas the post 1965 figures deduct financial charges too from gross profits. The difference is however less than 1%, and therefore cannot change the general trend.
17. See especially "The Economics of Neo-Capitalism", published in the "Socialist Register", 1964, London, Merlin Press.
18. Stepped up capital accumulation can be explained in Germany, Italy and Japan, the three countries with the highest rate of growth for the period 1950-1965 among the major imperialist powers, essentially as a result of a sudden upward push in the rate of surplus-value. Reconstruction of the ruined economy increased profit and productivity of labour rapidly, whereas wages lagged behind, as a result of the large surplus of labour (from Japanese and Italian agriculture on the one hand, the strong influx of East German refugees on the other hand).
19. Kidron denies that there has been a decline of world trade in relation to total industrial production, and states that "trade in manufactures has . . . gone up twice the rate of output since 1948" (p. 34). He forgets that there was a tremendous drop in the relation: trade in manufacturers/output of manufacturers for the capitalist countries after the 1929 slump; that the pre-1929 relation was reached again only in 1965; that the pre-1929 relation was in itself lower than the 1913 relation; and that the 1965 figures are strongly inflated as a result of the expansion of trade inside the European Common Market (which, at least partially, resembles the trade inside the United States more than international trade). A tendency which verifies itself for more than half a century is surely a historical tendency, even if it is reversed for four years.
20. Imports from capitalist countries fell from 0.7% of the Soviet Union's national income in 1940 to 0.5% in 1950, after that slowly to rise to 1.2% of the national income in 1959 and 1.5% in 1964. These figures don't tell the whole story though, for a large part of these imports come from semi-colonial countries which have an average productivity of labour much lower than that of the Soviet Union and can therefore neither "encroach" nor "wound" anything inside the Soviet economy. Imports from advanced capitalist countries have till now remained consistently lower than 1% of the Soviet Union's national income.
21. Kidron alleges that the planners ensure growth by a flow from low-productivity to high-productivity sectors, and equates this with the flow of capital from sectors with low profits to sectors with high profits. He seems to forget that in a capitalist economy, it is not physical productivity of labour, but financial profitability of capital (through the prism of the market) which directs the flow of resources from one sector to another—and that both parameters by no means automatically coincide. Unwittingly he has thereby

stressed another qualitative difference between the Soviet economy and a capitalist economy, instead of "discovering" a *simile*. Just in passing: doesn't Kidron believe that in a socialized, or even a socialist economy, resources will also have to flow from low-productivity to high-productivity sectors, inasmuch as economic growth is still needed? Doesn't this indicate the basic similarity between the Soviet economy and *any* economy in the epoch of the dictatorship of the proletariat, after the overthrow of capitalism, in whatever part of the world this occurs?

22. Not, of course, maximizing accumulation. We showed in "Marxist Economic Theory" that the Maximum rate of accumulation never leads to the fastest rate of growth, also some "fresh" thinking which escapes Kidron's attention.
23. Cf. Oscar Lange and Fred M. Taylor: "On the Economic Theory of Socialism".
24. The economic *rationale* of central planning as against "individual profitability" of the factory lies in the fact that the optimum combination of national (or international) resources gives a higher economic result (whether counted in net revenue or in economy of labour-time) than the sum total of the optima achieved on a factory level.
25. A few recent Soviet articles referring to these debates can here be mentioned: V. Komin: "Economic Reforms and Tasks in Further Improving Price Formation", in *"Planovoié Khoziaistvo"*, 1968 nr. 4; V. Lisitsyn and G. Popov: "On administrative cadres", in *"Planovoié Khoziaistvo"*, 1968, nr. 5; E. G. Liberman and Z. Zhitnitsky: "Economic and Administrative Methods of Managing the Economy", in *"Planovoié Khoziaistvo"*, 1968, nr. 1, etc.
26. Cf. The outcry and near-open revolt of the Yugoslav workers since 1968 against the results of the "economic reforms", especially in the form of increased unemployment, increased inequality of income and increased encroachments by managing bodies on the workers' rights.
27. In fact, there have been "transitional societies" between all major stages of man's history. Cf. George Novack's excellent article in the November-December 1968 issue of "International Socialist Review".
28. In "Marxist Economic Theory" we analyzed for the first time (except for the contribution by Preobrashensky, essentially geared however to the problems of an underdeveloped agrarian country) the concrete process of withering away of commodity production, in the course of building a socialist economy. One would have expected some comments of Kidron's on this example of "fresh exploration".
29. Kidron eagerly picks up our remarks about unsold stocks in the Soviet Union to show that overproduction, after all, exists in that country. He doesn't understand that from a *partial* survival of commodity production, *partial* overproduction would emerge inevitably, as we correctly predicted already in the fiftjes, but that the whole difference between capitalism on the one hand, and petty commodity production or society in transition between capitalism and socialism on the other hand, lies precisely herein, that in the first case, generalized commodity production leads "by natural law" to generalized overproduction, i.e., to periodic decreases in investment, in income, in output and in employment in the economy as a whole, whereas under partial commodity production this is not the case, no more in medieval Italy than in today's Russia. Here notwithstanding unsaleable stocks in various sectors of consumer goods, global investment, income, output and employment don't interrupt their continuous growth. Kidron has again, unwittingly, clarified a major qualitative difference of Soviet economy and of capitalism, instead of the simile he thought to have discovered.
30. Michael Kidron: "Western Capitalism since the War", pp. 147-8. Kidron's prescription was based upon the assumption of permanent full employment. Once this is eroded, the resistance of workers of individual factories or firms against the increasingly centralized determination of real wages has no chance of success.
31. See our article: "Une stratégie socialiste pour l'Europe capitaliste", in "Revue internationale du Socialisme", No. 9, mai-juin 1965.
32. Kidron should have been at least objective enough to tell his readers that after entering a coalition government with the bourgeoisie, the reformist LSSP was expelled by the Fourth International, while a minority, the LSSP (R)—which has the secretary of the strongest Ceylon trade union in its ranks—maintains the continuity of revolutionary marxism, i.e., trotskyism, in the island.
33. Incidentally, this conception equals a rehabilitation of Stalin too. The poor fellow had obviously no choice—no more than the reformist LSSP—but to industrialize Russia at the expense of the workers' standards of living. And the alternative programme of Trotsky's Left Opposition? So much "philosophical idealism", undoubtedly. . . .
34. We could continue the tale. The same issued of "International Socialism" which publishes Kidron's "article contains an excellent report by Ibrahim Ali, which ends with the following sentence: "Only a revolutionary and internationalist solution is capable, not only of solving the Palestine problem, but all other problems of social and national emancipation in the region". We fully agree. But let Kidron explain why "developed Arabs" can solve all (!) their social problems through a socialist revolution, while "underdeveloped Ceylonese" cannot. Let the editors of "International Socialism" explain why what is true for the Arab revolution, Eastern sector, was not applicable to the Arab revolution, Western sector (i.e., the Algerian revolution). Wouldn't it then have been necessary to give the Algerian armed struggle against French imperialism the same kind of critical support "International Socialism" is giving today the Palestinian guerillas? And wouldn't it have been necessary to try and push the Algerian revolution forward to a socialist revolution, exactly like Ibrahim Ali proposes today to the Palestinians?
35. Even on this very minor question Kidron cannot keep his categories clear. "Philosophical idealism" is a doctrine which affirms the primacy of spirit (mind) over matter, the first creating the second. When we say that the individual unconscious still harbours echoes from the "communist part" of 7000 years ago, we don't imply thereby that instincts or ideas "create" material conditions; we simply assume that they can linger on after the material conditions which gave birth to them have disappeared. This statement has therefore nothing to do with either philosophical or historical idealism, but is an elementary truth of historical materialism, conceived in a dialectical way. Doesn't Kidron know that the peculiar ideas of the Catholic Church, born out of material conditions of feudalism, still have a powerful impact a thousand years after their formulation? Doesn't he know that superstitions born from material conditions which have dis-

appeared for many more centuries also linger on? Why is it then so difficult to conceive that some of the elementary customs of social solidarity and cooperation, born under tribal communism, and maintained in the village community, could still strongly affirm themselves today? Perhaps because Kidron's way of thinking is narrowly mechanistic and based upon vulgar determinism, where everything flows automatically from economic fatality?

OTHER WRITINGS BY ERNEST MANDEL:

Marxist Economic Theory (Vols. 1 and 2).
An Introduction to Marxist Economics.
The Revolutionary Student Movement.
On the revolutionary potential of the working-class.
On Workers Control.
The Chinese Cultural Revolution.

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