STATE CAPITALISM: THE WAGES SYSTEM UNDER NEW MANAGEMENT

Also by John Crump

THE ORIGINS OF SOCIALIST THOUGHT IN JAPAN

STATE CAPITALISM: THE WAGES SYSTEM UNDER NEW MANAGEMENT

Adam Buick and John Crump

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This book is dedicated to those wage-working men and women who have transcended the inter-capitalist rivalry between private capitalism and state capitalism by posing the alternative of a genuinely socialist world community without money, wages, classes, states or frontiers.

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Preface

According to conventional wisdom, since the Russian Revolution of 1917 the globe has been divided into two 'worlds' – the 'capitalist' or 'free' world and the 'socialist' or 'communist' world. The principal characteristic of the 'capitalist' or 'free' world is that free market forces are supposed to shape its economies, while in the 'socialist' or 'communist' world the economies of the various countries are said to be planned.

Our book challenges this conventional wisdom. It argues that, given the nature of both capitalism and socialism, their coexistence is an impossibility. In the conditions of the twentieth century, what both capitalism and socialism have in common is their all-or-nothing quality. In other words, modern capitalism is necessarily a worldwide system of commodity production based on wage labour, and the level of production in all parts of the world is ultimately determined by the need of productive enterprises (no matter whether they are owned by individual entrepreneurs, are joint-stock companies or are state-managed concerns) to compete with rivals on the world market. Conversely, socialism could only come into existence by replacing capitalism throughout the world, so as to abolish the world market and institute a global system of production for use and not for sale.

We argue that no matter how sweeping the political changes which occur within national frontiers, as long as world capitalism and nation-states persist, those who make decisions about production are compelled to respond to the forces of competition which are integral to the world market. This applies even in a country where all individual entrepreneurs have been eliminated and where all the means of production have been taken over by the state. Whatever the political coloration of the leadership in such a country, the state still has to act as a capitalist, owing to the pressures exerted by the world market system on that country's productive forces. Indeed, even in countries such as Britain, where private enterprise still operates, those same pressures exerted by the world market system have forced the state to take an active role in decisions which affect production.

Thus even in avowedly 'capitalist' countries, the state has increasingly come to the fore, while in supposedly 'socialist' countries the state actually becomes the capitalist, so that they are most accurately described as 'state capitalism'.

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1 What is Capitalism?

To say that state capitalism is a variety of capitalism may be a tautology, but it brings out the need to be clear on what capitalism is before embarking on any discussion of what state capitalism might be. In this chapter we shall identify the essential features of capitalism and then go on to discuss state capitalism and the nature of the capitalist class. We shall be describing in Marxian terms, concisely but thoroughly, the economic mechanism and set of social relationships that constitute capitalism. We believe Marx's analysis to be in general still valid even if, as we shall see in the course of this book, the institutional forms of capitalism have changed from those of Britain in the nineteenth century which Marx studied. We can assure readers who may initially find parts of this chapter difficult that if they persevere they will acquire a basic understanding of the key concepts in Marxian economics which will not only allow them to follow better the other, less theoretical chapters but will also equip them to tackle the many other books and articles written these days from a general Marxist theoretical standpoint.

We shall suggest that, apart from being a class society, capitalism has the following six essential characteristics:

1. Generalised commodity production, nearly all wealth being produced for sale on a market.
2. The investment of capital in production with a view to obtaining a monetary profit.
3. The exploitation of wage labour, the source of profit being the unpaid labour of the producers.
4. The regulation of production by the market via a competitive struggle for profits.
5. The accumulation of capital out of profits, leading to the expansion and development of the forces of production.
6. A single world economy.

GENERALISED COMMODITY PRODUCTION

Capitalism is an exchange economy in which most wealth, from ordinary consumer goods to vast industrial plants and other producer goods, takes the form of commodities, or items of wealth that have been produced with a view to sale on a market.

Commodity production existed before capitalism but in previous societies was marginal to the predominant form of wealth production. In previous societies, such as feudalism, wealth was principally produced for direct use and not for sale on a market. Wealth was used by those who produced that wealth, or else by the privileged classes who lived off the producers and acquired wealth from them by the actual or threatened use of force. In capitalism the roles of production for sale and production for use are reversed; it is now production for use that is marginal, while the great bulk of wealth is produced for sale. In particular, the elements needed for producing wealth (raw materials, machines and human mental and physical energy) become commodities.

In an exchange economy, wealth is not produced for its own sake. Wealth, or useful things fashioned or refashioned by human beings from materials found in nature, is not produced to be directly available for some individual or social use, but is produced to be exchanged. To be exchangeable an item of wealth has to be of some use, otherwise no one would want to buy it, but it is not for this use value that it is produced. It is produced to be exchanged for other items of wealth, for its exchange value.

This distinction between use value and exchange value, between *wealth* and *value*, is a key concept for understanding how capitalism works. Value is not something completely distinct from wealth since it is the same labour which fashions or refashions the material found in nature into an object of use to human beings which, in an exchange economy, gives that object its exchange value. Value is a characteristic of wealth in an exchange economy, the form assumed by wealth in such an economy.

To say that it is labour that gives wealth exchange value is merely to say that this is how the labour involved in producing useful things expresses itself in a society where wealth is produced for sale rather than for use. It produces exchange value as well as use value. The labour theory of value can be seen as a corollary to what might be called a labour theory of wealth. Most wealth, as something useful that satisfies a human want, is produced by human beings transform-

ing nature by their labour. Certain things, it is true, are useful to human beings without being the product of their labour – the sunlight and the air we breathe, for instance – but these 'gifts of nature' are precisely the only items of wealth which have no exchange value, are 'free goods' in an exchange economy.

The labour theory of value is not so much a theory of price as a theory of the nature of wealth in an exchange economy. Even so, it is possible to construct a theoretical model of an exchange economy in which commodities would exchange in proportion to the amount of average social labour-time needed to produce them. In such a model, commodities would be produced by independent producers owning their own means and instruments of production and exchanging their products for those of other producers in order to acquire the things they needed to live. This model is not, of course, capitalism, but it bears a resemblance to the type of exchange which took place on the margin of pre-capitalist societies.

In capitalism, on the other hand, where most of those engaged in production do not own means and instruments of production and where exchange takes place not simply to acquire use values but with a view to profit, commodities do not in fact exchange at their labour-time values. Rather they tend to sell at a price calculated by adding to their average social cost of production a percentage mark-up representing the going rate of profit. However, the sum total of the prices of all the commodities is still equal to their total value, those selling above their value compensating, as it were, for those which sell below it. In other words, in capitalism, the value–price equation posited by the labour theory of value has validity only at the level of the whole economy.

Value is not measured directly in units of labour-time but in units of money. This is because the exchange value of a commodity is not the actual amount of labour-time embodied in it, but only that which is on average necessary to produce it, an average which can only be established through exchange, on the market. Money originated from barter, the simplest form of exchange, as the one commodity in which the exchange value of all the other commodities could be expressed and measured. To perform this role money itself had to have exchange value derived from being a product of labour; which enabled the money-commodity to act also as a store of value. Money still performs both these roles today, although this is heavily obscured by the subsequent evolution of money away from its original forms (principally gold and silver) to symbolic coins and paper notes.

In capitalism money comes to be the universal unit of economic calculation. It is, in fact, the only possible such unit, since there is no other way of comparing the endless variety of different kinds of wealth. Use values cannot be compared as such; only exchange values can and it is these that in the end money is measuring.

INVESTMENT OF CAPITAL IN PRODUCTION WITH A VIEW TO PROFIT

We are now in a position to attempt a preliminary definition of *capital*, clearly a key concept for understanding the system to which it has given its name.

Capital, as a feature of an exchange economy, is a sum of exchange values, a stock not of wealth as such but of commodities, of wealth that has been produced for sale. Historically, capital has been regarded as being a stock of the money-commodity and it is easy to see why: capital is a sum and a stock of value of which money is both the measure and a store. But capital can also be, and generally is under capitalism, a stock or collection of other commodities whose exchange value is merely measured in monetary units.

Capital is no more simply a collection of exchange values than it is simply a stock of wealth; it is a collection of exchange values that is used to yield a monetary income. Capital is money which generates more money, or rather value which generates more value.

Capital, as money invested for profit, existed before the development of capitalism. Money lent for interest (usurer's capital) yielded its owner an income. Similarly, money invested in the sort of trading which involved buying in cheap markets or simply plundering and then selling in dear markets (the early form of merchant's capital) also brought in an income. But neither this interest nor this profit came from the capital having been invested in production. Certainly, ultimately, their source could only have been the labour of some producers, but this was not their direct source.

These two forms of capital played an important role in creating one of the historical preconditions for the development of capitalism as a system wherein capital is invested in production: the concentration into the hands of a small minority of sums of money looking for a profitable investment outlet. When the other preconditions were met – the formation of an international market, a certain development of the techniques of production permitting production on a larger scale

than previously, but above all the separation of the producers from the means of production and the creation of a landless proletariat – this money was able to find the profitable outlet it was seeking by being invested in the actual production of wealth.

Thus, once capitalism has developed, capital can be defined either as money invested in production for profit or as wealth used to produce other wealth with a view to profit, both of which express the same idea from a different angle. A more rigorous, if more difficult, definition, whose full significance we will see later, would be that capital is value invested in production with a view to increasing itself, or self-expanding value.

EXPLOITATION OF WAGE LABOUR

What is the source of the profit which accrues to capital invested in the production of wealth? How does this increase in exchange value, this extra or surplus value, come about?

The usurer obtained his profit out of the revenue of the persons he had lent his money to, and the merchant adventurer acquired his profit by cheating or plundering direct producers or other traders, but profit arises in a completely different way when capital is invested in the production of wealth. It is created within the process of production itself.

Under capitalism, as we saw, the elements needed for producing wealth become commodities; not only the raw materials and the machines but also the labour power of the producers. Labour power, or the mental and physical energy of human beings, has the particular property of being able to produce wealth when applied to nature-given materials. This property of labour power expresses itself in an exchange economy in the capacity to create new exchange value.

Labour power is not to be confused with labour, as is frequently done in everyday parlance when we talk about the 'labour market' and 'selling our labour'. Actually, it is not labour which is bought and sold on the labour market but labour power, the capacity to work. In fact labour, or work, cannot be sold since it cannot exist separately from the product in which it is embodied. Labour power is not the same thing as the product of labour. Indeed, it is precisely the difference between the values of these two separate commodities that is the key to the origin of surplus value.

The exchange value of labour power is roughly the cost of training,

maintaining and replacing the particular kind of labour power concerned (skilled or unskilled, bricklayer or engineer, clerk or schoolteacher). Wages (or salaries) are its price, the monetary expression of its value.

Investing capital in production involves, first of all, converting it from money into the physical elements for producing wealth: into raw materials, into machinery and buildings, and into labour power. The workers, using the machines, expend their labour power to work the raw materials up into finished products. At the same time this expenditure of labour power creates new exchange value so that the total exchange value of the finished products is greater than the sum of the exchange values of the raw materials and of the wear and tear of the machines and buildings. Finally, the finished products are sold. When all the accounts are done, the original capital (now partly in the form of money, partly in the form of the machines and factory, but still a sum of values) is found to have increased in value.

Not all the new exchange value added in the process of production is profit since some of it has to be used to replace that part of the original capital which was invested in the purchase of labour power. In effect, the wage workers have worked a part of their time to replace the exchange value of their own labour power (represented by their wages) while the rest of the time they have worked for their employer for nothing. It is such unpaid labour that is the source of the surplus accruing to capital invested in the production of wealth.

Marx called the part of capital invested in the purchase of labour power 'variable capital' because it was the part of the total capital that, through the expenditure of the labour power, increased in value in the process of production. The other part, that invested in raw materials and in machinery and buildings, was 'constant capital' as its value was merely transferred unchanged to the product. The ratio of constant to variable capital was the organic composition of capital, while the ratio of surplus value to variable capital was the rate of surplus value or the rate of exploitation.

This process we have described is the exploitation of wage labour. It is exploitation even though it takes place fully in accordance with the normal rules of exchange so that nobody is cheated in the sense of not being paid the full price of what they have to sell. The workers receive as wages more or less the full exchange value of their labour power but, as we have pointed out, one property or use value of labour power is its ability to create new exchange value. This use value belongs to whoever purchases labour power and is theirs to use

for their own purpose and benefit. The product and value which labour power produces belong to the purchaser of the labour power in question.

The exploitation of wage labour by capital is a defining feature of capitalism, reflecting the fact that capitalism is a class-divided society in which one class monopolises the means of production while the other, the vast majority, is forced to sell its mental and physical energies for wages in order to live. Capitalism is an exchange economy involving the buying and selling of labour power, a social system in which productive activity takes the form of wage labour. Wage labour and capital are two sides of one and the same social relationship. Wage labour, under conditions of generalised commodity production, inevitably produces capital as a sum of values accumulated out of surplus value, while the means of production can only function as capital by exploiting wage labour.[1] In this sense, capitalism could just as easily have come to be called 'the wages system' as 'the capitalist system'.

PRODUCTION REGULATED BY THE COMPETITIVE STRUGGLE FOR PROFITS

An exchange economy such as capitalism implies not only that the various different kinds of wealth are produced by different producers in different places of work (a technical division of labour) but also, more importantly, that decisions about production are made by a number of autonomous economic units acting without reference to each other. Before goods can be exchanged they have to be regarded as belonging to some person, group of persons, or other subdivision of society. Exchange therefore implies the non-existence of the common ownership of the means and instruments of production that is the only basis on which decisions about production could be made in a conscious coordinated manner.

In capitalism the 'autonomous economic units' which make decisions about production are profit-seeking exchange institutions which we shall call *enterprises*. An enterprise is an institution owning and controlling a separate capital. An enterprise may be a single individual or it may be a joint-stock company, a nationalised industry or even a workers' cooperative. It is not its internal structure that is important for understanding the role of the enterprise in capitalism but rather the fact that it represents – incarnates, if you like – a

separate capital, a separate sum of values seeking to expand itself through being invested in production.

All enterprises, whatever their legal status or internal structure, aim to increase the value of the capital they incarnate. This search for profit brings them into conflict with other enterprises, not just those engaged in producing the same or similar products but with every other enterprise, or rather with every other capital seeking to increase its value.

The origin of profits is, as we have seen, the unpaid labour of wage workers but this is not how it appears to enterprises. To them, profits are the difference between their production costs and their sales receipts and so appear to be made not in production but on the market. There is a sense in which this is true. The equation surplus value = profit is only valid for the economy as a whole, and it is the operation of the market which determines the share of surplus value going to the various competing enterprises as profits. Surplus value, in other words, is created in production but is won on the market as profits.

The total amount of profits that can be made by all enterprises is thus limited by the total amount of surplus value that has been produced, but it is not the case that each enterprise makes profits equal to the amount of surplus value created by the workers it employs. If this were so, then, since labour alone is the source of new exchange value, labour-intensive industries would make the most profits; capital would therefore tend towards such industries and there would be no incentive to introduce labour-saving machines; which is patently contrary to what is observable under capitalism.

What happens in fact is that the competition between capitals tends to lead to each capital making a profit in proportion to its size; there is a tendency for the rate of profit – the ratio of the increase in value to the value of the original capital – to be the same in whatever line of production it is invested. It is as if the total amount of surplus value produced in all enterprises were pooled before being distributed to the individual capitals and as if enterprises, as incarnations of these capitals, competed to draw from this pool as much profit as they could. It is in this sense that the struggle between enterprises to make profits is in the end a struggle against every other enterprise: the more profits one enterprise makes the less there is left for the others.

If this competition between enterprises were completely unrestricted – if capitals could move rapidly and freely from one line of business to another – then each enterprise would make the same rate

of profit on its capital; the amount of its profits would be directly related to the size of its capital. Such completely free competition and movement of capital has, of course, never existed, for political reasons (intervention of states) as well as for technical (minimum size of certain industrial plants) and economic (price-fixing and other monopolistic practices) ones. But it is still a tendency under capitalism as a system of competing capitals producing for sale on a changing market too large for any of them to control. Capitals, therefore, only tend to make the same rate of profit.

This tendency towards the averaging of the rate of profit explains why under capitalism commodities do not sell at their labour-time values but rather at a price equal to their cost of production plus a margin sufficient to allow the average rate of profit to be made on the total capital invested in their production.

In capitalism, then, decisions about production are in the hands of separate, competing capitals, be they large or small, privately owned or state controlled. However, this does not mean that production is completely unregulated. In any society there has to be some mechanism which regulates and coordinates decisions about production, otherwise it could not survive. In capitalism this regulating and coordinating mechanism is the market through which all enterprises are linked in a network of buying and selling transactions. This is the case because all enterprises enter the market not only as sellers of what their workers have produced, but equally as buyers of the elements for producing wealth (raw materials, machines, labour power). It is through prices, and particularly through changes in prices, that the market influences the decisions of enterprises concerning production. The worldwide market under capitalism is not fixed and stable. Even if it tends to expand in the long run, its condition at any particular time is unpredictable and liable to fluctuate.

Each enterprise makes its decisions about what, how much and where to produce, how many workers to employ, the stocks of raw materials and finished products it should hold, what kinds of energy to use, whether or not to expand productive activity and so on, in the light of the market prices of the commodities it has to buy or sell and on the basis of uncertain predictions as to how these might change. If the selling price of a commodity increases, then the enterprises engaged in producing that commodity will initially make bigger profits and so will be induced to increase their output; new enterprises may even enter the industry. On the other hand, if prices – and hence profits – are falling, then output will be curtailed.

The equilibrium position which the operation of the market tends to bring about (but which, of course, is never reached since the market is always changing) would be one in which the productive resources of society would be distributed in such a way that the enterprises engaged in producing the multitude of different items of wealth each made the same rate of profit on their capital.

We are not saying that the market is entirely independent of the actions of men and women, even if it does confront them as an external force. The market itself is in the end only the sum of the decisions to buy and sell made by enterprises and other actors in the capitalist exchange economy (wage-earners, states). What we are saying, however, is that individual decisions of this sort bring about results which no one has consciously willed and which narrowly limit the freedom of choice of enterprises – and indeed states – when making subsequent decisions about production.

Adam Smith spoke of this unplanned regulating and coordinating mechanism as being the work of an 'invisible hand'; Karl Marx called it 'the law of value'; popular language simply speaks of 'market forces'. All three expressions bring out the same idea: that production under capitalism is not consciously coordinated, but is determined by forces operating independently of people's will. Even though market forces are ultimately the result of a multitude of individual human decisions, nevertheless they confront people as external and coercive economic laws.

THE ACCUMULATION OF CAPITAL OUT OF PROFITS

The battle of competition between enterprises is fought by cheapening commodities, by enterprises trying to increase their share of the market by underselling their competitors.

It is true that, if they get the chance, enterprises will increase their profits by raising their prices, but they are not normally in a position to do this and, even when they are, it is not a lasting situation (unless supported by a state). Nor can enterprises increase their profits by permanently depressing the prices of the elements of production they buy (raw materials, wages, etc.), though again they will do so if, and for as long as, they get the chance.

Given, then, that enterprises normally have to accept the prices established by the market, the only way that they can compete against their rivals is to reduce their costs of production through improving the productivity of their workforce. Productivity is a

measure of the number of articles of wealth as use values that can be produced in a given period of time. An increase in productivity means that more can be produced in the same period so that the cost per individual article, or unit-cost, falls. In value terms, the price of the commodity falls because less average social labour-time is required to produce it.

Productivity can be improved in a number of ways: by getting the workers to work more intensively, by a better organisation of the process of production, but above all by employing more and better machines and techniques of production.

So the battle of competition comes to be fought by enterprises increasing their productivity so as to be able to sell more cheaply than their rivals. Whether an enterprise adopts an aggressive or a defensive approach in this battle, the result is the same: all enterprises are forced to invest in new and better machines. Once one enterprise has put itself in a position to undersell its competitors through having adopted some new cost-reducing technique, then the other enterprises are obliged to defend themselves by adopting the same new technique. Competition obliges all enterprises to run fast just to stand still; to remain in the race for profits, enterprises must stay competitive and to stay competitive they must continually increase their productivity, continually invest in new equipment. The weaker enterprises are pushed out of the market and eliminated from the struggle for profits, their capital passing into the hands of other enterprises.

This battle is fought throughout the worldwide capitalist economy in all industries. Investment in more and better machines to improve productivity is imposed on all enterprises by their competitive struggle for profits and as a price of their survival as a separate capital. The end result is twofold: the concentration of capitals into larger and larger units and a build-up of the stock and productive power of the instruments of production.

In capitalism this growth of the stock of instruments for producing wealth is at the same time an increase in the sum of exchange values, an accumulation of capital. The competitive struggle between capitals leads not only to capitals increasing their value, through the enterprises in which they are incarnated making profits out of producing wealth, but also to the reinvestment of this surplus value in production. This dynamic of capitalism results not simply in the expansion of production but also provides the stimulus for technical development.

Once again, this is not a matter of choice, but is something which is

imposed on economic decision-makers as an external and coercive law. Enterprises are forced to accumulate the bulk of their profits as new capital by the same mechanism which regulates production under capitalism. Indeed, the accumulation of capital is part of this mechanism, since to accumulate capital is to allocate a portion of society's productive resources to expanding the stock of the means of production. This imperative to accumulate is, in fact, the dynamic of capitalism.

In regulating and coordinating production under capitalism, the competitive struggle between capitals decrees that priority shall be given to the expansion of the means of production over the consumption not only of the producers but also of those who personify capital. Capitalism is not a system which gives priority to the production of profits for the personal consumption of those who monopolise the means of wealth production; it is a system where the bulk of the profits made from investing capital in production are reinvested in production. The aim of capitalist production is not so much profits as the accumulation of capital.

We can now see the logic of defining capital impersonally as self-expanding value. The expansion of value and its accumulation as new capital is something that is imposed on men and women irrespective of their will. Capital is a product of people's labour which has escaped from their control and has come to dominate them in the form of coercive economic laws which they have no alternative but to obey and apply.

The accumulation of capital does not proceed in a smooth and continuous way; the graph of growth under capitalism is not an unbroken upward line but a series of alternating peaks and troughs in which each successive peak is usually (but not necessarily) higher than the previous one, so that the overall trend is upward. The growth of production under capitalism is cyclical, an ever-repeating series of periods of boom, overproduction, slump and recovery. This too is an inevitable result of the competitive struggle for profits and could be included as a feature of capitalism.

A WORLD ECONOMY

One of the preconditions for the development of capitalism as a mode of production was the coming into being of a world market, or more accurately of an international market, since there was no need

for the market system to have embraced the whole world before capitalism could develop. It was only necessary that the market should have embraced a number of countries specialising in the production of different kinds of wealth.

Capitalism came into being in Europe in the sixteenth century and continued to spread geographically until by the end of the nineteenth century it had come to embrace the whole world. This meant that it had become a world system in the full sense of the term, not simply an international system embracing a part of the globe within a single division of labour and a single exchange economy, but a world system embracing virtually all areas and all states.

This reflected the fact that the division of labour had become worldwide and that from then on all parts of the world were linked together in a single economic system via world trade and the world market. Capitalism had become a worldwide economic system. Indeed, capitalism could even be defined today as the world market economy.

This means that the economic laws of capitalism outlined in the previous sections operate on the world scale. Capitalism does not exist within the political boundaries of single countries; world capitalism is not a collection of separately existing national capitalisms but a single economic unit. Capitalism only exists on the world level, as a world economic system. There is no such thing as a 'national capitalist economy' and there never was. What this term seeks to describe is in fact only a section of the world economy that is subject to the control of one particular political unit, or state. It is this political division of the world into states, each with the power to issue its own currency, impose tariffs, raise taxes, pay subsidies and so on, that has given rise to the illusion that, rather than there being one world economy, there are as many 'national economies' as there are states. But this is only an illusion. There is only one capitalist system and it is worldwide.

A state can be defined as a law-making and law-enforcing institution having a monopoly of the legal use of force within a given geographical area. It is thus an instrument of political control, but states use their powers to play an economic role within capitalism. Up till now we have only mentioned this role in passing even though in fact states are just as much actors in the capitalist exchange economy as enterprises. This was deliberate since it is not possible to understand the economic role of states, even within their own frontiers, without having first realised that capitalism is a single inter-

national – now world – economic system embracing a number of separate political units.

Ever since capitalism came into existence states have intervened in the world market, to try to distort it in favour of enterprises operating from within their borders. They have used their political power to help their 'home' enterprises acquire a bigger share of world profits at the expense of enterprises operating from other countries. They have, for instance, imposed taxes on goods entering from outside their frontiers, in order to protect home enterprises from 'foreign' competition. They have, by diplomatic and by military means, sought to acquire protected foreign markets for home enterprises and, on the cost side, they have bargained and used force to acquire cheap raw materials for home industry. These interventions by states have led to periodic wars which can thus be included as another inevitable feature of capitalism.

Even so, states can only distort the world market to a limited extent. In making decisions that affect production within their frontiers they have to accept, just like any private enterprise, the pressures of the world market as external, coercive forces to which they must submit, if the capitals operating from within their frontiers are to survive in the battle of competition. Basically, they too must give priority to keeping costs down, in particular through productivity being continuously improved; to do this they must encourage the reinvestment of the greater part of profits in new, more productive machinery and plant, and they must limit the consumption of the wage-working class to what is necessary to maintain an efficient workforce. The internal political structure of a country makes no difference in this respect. Whether a country has a government which is elected by a majority of voters drawn from the wage-working class or whether its government is a brutal dictatorship, its state still has in the end to pursue policies dictated by the economic laws of capitalism.

STATE CAPITALISM

Although states have intervened in capitalism ever since it came into existence, in so far as the aim was merely to interfere with the operation of world market forces, their intervention was only at the level of the division, not the production, of surplus value. However, over the past 100 or so years, there has been a definite trend in capitalism for states to go beyond merely trying to distort the world

market, and to involve themselves in the actual production of wealth by establishing and operating state enterprises. In some countries, indeed in a large number outside what can be called the core area of world capitalism represented by North America, Western Europe and Japan, state ownership and state enterprise have become the predominant form.

In defining capitalism as a form of social organisation, now worldwide, in which production is carried on by wage labour and orientated towards the accumulation of capital via profits realised on the market, we deliberately left open the question of the form of ownership of the means of production – by private individuals, by joint-stock companies, by the state or even by cooperatives – since this is not relevant to the operation of the economic mechanism of capitalism.The substitution of state for private (individual or corporate) ownership does not mean the abolition of capitalism, since it leaves unchanged commodity production and both wage labour and the accumulation of capital.[2] It merely means that capital, or a part of the capital, in the political area of the world concerned has come to be incarnated by the state, or rather, in practice, by a number of different state enterprises.

The most appropriate term for describing this situation is *state capitalism*. Those countries where the most important means of production are state owned can be described as 'state capitalist countries'. However, it must be clearly understood that state capitalism is merely an institutional arrangement within world capitalism and that it can no more exist as a separate economic and social system in single countries than can any form of capitalism. The state capitalist countries do not exist apart from the rest of world capitalism; they are an integral part of it, one where state ownership and state enterprise have become the predominant institutional form for the operation of the economic mechanism of capitalism. This point has been well brought out by Immanuel Wallerstein:

> The capitalist system is composed of owners who sell for profit. The fact that an owner is a group of individuals rather than a single person makes no essential difference. This has long been recognised for joint-stock companies. It must now also be recognised for sovereign states. A state which collectively owns all the means of production is merely a collective capitalist firm as long as it remains – as all such states are, in fact, presently compelled to remain – a participant in the market of the capitalist world-economy. No

> doubt such a 'firm' *may* have different modalities of internal division of profit, but this does not change its essential economic role *vis-à-vis* others operating in the world market. (Wallerstein, 1979, pp. 68–9 – emphasis in original)

Though it is possible to imagine a state capitalist country organising itself as a single 'collective capitalist firm' to compete on the world market, in practice, as we shall see in Chapter 4, the state capitalist countries which exist today, such as Russia and China, have chosen to set up, to manage the accumulation of capital in the political area they control, not one, but a considerable number of state enterprises, each enjoying a certain amount of autonomy.

WHO ARE THE CAPITALIST CLASS?

Previously we argued that production is not carried on under capitalism for the benefit of those people who monopolise the means of social wealth production. On the contrary, we argued that the economic laws of capitalism ensure that people in this position accumulate as new capital the greater part of their profits. Nevertheless, these people still enjoy a privileged position with regard to consumption. Economically, they personify capital and act as its agents in the economic process; socially, they constitute a privileged, exploiting class. While, at the level of theoretical models, it is possible to imagine a situation in which personifying capital and enjoying a privileged consumption would not be linked, history has not produced any lasting example of this. In practice, the two have always been associated.

In those countries where capitalism first developed, those who have generally personified capital have been individual owners, people with a legal property title to all or part of the capital of an enterprise. Such people receive a legal property income in the form of interest or dividends and are able to transmit their property rights to their heirs. Some of those who have discussed the nature of capitalism have wanted to make the existence of a class of such individually-owning legal property title holders a defining feature of capitalism.[3] But this would be to make a fetish of a mere legal form.

Capitalism is a form of social organisation and, in analysing social formations, what is important are the actual social relationships that exist between the members of society rather than the legal property

forms. Certainly, property forms tell us something about the way a society is organised, but they are not the most important element. At best they only reflect the real social relationships; at worst they disguise or distort them.

The basic social relationship of capitalism is that between capital and wage labour, that is to say between those who in social practice personify capital and those who produce wealth for wages. Those who personify capital are those who, for a separate capital, have the ultimate responsibility for taking decisions about production. To be in this position they must effectively have exclusive decision-making powers in respect of an enterprise and the capital it represents; they must have a *de facto* control over the use of the means of production concerned. In the end, this control, since it involves the exclusion both of the producers and of those who personify other capitals, can only rest on the sanction and backing of a state, i.e. on physical force.

Legal property rights involve such a backing, since such rights are enforceable by the courts, the police and ultimately by the armed forces of a state. But it is quite possible, as we shall see in Chapter 3, for *de facto* control over the use of means of production to assume other forms than legal property rights. Let us suppose that, as a result of some political upheaval, individual property rights in a country were to be suppressed and that formal ownership of all the means of production was vested in the state. Who, in these circumstances, would personify capital? The answer to this question would be, as before, those who had the ultimate responsibility for taking decisions about the use of the means of production. These people would personify capital even if they happened to be a group which exercised *de facto* control collectively, rather than individually as in the case of legal property title holders. It might be the case that the identity of these people could only be established by an empirical study of the precise structure of the state, the institution in which capital would be incarnated under the circumstances, but they would be whichever group was found to control effectively the state.

Naturally, in these circumstances, the privileged consumption associated with personifying capital would be distributed in a different way than in those countries where it is individual property owners who personify capital. Here again, discovering in what precise way this was done would depend on an empirical study of the social facts but it would no longer be in the form of a legal property income (rent, interest, profit, dividend).

In other words, capital does not necessarily have to be personified

by individually-owning legal property title holders. In fact, even in countries where this is so, this personification is no longer strictly individual, as it originally was. In the early days of capitalism, capital was widely personified by an individual, the private entrepreneur, who was certainly a legal property owner but for whom there was no distinction between his personal wealth and that of his enterprise. His profits belonged to him personally, just as he stood to lose all his personal wealth if his enterprise lost out in the battle of competition.

However, in the middle of the nineteenth century, the legal concept of limited liability was introduced (or rather was extended from a few privileged corporations to all business enterprises which claimed it). By this means enterprises acquired their own legal identity separate from that of the individual property owners who supplied their capital. This allowed the shareholders to keep the rest of their personal wealth if the enterprise foundered, but it also meant that the enterprise had become a separate legal entity in its own right. Capital, in other words, had become personified in an institution rather than in an individual. Corporate capital had come into being alongside individual capital.

An institution is a group of individuals organised in a particular way, so it is possible to discover who, in any institution, has ultimate responsibility for taking decisions, but the important point is that the existence of enterprises as separate legal institutions shows that capital does not have to be personified by individuals as individuals. Once this is admitted, then there can be no difficulty in accepting that capital can be personified by a state, or, more accurately, by those who control it. State capital is just as possible as corporate capital.

The two most significant types of enterprise in the world today are the limited liability company and the nationalised or state industry. These are the two main institutional forms in which the major competing capitals are incarnated throughout the world. Although the internal structure of enterprises is irrelevant when it comes to understanding how capitalism works as an economic system, it is crucial for identifying those who personify capital, those who fulfil the role of capitalist class, in any particular situation.

A member of the capitalist class can be defined as someone who, either as an individual or as a member of some collectivity, has ultimate responsibility for taking decisions about the organisation of production by wage labour for sale with a view to profit and who, again either individually or as part of a collectivity, enjoys a privileged consumption derived from surplus value. In short, a member of

the capitalist class is someone who has ultimate responsibility for organising the accumulation of capital out of surplus value and who profits from this process. This permits a wide range of institutional arrangements, of which the private capitalist enjoying individual property rights vested in him as an individual is but one historical example. Capital can be, and has in fact been, personified by a wide variety of individuals and groups.

2 State Capitalism in the West

Capitalism, as we saw in the previous chapter, is not a particular form of property-holding nor a particular form of economic management but is essentially an impersonal economic mechanism; impersonal in the sense that it is a mechanism that operates independently of the will of people and imposes itself on them as an external force.

The mechanism that is capitalism differs from natural phenomena like the tides which also operate independently of human will and impose themselves as an external force, in that its actors, or agents, are humans. A particular group of humans has, as it were, to enforce on other groups of humans the economic laws of capitalism. Who this group – the capitalist class – are, how they are recruited, how they are organised, can vary, and has varied, over time and in different places but, at any given time and place, capitalism has to have a definite structure. In other words, capitalism has to assume *some* legal and institutional form even though this can vary historically and geographically.

Simplifying considerably, we can identify two main institutional frameworks within which the economic mechanism that is capitalism has operated: what we will call 'private capitalism' and what we will call 'state capitalism'. Private capitalism is characterised by those who organise and benefit from the accumulation of capital having legal property titles to the capital unit they control and so the legal right both to manage it and to acquire, in the form of a legal property income (profit, interest, dividend), the surplus value arising from its self-expansion. In state capitalism, on the other hand, the accumulation of capital is no longer organised by private capitalists or their hired managers but by officials of the state or their hired managers.

Some people have argued that 'private capitalism' is a tautology, that capitalism no longer exists if legal property rights vested in individuals as individuals are abolished, but this is to make a fetish of one particular form which capitalism has assumed historically. Even

if legal property rights are abolished, capitalism continues to exist as long as the economic mechanism of the accumulation of capital via profits realised on a market continues to operate.

We shall examine in detail in the next chapter cases such as Russia, where a state capitalist form, without individual property rights over the main means of production, was established as a result of a revolution which expropriated the bulk of the then existing private capitalist class. Here we want to examine the evolution towards state capitalist institutional forms in countries which have retained all the legal forms of private capitalism, countries which we shall conveniently, if not entirely accurately, call 'the West'.

LEGAL PROPERTY RIGHTS

Legal property rights existed before capitalism. The state in both Ancient Rome and feudal society recognised such rights. In fact property in capital (in the form of money and instruments of production) can be said to be based upon, and to be an extension of, property in land. The origin of the property titles of most landed proprietors has always been sordid and ownership changed frequently in feudalism and in the early days of capitalism. In Britain it was only after the so-called Glorious Revolution of 1688, when James II was deposed and replaced, by a vote of Parliament, by William of Orange, that the situation was finally stabilised. Those in possession of land and other property at that date had their possession confirmed; ever since, the state has recognised and upheld the legal property rights of their descendants, and of the successors of the new wealthy strata which arose out of the subsequent development of capitalism in Britain.

The importance of 1688 was that it established a stable legal framework for property rights, a fact of which its artisans and propagandists were perfectly well aware. 1688 was 'glorious' for the property owners of the time because it established 'the rights of property' as against the arbitrary power of the state; from then on the state could only rule in accordance with the law, a law decided by Parliament, which at that time was entirely composed of property owners, mainly landed proprietors.

The same result was achieved in North America, in relation to the arbitrary power exercised by the British colonial government, with the Declaration of Independence in 1776 and the adoption of the

Constitution of the USA in 1787. In France the political and social revolution that began in 1789 openly proclaimed 'the rights of property' as in Article 17 of the Declaration of the Rights of Man and the Citizen: 'The right to property being inviolable and sacred, no one ought to be deprived of it, except in cases of evident public necessity, legally ascertained, and on condition of a previous just indemnity.' This article is still referred to in the present French constitution (adopted in 1958) and was even invoked, as we shall see, by the Constitutional Council in 1982 to require an increase in the compensation the government was offering to the owners of the various enterprises it was then in the process of nationalising. Similarly, the Bill of Rights, adopted in 1789 and incorporated into the United States Constitution in 1791, declares 'nor shall private property be taken for public use without just compensation'. No such built-in legal protection for existing property owners occurs in Britain, since Britain has no written constitution and Parliament is legally sovereign. This means that in theory Parliament could pass a law nationalising an enterprise or an industry without paying any compensation, or even a law suppressing all individual property rights over means of production, which the courts and the repressive apparatus of the state would then be legally obliged to enforce. In practice, however, this has never happened and even doctrinaire proponents of nationalisation (as opposed to those who have carried out the nationalisations of certain industries for the purely pragmatic reasons we shall identify in the next section) have never seriously advocated this.

The British Labour Party, for instance, has always justified paying compensation to the owners of enterprises about to be nationalised on the grounds that, as it was not planned to nationalise all industries all at once, it would be unfair not to pay compensation to one group of private capitalists as compared to another. Thus Hugh Gaitskell, the then leader of the Labour Party, wrote in 1956:

> . . . . there are overwhelming reasons – moral, political and economic – why fair compensation must continue to be the policy of democratic Socialists. The democratic process means that if we want to nationalise we can only do it piecemeal, one industry at a time, and with a maximum of perhaps four or five major industries being transferred to public ownership in one Parliament. In these circumstances there could be no possible justification for confiscating the property of one particular group of owners, whether they had inherited it or saved it, whether they were rich or poor, simply

> because, for totally different reasons, the Government had decided that the particular industry in which they held shares should be transferred to public ownership.
>
> By the same argument we must also reject the idea of paying only 'partial' compensation. There is no case for treating the property owners in these industries less favourably than others. (Gaitskell, 1956, p.8)

Since the payment of compensation was taken for granted by Conservative and Liberal governments in Britain when they carried out acts of nationalisation (and they have done so more frequently than is generally realised), this position adopted by the Labour Party and accepted by its electoral supporters has meant that property owners in Britain have in practice enjoyed the same 'rights of property' as those granted to their counterparts by the French and American Constitutions.

THE GROWTH OF STATE ENTERPRISE

The state has always intervened in the capitalist economy, but in the early days of capitalism it was essentially only trying to distort the market in favour of private capitalist enterprises operating from within its frontiers, through taxes, tariffs, subsidies and other such devices. At that stage, the state only rarely directly involved itself in the employment of wage labour to produce goods or services for sale on a market with a view to profit.

The first wealth-producing activity in which the state became directly involved on any large scale was the construction and maintenance of a transport network. Such an infrastructure was essential for the expansion of capitalism as a market economy. This is because the market is not just an economic relationship; it is also physical, in the sense that it depends on the existence of physical means of communication and transport. Historically, the capitalist market spread to the extent that the means for transporting commodities became easier and cheaper.

In Britain, which was the first part of the world in which industrial capitalism developed, sufficient capital was available from private capitalist sources to finance the digging of canals and the construction of railways, but in Europe this was not always the case. Thus in France, from as early as the eighteenth century, the state was

involved in the construction and running of canals and in Belgium the railways were developed as a state enterprise. In addition, strategic considerations – an efficient transport system can allow armies as well as commodities to be moved quickly – were more important on the European mainland than in Britain. Thus the Prussian railways were built and subsequently administered by the state, a system which Bismarck tried with more or less success to spread to the whole of Germany following the formation of the German Empire under Prussian dominance in 1871.

In any event, quite apart from any financial or strategic considerations, a transport network, by the virtual monopoly position in which it placed those who controlled it, was something which in many countries the private capitalist class as a whole was not prepared to leave in unrestricted private hands. For this would have put the private owners of the network in a position to hold the rest of the capitalist class to ransom by imposing on them transport charges which included a monopoly element.

In mid-nineteenth-century Britain the 'railway lords' were decidedly unpopular with the industrial and commercial sections of the capitalist class, some of whose members openly demanded that the state should take over and run the railways. At the time the term in use for this proposal was not *nationalisation* but *state purchase*. This latter is, in fact, the better term, since it conveys more accurately and more immediately the nature of what was being advocated than does *nationalisation* with its misleading implication that what was to be taken over by the state would become the property of the whole nation.

The 1844 Railway Act, introduced by Gladstone (then a Tory), provided for the state to decide after 21 years whether or not to buy out the railway companies. As it transpired, the option of state purchase was not exercised and the solution adopted to prevent the railway capitalists from exploiting their position in relation to the industrial and commercial capitalists was state regulation of transport charges and services.

The nineteenth-century British state did however purchase the telegraph system. In 1868 a Conservative government decided to buy out the private telegraph companies and give the Post Office, which had had a monopoly in the distribution of mail since 1680, a monopoly in telegraph communication too. Later, between 1892 and 1911, the telephone system was also brought under state ownership and control by successive Conservative and Liberal governments. In

both cases full compensation was paid, the assets of the private capitalists concerned being bought at their value.

The reason for these nationalisation measures was clear: the state, acting on behalf of the private capitalist class as a whole, bought up an industry of use to all enterprises in order to ensure that its product was made available to them on a uniform basis and to prevent a particular group of private capitalists from holding the rest of the private capitalist class to ransom. In America, on the other hand, the solution adopted to meet this problem was government regulation of private companies. In Europe, where strategic considerations were important in this field too, state ownership of telegraph and telephone communications was the general rule.

The same problem of how to stop private capitalists charging monopoly prices for an essential product used by the rest of the capitalist class also arose, about the same time, with regard to the supply of gas and electricity. Here the solution first adopted in Britain was either municipal ownership or municipal regulation of private companies. This municipal, rather than state, ownership and control corresponded to the comparatively small-scale nature of the production of gas and electricity at the time. But, as the techniques of gas and electricity production developed, it became clear that only some sort of central state control could ensure production in the cheapest way. Thus in 1926 the generation and bulk distribution of electricity became a state enterprise with the establishment by a Conservative government of the Central Electricity Board. In 1947, under the Labour government, the gas and electricity industries were purchased by the state in their entirety.

Rationalisation of production methods has been an important factor in the spread of state enterprise in the West. The motive force of capitalism is the competitive struggle for profits between enterprises: those enterprises which adopt new, more efficient methods of production stand the best chance of winning. But there are losers as well as winners. Those enterprises which fail to install new, more up-to-date machinery or to adopt new, more up-to-date methods of production make less profits; which in turn means that they have less money to spend on the new equipment needed to continue to participate with any chance of success in the competitive struggle for profits. In the end, if nothing is done, such enterprises are eliminated from the struggle, their assets passing to their more successful rivals.

Lending money to enterprises in difficulty, or taking them over, are devices which states have employed to help enterprises established

within their frontiers survive in the struggle for profits. When an enterprise is not competitive enough this will first show itself as a fall in profits and hence as a problem of finding enough capital to invest in the more efficient productive methods which must be adopted in order to survive. If the enterprise or enterprises so affected are involved in an industry considered to be important to the private capitalist class as a whole, from an economic or strategic point of view, the state will be authorised to intervene to lend the enterprises in question the capital which they need to rationalise and make themselves more competitive. What the state is doing in these cases is to help enterprises within its borders restructure themselves the better to face international competition, often as a means of trying to prevent their assets passing to some foreign-controlled capital unit.

An expanding industry too can find itself in need of state aid to overcome financial difficulties, as when the amount of capital needed proves to be too great to be raised from private sources alone. Without state aid the development of a new industry in the interest of the private capitalist class as a whole would then risk being held up.

The financial involvement of the state to help private capitalist enterprises either to restructure themselves to face foreign competition or to raise the capital to develop a new industry is one solution. Another is for the state itself to assume direct responsibility for the running of the enterprises or industries concerned. And this is frequently what has happened. Declining industries have got into such financial difficulties, and become so indebted to the state, that governments have decided to take them over completely. Similarly, rather than raise capital to help private capitalists develop a new industry, some states have established their own enterprises to do this. Thus the UK Atomic Energy Authority, set up in 1954 by a Conservative government, was not nationalised, i.e. bought from the private capitalist sector, but established directly as a state enterprise.

Basically, then, the establishment of state enterprises, either by the state setting up new enterprises or through the purchase by the state of existing private enterprises, has been carried out in the West to try to solve specific problems which have confronted the capitalist class. Far from being a step towards the abolition of capitalism, state intervention in the West to purchase or set up enterprises has been a way of protecting and furthering the interests of the private capitalist class as a whole.[1] Indeed, state enterprises have been as frequently established by openly pro-capitalist governments as by allegedly anti-capitalist ones. If the private capitalists concerned have pro-

tested against their property being nationalised (or rather, against it being compulsorily purchased by the state) this has been a way of trying to get the state to pay them a higher price, as we shall see in the next section.

NATIONALISATION AND COMPENSATION

In the West, nationalisation has always taken place within the legal framework of private capitalism and has been a buying and selling transaction within this framework, as conveyed by the original, and better, term *state purchase*. The state has bought the industry or enterprise in question from its owners, the 'compensation' that has been paid being simply the purchase price.

It is clear that, in these circumstances, the takeover of a private industry by the state is in no way an expropriation of a section of the private capitalist class. On the contrary, the property rights of the private owners in question are fully preserved; it is only the form, not the value, of their property-holding that changes. The private owners sell productive assets to the state for a more or less fair price, i.e. at their value. The price which the state pays, or 'compensation', can take the form either of a lump sum cash payment or of interest-bearing government bonds. But whatever the form, the private capitalists in question remain entitled to a legal property income.

In June 1981, the 'Socialist' Party in France formed a government in which the 'Communist' Party participated and proceeded to nationalise five industrial groups, two financial groups and 36 banks. The way in which this was achieved can serve as a typical example of how the property and property incomes of private capitalists have generally been unharmed by nationalisation measures in the West.

A law authorising these nationalisations was passed by the French Parliament in December 1981 and, since the government wanted to move as quickly as possible, would normally have been promulgated the next month. However, a number of opposition deputies had referred the law to the Constitutional Council for a ruling on its constitutionality. In its judgement, given on 16 January 1982, the Council ruled that the nationalisation measures themselves were constitutional but that the compensation terms were not entirely so, as they did not provide for the 'fair' compensation laid down in Article 17 of the 1789 Declaration of the Rights of Man and the Citizen.

The compensation paid on nationalisation is, as we have pointed out, essentially the price the state pays for the assets of the enterprise or enterprises it has decided to purchase. Thus arguments about whether or not the level of compensation offered is fair are essentially arguments about whether the price proposed by the state corresponds to the value of what it wishes to acquire. In the French case the nationalisation law passed in December 1981 proposed to base the level of compensation – and we are only going into these details to illustrate how nationalisation is essentially a buying and selling transaction involving haggling over the purchase price – on a complicated formula which would have taken into account the average stock exchange price of the shares of the enterprises to be nationalised over the three-year period 1978–80, in addition to the enterprises' results and profits. It was this formula that the Constitutional Council ruled was unfair. Since under the French Constitution there is no appeal against a ruling of the Constitutional Council, the government had no alternative but to present a new law providing for 'fairer' compensation terms. The final compensation terms were based on the best monthly average of share prices over the period 1 October 1980 to 31 March 1981, increased by 14 per cent to take into account the rise in the general price level in 1981. Since 18 of the banks to be nationalised had shares which were not quoted on the stock exchange, the government delayed their nationalisation while a group of experts worked out the value of their assets case by case. The new law passed through Parliament rapidly and, as there was no further reference to the Constitutional Council, was promulgated on 11 February 1982.[2]

The compensation was not paid in cash but in the form of interest-bearing bonds issued by two specially established sinking funds, the *Caisse Nationale de l'Industrie* (CNI) for the industrial groups and the *Caisse Nationale des Banques* (CNB) for the financial groups and the banks. These bonds were freely negotiable, and are still traded and quoted on the French stock exchange today. The interest payable on them was to be equal to that payable on French government variable-interest bonds issued for a period of over seven years. For the first interest payment in July 1982 the rate paid to the ex-owners was 16.62 per cent a year.

The CNI and the CNB were established not only to pay interest but also to repay the capital. This will be done over a 15-year period beginning in 1983, the bonds to be repaid at face value each year being chosen by lot. In other words, the whole operation – the payment of compensation to the former owners – should be com-

pleted by 1998. The money for the two sinking funds is to come from two sources: government grants (which the government will obtain by itself borrowing on the money market from other private capitalists) and by contributions (*redevances*) paid by the nationalised industries out of their profits.

It is clear that the property rights of the owners of the enterprises that were nationalised in France in 1982 were fully maintained. Their legal property titles changed form from shares to bonds and their legal property income from dividends to interest; a part of their property income even continues to come directly from the profits of the enterprises they used to own; in time they will receive in cash the full value of what the state purchased from them. Alternatively, if they preferred to obtain cash immediately, they were free to sell their compensation bonds and then use the proceeds either to buy shares in some other private capitalist enterprise, and so continue to live as shareholders rather than as bondholders, or to establish new capitalist enterprises as was done by owners of the non-quoted private banks which were nationalised. The Rothschilds, for instance, who received some 160 million francs in compensation, used this money to establish another financial enterprise (Durand, 1983, p. 108).

THE PROFITS OF NATIONALISED INDUSTRIES

The state purchase of an enterprise or an industry (i.e. a group of enterprises) is merely a change of formal ownership which leaves intact the basic social relation of wage labour to capital. The capital incarnated previously in a private enterprise (or private enterprises) now comes to be incarnated in a state enterprise, but continues to function as capital, that is, as value seeking to expand itself. State enterprises remain enterprises employing wage labour and producing commodities. The economic mechanism of the exploitation of wage labour for surplus value continues despite the change of legal framework. The workers concerned remain wage workers who continue to sell their labour power to a capital unit and who receive in return as wages and salaries a smaller value than they produce.

The continuing commercial nature of enterprises that have been nationalised has been recognised in the West by the creation of a special legal entity for their operation, which in Britain is called a public corporation. Less frequently, states have also run nationalised concerns as government departments – post and telecommunications

being the most common example – or even as limited liability companies. A public corporation is a legal entity, separate from the state, whose powers and activities are defined by Act of Parliament. Far from instituting some sort of non-profit-making public service, these Acts, reflecting as they had to the logic of capitalism, place the British nationalised industries under the statutory obligation to try to make profits by engaging in a defined productive or commercial activity.

A public corporation is thus a capital unit in its own right, competing with other enterprises, private and state, for a share of the surplus value which has been produced and which is available for sharing amongst the various competing capitals. The managers of a state enterprise are thus subject to the same economic pressures and must pursue the same economic objectives as the managers of any private enterprise. They too must seek to maximise profits.

In a private enterprise, profits belong to the owners. Most of the profits have to be reinvested if the enterprise is to remain in the competitive struggle for profits, but a proportion goes to the private capitalists for their private personal consumption. This is the privileged consumption associated with being an agent of capital accumulation. But who receives this part of profits in the case of a state enterprise? Some goes to the top officials of the state enterprise in the form of bloated 'salaries' and other perks, but in the West by far the greater part goes to private capitalists who are individual, legal property-holders.

We have already seen that in the West nationalisation is a buying and selling transaction between the state and a group of private capitalists and that the latter are paid, as compensation, more or less the value of what they sell. They remain therefore private capitalists, legally entitled to a property income from the investment of their capital. In Britain, France and other countries, compensation paid to private capitalists has taken the form of interest-bearing bonds. Whether the private capitalists keep these bonds or sell them (inevitably, to some other private capitalist) does not matter in the end since interest still has to be paid on them to some private capitalist recipient. The crucial question is where does the money to pay this interest come from?

When the coal, electricity, gas and transport industries were nationalised in Britain after the Second World War, the Acts of Parliament which established the various public corporations (National Coal Board, British Transport Commission, Gas Council, British

European Airways, etc.) imposed on them the statutory obligation to arrange their finances in such a way that, taking one year with another, their incomes would be sufficient at least to meet 'all items properly chargeable to revenue', as a 1961 government White Paper later put it (Cmnd. 1337, 1961, para 5). This has frequently been misunderstood as meaning that nationalised industries in post-war Britain were intended to be non-profit-making institutions in the sense that they were only being required to cover their costs of production, to 'break even' on their operating account. But the concept of 'items properly chargeable to revenue' was very much wider than simple operating costs: it also included, in the words of the 1961 White Paper, 'interest, depreciation, the redemption of capital and the provision of reserves' (ibid., para 5). Since the capital of the nationalised industries, when they were first set up, consisted essentially of assets corresponding to the bonds which the former owners had received in compensation in exchange for their shares (Tivey, 1973, p. 118), the item 'interest' meant essentially the interest payable to the former owners on their bonds, while the item 'redemption of capital' meant the money set aside to redeem, or eventually pay off, these bonds.

Thus, far from being non-profit-making organisations, the nationalised industries were required by the Acts of Parliament which established them to make enough profits to cover both the interest and the capital payable as compensation to the former owners. In this sense, literally interpreted, the statutory obligation which was imposed on public corporations was even stricter than the obligation that the market imposes on private capitalist enterprises, since no private enterprise is required to make enough profits to constitute a reserve to redeem its capital. The nationalised industries also had to bear a greater financial burden than most private enterprises, whose capital is mainly equity capital, on which dividends only need be paid if the business is doing well, rather than loan capital, which was the form taken by almost all the capital of the newly nationalised industries, on which interest must be paid irrespective of whether business is good or bad.

FINANCING OF NATIONALISED INDUSTRIES

No more than any other enterprise can nationalised industries survive on their original capital. They too are under market pressure to

accumulate capital, to invest continually in new, more up-to-date and competitive equipment. It is this aspect that we now wish to examine: where do the nationalised industries get their new capital?

The first source is, as with any enterprise, their own profits. A part of the profits they make – over and above their interest obligations – is reinvested and accumulated as new capital. But capitalist enterprises are rarely entirely self-financing and the nationalised industries, by the nature of the activities they are engaged in (maintenance and development of an energy and transport infrastructure), have more need than average for outside finance.

The Acts which nationalised the transport, electricity and gas industries allowed these public corporations to go to the capital market and raise new capital by issuing their own interest-bearing bonds. This meant that private capitalists were enabled to invest directly in these nationalised industries and to share directly in their profits as interest on the loan capital they supplied. In 1956, however, as a result of difficulties in raising the huge amounts of capital involved in competition with the British government's own borrowing requirements, this practice was suspended and has never been resumed. From that date on all nationalised industries in Britain have obtained their outside capital as loan capital from the government, or from the Exchequer as the government's account at the Bank of England is called. This new arrangement brought the other nationalised industries into line with what had always been the case for the National Coal Board. It meant that private capitalists were no longer able to invest *directly* in the nationalised transport, electricity and gas industries. Since, however, the government obtains the capital it loans to the nationalised industries from money it has borrowed from the capital or money markets, private capitalists can still continue to invest *indirectly* in the nationalised industries by buying ordinary government bonds and bills. In other words, the government acts in effect as a broker between private capitalists with money to invest and the nationalised industries needing outside capital.

The government naturally expects the nationalised industries to make sufficient profits to pay the interest due to those who have lent it money. This was explicitly stated in the 1961 White Paper on *The Financial and Economic Obligations of the Nationalised Industries* to which we have already referred. This White Paper, issued by the then Conservative government, further refined the statutory obligation on nationalised industries to arrange their finances so that their income was sufficient to cover at least their outgoings including interest,

depreciation and reserves. Each industry was to be set an agreed target to be achieved over a five-year period. In most cases the target that was negotiated was expressed as a specified rate of profit on the capital employed. Thus the electricity industry in England and Wales was set a rate of profit of 12.4 per cent on net assets for the period 1962/3 – 1966/7. In other cases the target was expressed as a specific amount of profit or as achieving an agreed level of self-financing. But in all cases the aim was clear: all nationalised industries were required to make a profit over and above their operating costs in order to be able to pay interest on the capital the government had loaned them.

In fact the White Paper specifically stated that the rate of profit to be made by the nationalised industries ought to be higher than the rate of interest the government had to pay to those from whom it had borrowed the capital to lend to these industries:

> It follows from all these considerations that the State, as owner or guarantor of the capital of the nationalised industries (which are investing over £800 millions a year, more than half of which comes from the Exchequer), would expect capital employed in this kind of business to earn a higher rate of return than the cost of the money to the Exchequer. (Cmnd. 1337, 1961, para 23)

Clearly, the government hoped to pay the interest due to those who had lent it money for investment in the nationalised industries out of the profits made by these industries. In practice, while the gas and electricity industries (and the Post Office, which was assimilated to a public corporation for this purpose before it formally became one in 1969) were more or less able to achieve their targeted rates of profits – that nationalised industries don't make profits is a myth; most do and always have done – problems arose in the coal and transport industries.

Competition from oil and from private road transport meant that these two nationalised industries developed an excess capacity on which they were still required to pay interest. In the end it became clear that this burden of debt, derived in part from having to pay compensation with interest to the former owners, was too much for these industries to bear, since it could not possibly be financed from their current operating profits. The capital of the National Coal Board and of the British Transport Commission was therefore 'reconstructed' and a large part of their debt, representing uneconomic

pits and railway lines, was 'written off'. This did not mean, as it would have done if the industries had remained in private hands, that the owners lost a part of their capital; it simply meant that the debt was transferred from the public corporations concerned to the government. No former owner or private capitalist lost anything from these exercises in capital reconstruction: they continued to receive interest from the government on capital which no longer corresponded to any real assets, another confirmation of how nationalisation in the West has not harmed the property rights of the former owners. Quite the contrary, in fact. In the case of the former coal and railway owners in Britain, nationalisation turned out to be a way of saving some of their capital which they would otherwise have lost.

APPLYING THE LAW OF VALUE

The system of targets, expressed as an amount or rate of profit or as progress towards a higher degree of self-financing, negotiated between the government and the nationalised industries, is still in operation in Britain and reflects the fact that the nationalised industries have to be profit-making enterprises operating according to the logic of capitalism. This is why it is fully appropriate to describe them as state capitalist enterprises.

State-owned enterprises have in the end to be run on the same capitalist basis as private enterprises. Certainly a government has some leeway to maintain in activity a state enterprise which by normal commercial standards is not profitable. This has always been done to a certain extent, particularly for strategic, but also for political and social reasons. There are however definite limits on the extent to which a government can allow state enterprises to run at a loss or even to make less than the normal rate of profit, i.e. less than an equivalent private enterprise would normally be making. For this can only be done at the expense of those enterprises, private or state, which do make normal profits, not just in the sense that any subsidies paid by the government have to come via taxes from their profits, but also in the sense that this will involve the total capital available for investment not being invested as profitably as possible. This in turn will result in costs in the country in question being higher than they would otherwise be, thus disadvantaging internationally all the country's enterprises, private and state, in the competitive struggle for profits.[3]

An over-generous subsidy policy or a lax attitude towards the profitability of state enterprises will sooner or later bring sanctions from the world market in the form of falling sales, and hence of falling profits and falling output too, as the penalty for the government not having allowed capital accumulation in the area under its control to proceed under optimum conditions, for not having allowed the law of value to operate properly. The state concerned will then be constrained to cut back on its subsidies and to insist that state enterprises apply normal profit-making criteria, even if this is against the inclinations or the political principles of the government. Governments have no real choice in the matter. They have to conform to the logic of capitalism and require state enterprises not only to seek profits but to seek the same rate of profit as any comparable private capitalist enterprise. This has been consciously accepted by British governments as shown by another White Paper, *Nationalised Industries: A Review of Economic and Financial Objectives* (Cmnd. 3437), issued in November 1967, by the Labour government of the day. We shall quote fairly extensively from this document as it illustrates very well how governments, even those formed by parties which declare themselves hostile to the logic of capitalism, are compelled, when in power, to apply this logic.

The 1967 White Paper reaffirmed 'the principle that nationalised industries' revenues should normally cover their accounting costs in full – including the service of capital and appropriate provision for its replacement' (Cmnd. 3437, 1967, para 17), but was mainly concerned with another aspect of the question: the criteria for making investment decisions. In their White Paper the Labour government declared that the nationalised industries should apply normal commercial criteria when deciding on new investment projects and proposed for this a 'test rate of discount' corresponding to 'the minimum rate of return to be expected on a marginal low-risk project undertaken for commercial reasons' (ibid., para 9). Only investment projects expected to realise this minimum rate of profit should be undertaken. As to the rate itself:

> The government have decided that 8 per cent is a reasonable figure to use for this purpose in present circumstances. The figure is broadly consistent, having regard to differing circumstances in relation to tax, investment grants, etc., with the average rate of return in real terms looked for on low-risk projects in the private sector in recent years. (ibid., para 10)

It should be noted that this 8 per cent rate of profit on new investment projects was not the same as the overall rate of profit on total capital mentioned in the 1961 White Paper, nor the rate of interest the nationalised industries paid on the capital loaned to them by the government (ibid., para 11).

That the conscious intention was that the nationalised industries should aim to make a rate of profit on new investment higher than the rate of interest they – and the government – paid on the capital they had borrowed to help finance this investment was explicitly spelt out in the evidence of the Treasury to the House of Commons Select Committee on Nationalised Industries when it investigated in 1967/8 'Ministerial Control of the Nationalised Industries':

> In deciding how this rate should be determined, one factor was the recorded opinion of the [Select] Committee that the return should be more than the interest on the relevant loan capital. In support of this view it had been argued elsewhere that, since private firms could not borrow on gilt-edged terms, allowing nationalized industries to invest for a return which was no more than enough, after depreciation, to pay interest on loan capital raised in the gilt-edged market would lead to too great a proportion of the limited sources available for investment being invested in publicly owned industries, leaving too small a proportion available for private investment. (Tivey, 1973, pp. 95–6)

The Treasury went on to explain in effect how the logic of capitalism required that state enterprises should aim to achieve the same rate of profit as private enterprises. The resources available for investment, it said:

> will not be deployed as effectively as they might be if the criteria for investment in industries that are publicly owned are markedly less stringent than those in private industry.
>
> It therefore seemed desirable, with a view to getting the best possible allocation of investible resources between publicly owned and privately owned industries, to aim at a test discount rate for the public sector similar to the minimum return which would be regarded as acceptable on new investment by a private firm. It was plain that no single figure could be expected to apply to private companies of all sizes and types, but it seemed reasonable to set a

> rate for public corporations which corresponded to the cut-off rate likely to be used by a large private firm of good standing and engaged in low risk business. (Tivey, 1973, p. 96)

In its report, the Select Committee on Nationalised Industries, then chaired by a leftwing Labour MP (Ian Mikardo), enthusiastically endorsed this approach to new investment in the nationalised industries. It has remained the basic approach of all governments since. Thus in 1978, in response to a fall in the rate of profit in private capitalist industry, the Labour government announced a corresponding reduction in the rate of return nationalised industries were expected to achieve on new investments (Cmnd. 7131, 1978). The Conservative governments that came into office from 1979 denationalised, i.e. sold to private capitalists, a number of state enterprises. They maintained the policy, dictated by the logic of capitalism, of requiring state enterprises to seek the same rate of profit as equivalent private enterprises.

In Britain, then, the nationalised industries are run as profit-making enterprises and are expected to produce enough profits not only to accumulate new capital but also to provide a legal property income as interest for the holders of government bonds. Other Western countries have different arrangements for financing their state capitalist industries but, in all cases, private capitalists are permitted to invest in them, and thus to draw a privileged income from them, either directly, through purchasing interest-bearing bonds issued by the individual state enterprises, or indirectly, through purchasing general government bonds, a part of the interest on which comes from the profits of state enterprises.

Thus we can say that in the West, where property rights are fully protected, the state capitalist sector, as well as the private capitalist sector, provides privileged levels of consumption for identifiable individual legal property owners who are holders of government or nationalised industries' bonds.

MANAGEMENT AND CONTROL

It has been shown that no threat to capitalism is involved in the nationalisation of an industry or an enterprise. Nationalisation represents a mere change of legal ownership through a buying and

selling transaction. Neither the distribution of wealth, nor the distribution of income is in any way affected. Capitalism continues; only its institutional form is altered to a greater or lesser degree.

It is true – and this was always the main argument of those who favoured nationalisation as an anti-capitalist measure – that the private capitalists do lose the right to manage the enterprise or industry which has been nationalised. There is nothing remarkable in this, however. Having sold their business they pass on the right of management to the new owner, in the event the state.

But this change does not have the economic significance that supporters of nationalisation have supposed since, even before nationalisation, the private capitalists only controlled their enterprises in a limited sense. As we saw in the last chapter, the private capitalists are only agents of the capitalist economic mechanism and as such the only freedom they have is to react to the dictates of the market. This is why, in the end, it makes little difference if capitalists personally manage their enterprise or if they delegate this responsibility to professional managers. Capitalists and managers alike both have to respond to the market. Since the nationalisation of an industry no more modifies the economic mechanism of capitalism than does the conferring of the management of a private capitalist enterprise to professional managers, so the professional managers appointed by the state to run the industry or enterprise which it has purchased are in no better position to 'control' than private capitalists or the managers of a private enterprise. They too have to act as the mere agents of market forces, interpreting, more or less successfully, the dictates of the market and exploiting, more or less successfully, the labour power purchased.

In theory the exclusion of private capitalists from the 'control' of state industries, i.e. from the organisation and management of the accumulation of capital in this sector, could have far-reaching social effects, even though as a matter of historical fact this has not happened in the West. To the extent that industry is increasingly nationalised, the greater becomes the proportion of capital accumulation which is organised by political and state officials as compared with that which is organised by private capitalists and their hired managers.[4] It is this tendency that *could* pose a threat to the position of private capitalists as the dominant section of the ruling capitalist class.

If the political and state officials responsible for the accumulation of capital in the state sector were to gain control of political power in

their own right (as opposed to acting as the political representatives of the private capitalists as at present) then they could use this control to begin to allocate to themselves a more privileged level of consumption and even to attack and cut back drastically on the consumption privileges ('unearned property incomes') of the private capitalists. A situation similar to that existing in countries such as Russia would have been reached, albeit by a different route from that traversed in Russia and elsewhere. This is the theme of James Burnham's well-known book *The Managerial Revolution*, which first appeared in 1941 and which, contrary to a widespread belief, argued that the world was heading for a 'managerial society' based on *state* ownership and not simply, nor even essentially, that managers were replacing owners as the controllers of *private* industry.[5]

Burnham's vision of the future development of society – in our terms, political and state officials coming to replace private capitalists as the organisers and beneficiaries of the accumulation of capital – turned out to be quite wide of the mark but it was not something that could have been ruled out *a priori*. Under other historical conditions it could have happened, and indeed still could happen. But for this change in the composition of the capitalist class to occur there would need to be a change of political control. The group seeking to take over from the private capitalists as, in effect, the capitalist ruling class would have to organise politically and win political power from the representatives of private capitalism who currently hold it. There are parallels here with what happened when the Bolsheviks seized power in Russia in November 1917 in the chaotic political conditions following the collapse of the tsarist regime under the impact of the First World War. The private capitalists, native and foreign, were either expropriated without compensation or reduced to a subordinate position in relation to the growing state sector. Gradually a new privileged class emerged out of the ranks of the Bolshevik Party which, through its monopoly of political power, controlled the state industries. Capital accumulation continued in Russia but under a collectively-owning and -exploiting political group rather than under private capitalists.

Many opponents of private capitalism in the West have wanted to achieve the same suppression of legal property incomes and of individual ownership of the means of production as in Russia, but gradually, legally and peacefully rather than by means of violent political revolution and dictatorship. As we have seen, they have been largely ineffectual in this objective. The reason for their failure

is not, however, that this is a development which cannot, in the nature of things, be achieved by the means they advocate. There is no insuperable reason why this situation could not be brought about by gradual, legal and peaceful means, provided its partisans had majority support, a mandate from the electorate. But in practice they have never sought such a mandate. Sensitive to the views of the electorate, most of those advocating widespread nationalisation in the West have accepted to work within the framework of established legal property rights. As a result they have served to establish state capitalist forms, not for the benefit of a would-be state capitalist ruling class (of which they might have been expected to be the embryo) but for the benefit of the incumbent private capitalist class.

As a matter of historical fact political control in the West has always remained in the hands of the established private capitalist class. Not that members of this class have necessarily themselves occupied the top posts in the government, but those who have occupied such posts have always respected and defended established legal property rights and consequently have governed in the interests of the private capitalist class.

Political control in the West rests on popular consent as expressed in elections to representative political institutions of one kind or another. Over the years popular support has consistently gone either to parties which have openly defended established property rights or else to parties which in practice have accepted them (as, for instance, by adopting a policy of 'no nationalisation without compensation'). Parties and movements advocating the suppression of legal property rights in favour of state ownership and rule by a group of political and state officials (essentially the various 'Communist' Parties, their offshoots and fellow travellers) have never won majority support. As a result all governments in the West have governed in the interests of the established private capitalist class. It is precisely this control of political power that has enabled the established private capitalist class strictly to control those who organise and manage the accumulation of capital in the state sector. They even have the power, which has been exercised in Britain recently, to sell state enterprises to the private sector.

In Britain, for instance, the members of the boards of nationalised industries are appointed by ministers who in turn are responsible to Parliament, all of whose members accept established property rights and so the social domination of the private capitalist class. The powers of the boards appointed to run the nationalised industries are

fixed by Act of Parliament and the exercise of these powers is subject to both ministerial and parliamentary control and verification. This means that the managers of the nationalised industries have no alternative but to manage these industries for the benefit of the private capitalist class.

In other words, in the West, the state sector, relatively large though it is in some countries, is subordinate to the private sector. Those who organise and manage the accumulation of state capital do so under the control and for the benefit of a class of individual, legal property owners. As we shall see in the next two chapters, however, this is not the only possible institutional arrangement within which the economic mechanism that is capitalism can operate. In Russia and similar countries the relationship between the state and private sectors is reversed: it is those who organise the accumulation of state capital who control political power and enjoy a privileged consumption, while private capitalists play a very marginal, subordinate role.

3 The Revolutionary Road to State Capitalism

We saw in Chapter 2 that one route to state capitalism consists of the state acquiring private capitalist industries by legal purchase, on the basis of existing private property laws. An alternative route to state capitalism consists of the revolutionary expropriation of the established ruling and propertied classes, frequently without compensation. In countries which experience this type of state capitalist revolution, the land is generally taken over by the peasants, while the mines, factories, railways and other capitalist enterprises come under the control of the revolutionary state. Since the state capitalist revolution gives them control of means of production which function as capital, the revolutionary leaders form the embryo of a new capitalist class – a state capitalist class.

The Russian Revolution of 1917 was the first such state capitalist revolution, although it was proclaimed as a socialist revolution in which political power had passed into the hands of delegate councils of workers, soldiers and peasants (or 'soviets', from the Russian word for council). Since 1917 full-scale state capitalism has spread far beyond the boundaries of Russia,[1] but this has not always been a revolutionary process, since in much of Eastern Europe state capitalism was achieved not by internal revolutionary forces but as a result of Russian political and military domination. Nevertheless, the Russian Revolution of 1917 did inaugurate an era of state capitalist revolutions. In Yugoslavia, China, Vietnam and elsewhere, revolutionary state capitalist movements have engaged in lengthy and eventually successful struggles to attain political power. In other cases (of which Cuba is a notable example) movements with ambiguous political programmes have ultimately adopted sweeping state capitalist measures after their seizure of power.

In this chapter we shall examine the causes and consequences of state capitalist revolutions, and we shall explain why these upheavals have been widely but mistakenly regarded as socialist revolutions.

Although the case we shall argue applies, with only minor variations, to all state capitalist revolutions, limitations of space force us to restrict our illustrations of general points to examples drawn from the two most influential state capitalist revolutions which have occurred so far – the Russian Revolution of 1917 and the Chinese Revolution of 1949.

THE CAUSES OF STATE CAPITALIST REVOLUTIONS

Most state capitalist revolutions have occurred in backward countries. Trotsky described pre-revolutionary Russia as suffering from 'economic backwardness, primitiveness of social forms and low level of culture' (Trotsky, 1967, p. 21) and these remarks could serve as an equally apt description of the pre-revolutionary situation in most of the other countries which have experienced state capitalist revolutions. Although Russia was the fifth-ranking industrial power in the world in 1913 (after the USA, Germany, Britain and France), its gross production figures were way behind those of the leading countries (and the gap was even larger when expressed in per capita terms). For example, in 1913 Russian gross production of key industrial products, expressed as a percentage of American production, was as follows: coal 5.6 per cent; pig iron 13.3 per cent; steel 13.5 per cent; electricity 7.75 per cent (Nove, 1972, p. 14). It is hardly surprising that Russian production figures should have been relatively low, since little more than 5 per cent of the labour force was engaged in industry and estimates of the fraction of national income generated by industry vary from about one-fifth to one-third (Goldsmith, 1961, p. 442 and Kolesov, 1982, p. 55).

Compared to tsarist Russia, pre-1949 China was even more backward. Hughes and Luard have written that as late as 1949 'an early-iron-age economy' prevailed over by far the greater part of Chinese territory (Hughes and Luard, 1962, p. 16). Modern industry accounted for between 5 and 10 per cent of GNP (depending on how it is calculated) and Eckstein has stated that 'GNP per capita was possibly in the neighborhood of $50 as compared with two to three times that level in late seventeenth-century England' (Eckstein, 1968, pp. 79–80).

Backwardness was perceived as a problem in those countries which eventually experienced state capitalist revolutions because not only were they subjected to the general pressures which the world market

exerts on all countries, but in addition they suffered from the predatory, imperialist ambitions of the great powers. Faced with such threats, the pre-revolutionary regimes in Russia and elsewhere made strenuous efforts to accumulate the capital required to modernise their economies. Yet even when they were successful in promoting some economic growth, the class interests which these regimes represented prevented them from ruthlessly sweeping aside all impediments to industrialisation. Capital accumulation is a necessarily brutal process and, while most pre-revolutionary regimes were not short of brutality, they lacked the determination and energy to channel that brutality into a single-minded drive towards modernisation.

As a result, economic growth and industrialisation were often episodic and did not achieve the rates required to catch up with the advanced countries. Thus although there was significant economic growth in Russia during the last three decades of tsarist rule, so that the volume of industrial output increased fivefold between 1885 and 1913, the gap between Russia and the great powers remained enormous (Gerschenkron, 1947). Russia's rate of investment was inadequate and this was due, above all, to the retarding effect of the enormous and inefficient agricultural sector. 'Total farm output per head of the whole population rose perhaps $\frac{1}{4}$ per cent per annum' over the years 1860–1914 (Nove, 1972, p. 24).

In China's case too there was significant growth of industry in the pre-1949 period. Chang calculated that the average annual rate of industrial growth in China during the entire period 1912–49 was 5.6 per cent and that during the early years of Kuomintang rule (1928–36) it reached 8.4 per cent (Chang, 1969, p. 71). Once again, however, given the minute size of China's industrial base and the retarding effect of agriculture, industrial growth of this order made little impression on the overall problem of backwardness.

Foreign economic penetration was another feature of countries like pre-revolutionary Russia and China. The dearth of internally generated capital was partially offset by foreign investment, which reached very high levels in certain sectors of the economy. On the eve of the First World War, some 2 billion rubles of foreign capital was invested in Russian industry, which was equivalent to about 40 per cent of total industrial investment. A full one-third of this capital was owned by French capitalists; British, German and Belgian capitalists had also invested heavily. Some of Russia's most important industrial sectors were dominated by foreign interests, with overseas

capital accounting for 90 per cent of the mining industry, 50 per cent of the chemical industry and more than 40 per cent of the metallurgical industry (Portal, 1966, p. 851). In addition, the tsarist government was heavily indebted to foreign capital, with 48 per cent of government debt held overseas in 1913 (Munting, 1982, p. 34).

Data for China are less reliable, but the general contours of foreign economic penetration are discernible. At the end of the 1920s, foreign capital represented approximately 20 per cent of total investment in the modern sector of the economy. Ou Pao-san estimated that in 1933 foreign interests accounted for about 35 per cent of factory production in China and Manchuria. During the 1930s, there were also exceptionally high concentrations of foreign capital in industries such as iron ore and pig iron production (99 per cent), shipping (83 per cent) and coal (76 per cent) (King, 1968, p. 130).

Clearly, in countries in this position, there was resentment at the high proportion of nascent industry which was controlled by foreign capital. For those modernising intellectuals who saw industrialisation as a means to enhance national strength, it was galling to see foreign capital so firmly implanted in the modern sector of the economy. Dependence on foreign interests was also increased by the patterns of trade which were often established. As Dobb writes with regards to Russia: 'So great was the reliance of Russian economy on the German market and on German supplies (which composed half of her peacetime imports) that in the First World War of 1914–18 Russia continued to import certain commodities from Germany (chiefly chemicals, metals and machinery), explicitly exempting these from the general prohibition on trade with enemy countries' (Dobb, 1978, p. 37).

To summarise, the problems which typically confronted countries prior to their state capitalist revolutions were backwardness, an inability to accumulate sufficient capital rapidly and hence to modernise at an acceptable rate, and the threat or actuality of foreign domination. Attendant on these problems was a host of associated problems, such as the need to strengthen state power and the need to create a more skilful and productive working class. Different though some of these problems are from the problems which classic bourgeois revolutions set out to solve, the question arises why the privately-owning capitalist class or bourgeoisie failed to respond to the challenge which existed in Russia, China and elsewhere.

WHAT IS A CAPITALIST REVOLUTION?

The first point to make is that there is no reason why the problems associated with capital accumulation should fall to a class of private entrepreneurs to solve. Contrary to popular belief, capitalist revolution is not synonymous with bourgeois revolution, if the latter term is used in the sense of a revolution carried out by the bourgeoisie. It is perhaps understandable that these concepts should often have been superimposed, since the earliest capitalist revolutions were indeed bourgeois revolutions. But history has provided many examples of classes other than the bourgeoisie accepting responsibility for creating a social and political framework within which the capitalist economy can flourish. To mention one example, despite the fact that it was led by samurai, the Japanese Revolution of 1868 was no less capitalist in its effects than the French Revolution of 1789. Both the Japanese and the French Revolutions succeeded in creating an environment in which commodity production and wage labour could develop further. In this crucial respect, they were equally capitalist, irrespective of the different classes which carried them out.

Furthermore, not only is the bourgeois revolution merely one species of the much wider genus of capitalist revolution, but in the circumstances which have prevailed in the twentieth century, the bourgeois revolution has become well-nigh extinct. The late development syndrome has imposed such enormous problems on backward countries that the possibility of solving those problems by means of individual entrepreneurial activity has all but disappeared. The immense quantities of capital which now have to be accumulated in order to catch up with the advanced countries, and the precipitous rate at which this necessarily has to be accomplished, mean that the task is far beyond the capability of a class of individually-organised private capitalists operating independently of the state. Increasingly as the twentieth century has progressed, the type of development which has seemed to offer the best prospects of success in many countries has been for a revolutionary state to take direct responsibility for centralised capital accumulation. Behind an ideological smokescreen of 'socialist' proclamations, the *raison d'être* of state capitalist revolutions has been the state-supervised extraction of surplus from peasants and workers and the forced accumulation of that surplus as newly formed capital.

In addition to these general considerations, there are also specific reasons why the revolutions which occurred in countries such as

Russia and China should have assumed a state capitalist form. Since the days of Peter the Great, the tsarist state had played an important role in establishing industry, and this served to hinder the emergence in Russia of a revolutionary bourgeoisie which was independent of – and hostile towards – the state. Secondly, the strong presence of foreign capital was evidence of the weakness of the Russian bourgeoisie, and had the effect of limiting the bourgeoisie's ability to gain the resources and determination to overthrow the tsarist state. In China's case, the pervasive influence of the centralised, bureaucratic state had a history stretching back over more than 2000 years of dynastic rule. Even after the collapse of imperial China, Chiang Kai-shek's Kuomintang regime did not represent the interests of the bourgeoisie. Chiang's constituency was the military, and he plundered the bourgeoisie (and hence retarded capital accumulation) in order to obtain the funds needed both to shore up his regime and to finance his military operations (Coble, 1980).

In other words, societies of this type could not provide a fertile soil for the growth of bourgeois revolutionary forces. The role played by the bourgeoisie in the earliest capitalist revolutions had to pass to other groups, which would be no less committed to the accumulation of capital than the bourgeoisie, but which would seek to achieve this goal by means other than individual entrepreneurship. The social composition of the groups which have substituted for the bourgeoisie has varied from country to country, depending on the class structure of pre-revolutionary society in Russia, China, Yugoslavia, Vietnam and elsewhere. However, the goal of capital accumulation, to which these groups have directed their efforts, has remained constant and has been unaffected by their varied social composition.

THE CONSEQUENCES OF STATE CAPITALIST REVOLUTIONS

Forced capital accumulation and intensified economic growth are two of the principal aims of state capitalist revolutions. As Cuba's mediocre economic performance since 1959 demonstrates, the adoption of state capitalism does not guarantee that the latter of these aims will necessarily be achieved (Perez-Lopez, 1983, pp. 238–9). Nevertheless, after taking power, state capitalist revolutionaries have generally shown a readiness to pursue the goals of high rates of capital accumulation and economic growth at no matter what the cost to the

TABLE 3.1 *Growth of Russian national income, 1913–80*

Year	*Index of Russian national income*[a]	*% increase over the previous decade*
1913	100	
1917	71	
1920	40	
1930	167	317.5
1940	611	265.9
1950	1 002	64.0
1960	2 658	165.3
1970	5 291	99.1
1980	8 572	62.0

[a] In constant prices.
SOURCE Derived from figures in Clarke and Matko (1983) p. 7.

wage-earning working class and the peasantry. It is therefore not surprising that, in some cases, the results have been spectacular. Table 3.1 shows the growth of Russia's national income, according to official Russian government statistics. Although the statistics issued by state capitalist governments have often been challenged by Western scholars, we shall use them whenever they are available since, as will become clear as this chapter progresses, even on the basis of such statistics, state capitalist development is revealed as the sacrifice of the working class on the altar of a specifically capitalist form of development.

Data released by the Chinese government have not been in constant prices for the entire period since 1949 and therefore do not allow us to produce an identical table for China. However, the official Chinese government statistics which are available do throw some light on the more modest growth of national income which the authorities claim to have achieved (see Table 3.2).

Where significant economic growth has been achieved in state capitalist countries, it has generally been led by the growth of industry. This has occurred because of the great importance which state capitalist regimes have attached to industrialisation, which has caused them to direct often enormous resources to the industrial sector. The result in Russia's case has been to narrow the gap with the USA. In 1978 Russia produced 28.7 per cent more oil than the USA, 10.5 per cent more coal, 21.8 per cent more steel, 56.8 per cent more cement and 197.6 per cent more iron ore, although it still produced only 49.3 per cent as much electricity as the USA, 21.5 per

TABLE 3.2 *Growth of Chinese national income, 1949–80*

Year	*National income in millions of yuan*[a]	*% increase during each period when constant prices apply*
1949	35 800	
1952	58 900	64.5 (over 3 years)
1957	90 800	
1965	138 700	52.8 (over 8 years)
1975	250 500	
1979	335 000	
1980	363 000	44.9 (over 5 years)

[a] Figures for 1949 and 1952 are in constant 1952 prices; figures for 1957 and 1965 are in constant 1957 prices; figures for 1975, 1979 and 1980 are in constant 1970 prices.

SOURCE *Beijing Review*, 10 August 1981.

cent as much plastic and 14.1 per cent as many motor cars. Russia's GNP in 1978 has been variously estimated at 50–60 per cent of American GNP (Gregory and Stuart, 1981, p. 2; Block, 1979, p. 117).

Another indication of the extent to which industrialisation has occurred in some state capitalist countries is obtained by analysing the composition of national income. According to Kolesov, industry accounted for 34.9 per cent of Russia's national income in 1913. Industry's contribution had risen to 53.1 per cent by 1937, and remained at 53.6 per cent in 1978. Conversely, agriculture's contribution to national income declined from 48 per cent in 1913, to 25.7 per cent in 1937, and to 17.4 per cent in 1978 (Kolesov, 1982, p. 55).

Tedious though it is to recite the statistics of development, data such as the above have been poetry in the ears of aspiring state capitalist classes in many parts of the world. Although few other state capitalist countries have been provided with the rich natural resources and the other advantages from which Russia has benefited, and although state capitalism has produced uneven results in different countries, some of the feats of state capitalist economic development which have been achieved in Russia and to a lesser extent elsewhere have been sufficiently prodigious to capture the imagination of would-be imitators. To many of those concerned with 'modernisation' as an end in itself, revolutionary state capitalism has appeared to offer an attractive solution to economic backwardness and its associated problems. On the other hand, those who sing the

praises of private capitalism have questioned the efficiency of state capitalism and have stressed what they see as its negative aspects, such as bureaucratisation, overcentralisation and the stifling of economic initiative. It is not our purpose to join this debate on the relative merits of state capitalism and private capitalism. Rather than take sides with state capitalism or private capitalism, our intention is to demonstrate that, even if the frequently inflated claims of revolutionary state capitalism's economic performance are accepted, the price inherent in state capitalist economic development (as in private capitalism) is borne by the working class and the peasantry.

The ideologists of revolutionary state capitalism never tire of announcing that 'All economic operations in a socialist country [*sic*] are designed to satisfy the rising material and cultural requirements of the people' (Xue, 1981, p. 170). Yet if the aim of production really was to satisfy the needs of the people, we would not expect the economic growth and industrialisation which sometimes follow state capitalist revolutions to take the form of a disproportionate expansion of the means of production relative to any advances which are registered in popular consumption. On the other hand, if state capitalism is a form of capitalism, we would expect a process of polarisation to occur within society, with ever greater quantities of wealth being concentrated in the hands of the state, as newly-created means of production, while the amount of wealth allocated to the wage-earning working class for consumption is *relatively* reduced. The real living standards of the working class need not necessarily fall (although this may happen), but relative to the total amount of wealth which the working class creates, and relative therefore to the quantity of wealth which is appropriated by the state as surplus value, the fraction of newly-created wealth which constitutes wages will decline. To express this tendency in Marx's vocabulary, if state capitalism is a form of capitalism, we would expect state capitalist economic development to be accompanied by a rise in the rate of surplus value.[2]

As is generally the case with the economic data processed by capitalist governments, the statistics released by state capitalist governments do not enable us to calculate precisely the rate of surplus value. Nevertheless, the statistics available do give some indication of the magnitude of the surplus extracted from the working class in state capitalist countries and of the tendency for the rate of surplus value to increase following state capitalist revolutions. Some of the pro-

nouncements made by officials of state capitalist regimes also hint at the degree of hardship which state capitalist economic development imposes on the workers and peasants.

One interesting official set of figures which are available in Russia's case are those relating to industrial production for the entire post-revolutionary period (see Table 3.3). According to these figures, global industrial production has increased enormously from the pre-revolutionary base of 1913, but what the global figures mask is that the growth of the production of producer industrial goods (i.e. means of production) has dwarfed the growth of the production of consumer industrial goods. Except for the crisis year of 1921, when the New Economic Policy was introduced, in all other years shown in Table 3.3 capital accumulation in the form of the extended reproduction of means of production took precedence over the satisfaction of consumption needs. Although consumer industrial goods are by no means all consumed by the working class, and although the production of producer industrial goods does not represent all the surplus value accumulated by the state as new capital, the sustained discrepancy between the production of producer goods and consumer goods is suggestive of the enormous gulf which has opened up in state capitalist Russia between the Marxian categories of surplus value and variable capital/wages – and hence of the degree of exploitation to which workers have been subjected.

From the 1920s, official Russian statistics become available on the average wages paid to state employees and on the sums invested by the state.[3] During the period 1928–38, per capita national income is claimed to have grown 3.8 times and per capita state investment 4.1 times. The data on national income and state investment are available in constant prices, but it is immediately obvious why wage rates were habitually expressed in current rubles and why inflation was disregarded, when one realises that even *nominal* wages increased only 4.9 times between 1928 and 1938. The extent to which *real* wages declined during this period is a matter of speculation, but the Russian scholar A. Malafeyev has calculated that already in 1932, prices in the state and cooperative retail trade were 2.6 times the 1928 level, while other retail prices were 8.7 times the 1927–8 level. Inflation continued in subsequent years and Malafeyev estimated that the general retail price level in 1937 was 1.8 times the 1932 level. Malafeyev's calculations lend credibility to the opinion of Western scholars such as W. L. Blackwell that 'real wages had a catastrophic

TABLE 3.3 *Growth of Russian industrial production, 1913–80*

Year	*1913*	*1917*	*1921*	*1924*	*1928*	*1930*	*1940*	*1950*	*1960*	*1970*	*1980*
Global industrial production	100	71	31	45	132	193	852	1 474	4 464	10 139	18 047
Producer industrial goods	100	81	29	52	155	276	1 554	3 186	10 350	24 755	45 302
Consumer industrial goods	100	67	33	41	120	151	497	611	1 620	3 290	5 429

SOURCE Derived from figures in Clarke and Matko (1983) pp. 10–12.

TABLE 3.4[a] *Growth of per capita national income, per capita state investment and average wage in Russia, 1940–69*

Year	*1940*	*1950*	*1960*	*1969*
Per capita national income	100	178	398	644
Per capita state investment	100	216	580	956
Average wage for state employees	100	104	175	255

[a] In constant prices.
SOURCE Derived from figures in Clarke and Matko (1983) pp. 3, 7, 16, 17, 19, 40.

TABLE 3.5[a] *Growth of per capita national income, per capita state investment and average wage in Russia, 1970–80*

Year	*1970*	*1975*	*1980*
Per capita national income	100	126	148
Per capita state investment	100	134	151
Average wage for state employees	100	120	135

[a] In constant prices.
SOURCE Derived from figures in Clarke and Matko (1983) pp. 3, 4, 7, 17, 18, 19, 20, 41.

decline after 1928. At the ebb points during the First Five Year Plan and the war, they were half the 1928 level, which was not regained until the early 1950's' (Blackwell, 1982, p. 112).

From 1940 official Russian government price indices for the state retail trade become available. These enable us to calculate, in constant state retail prices, average wage rates for state employees. As Tables 3.4 and 3.5 (for the periods 1940–69 and 1970–80 respectively) show, increases in wages have continually been outstripped by the growth of per capita national income, and even more so by the

growth of per capita state investment. It might be objected that, by focusing attention on wages, we are leaving out of account the so-called 'social wage' in fields such as health, education, etc. Yet in Russia, as in all capitalist countries where working men and women sell their labour power, the wage packet remains the most important source of income for workers and the most important indicator of their standard of living (Brus, 1980, p. 74). Thus the evidence which the state capitalist authorities themselves have released suggests that the workers have received a shrinking proportion of the wealth they produce, while the state (as the general embodiment of Russian capital) has grown richer.

Although comparable data for China are more scanty, some recent writings by Chinese economists indicate that the imbalance between capital accumulation on the one hand and working-class and peasant consumption on the other hand has followed the same pattern as in Russia. Since 1949 capital accumulation has rarely accounted for less than one-quarter of national income and has often been higher than 30 per cent. The rate of accumulation 'rose above 30 per cent and even hovered around 40 per cent' during the Great Leap Forward of 1958–60 and has 'exceeded 30 per cent from 1970 onward' (Xue, 1981, pp. 171–2). In 1978 capital accumulation absorbed 36 per cent of national income (Dong, 1980, p. 727). The results of this were that 'Between 1957 and 1977, living standards almost remained the same. The wage average was not raised, the peasants' food grain was not increased, and about one in every three peasants led a hard life' (Xue, 1981, p. 176). With so much of the surplus appropriated by the state being directed to heavy industry, 'the development of light industry and agriculture has lagged further and further behind people's needs'. More than 30 years after China's state capitalist revolution, 'the amount of consumption per person for many items remains very low'; 'some cultivators of grain crops are underfed; some pig breeders seldom have meat' (Dong, 1980, p. 728 and Xue, 1981, p. 11).

As far as foreign domination is concerned, revolutionary state capitalism's record is mixed. Since 1917 Russia has rolled back the tide of foreign economic penetration to the extent that it is now the second greatest power in the world and has carved out a far greater slice of the globe to dominate than the tsarist regime ever did. In China too the state capitalist revolution broke the imperialist shackles which had reduced the country to a semi-colonial status. Since 1949 the state capitalist leadership has unashamedly pursued the

nationalist goal of 'nation-strengthening' and has turned China into a nuclear power. However, the rise of state capitalist giants such as Russia and China has not altered the fundamental, dog-eat-dog nature of world capitalism. Smaller and weaker countries (whether state capitalist or otherwise) remain under the domination of one or other of the superpowers (whether state capitalist or otherwise). Cuba exemplifies this fact of capitalist life strikingly, since it is a moot point whether Cuba's present subordination to Russia is greater or less than its previous subordination to the USA.

Other consequences of state capitalist revolutions are the eclipse of the old ruling class and its replacement by a new ruling class, whose characteristics we shall examine below. In addition, state capitalist revolutions have generally resulted in the strengthening of state power, due both to the extension of the state sector of the economy and to the suppression of political opposition, including working-class opposition expressed via independent trade unions or workers' councils. Although the state in state capitalist countries has been intolerant of organised activity by the working class, its own actions in promoting capital accumulation have brought about a vast extension of wage labour. In European Russia it is estimated that in 1913 there were 17.8 million wage-earners, including 3.1 million workers in factories and mines and 4.5 million agricultural labourers (Munting, 1982, p. 37). To put these figures in perspective, the population of the entire Russian empire was 161.7 million in 1913, the great majority of whom were peasants (Eason, 1960, p. 73). By 1980, out of a population of 264.5 million, Russia's state-employed labour force was 112.5 million, while the number of peasants (i.e. collective farmers) had dwindled to 13.5 million (Clarke and Matko, 1983, pp. 4, 34, 36).

This enormous growth of the wage-earning working class, which one can also observe in most other state capitalist countries, is one of the most significant long-term consequences of state capitalist revolutions. The state capitalist state constantly strives to strengthen itself by accumulating ever greater masses of capital. To the extent that it is successful, the power at the state's disposal for oppressing the working class is extended. However, there is another side to this coin, which should not be overlooked. In order to accumulate capital, greater quantities of surplus value have to be pumped out of the working class. And in order to realise more surplus value, capital requires a bigger and more educated (and therefore more productive) working class. Yet as the working class grows in strength, and as

it becomes more educated, so the threat it poses to the rule of capital is potentially increased. In other words, by virtue of its own efforts, which are directed towards strengthening itself, state capital (like private capital) strengthens the very class which has the potential to overthrow it.

THE STATE CAPITALIST CLASS

State capitalist revolutions not only lead to the forced accumulation of capital and to the extension of wage labour, both of which are hallmarks of capitalism. State capitalist revolutions also mark the accession to power of a state capitalist class – a class which owns means of production not individually as the bourgeoisie does, but collectively via its monopoly of state power. Despite differences in their manner of organisation, the state capitalist class and the privately-owning capitalist class fulfil essentially the same role. In state capitalism and private capitalism respectively, it is they who bear ultimate responsibility for maintaining the means of production as capital and for supervising the extraction of surplus value from the working class. It is the fact that they both carry out these functions which enables us to recognise them as two varieties of the same class.

The state capitalist class consists of the party bosses, the upper level of the state bureaucracy, the senior management in the economic enterprises and the top ranks of the military and police forces. However, various commentators have found difficulty in appreciating that these social groups constitute the capitalist class in state capitalist countries. The reasons for this difficulty vary from commentator to commentator, but important stumbling blocks have been the restrictions which nationalisation/collectivisation imposes on individual ownership and the manner in which the state capitalist class reproduces itself. Leon Trotsky wrote in 1936:

> The attempt to represent the Soviet bureaucracy as a class of 'state capitalists' will obviously not withstand criticism. The bureaucracy has neither stocks nor bonds. It is recruited, supplemented and renewed in the manner of an administrative hierarchy, independently of any special property relations of its own. The individual bureaucrat cannot transmit to his heirs his rights in the exploitation of the state apparatus. (Trotsky, 1967, p. 249)

We saw in Chapter 1 how the ex-Trotskyist James Burnham continued to make the existence of legal property rights vested in individuals a defining feature of capitalism. More recently, Konrad and Szelenyi rejected the term state capitalism, giving as one of their reasons their opinion that 'the concept of capitalism is meaningless without the existence of private ownership' (Konrad and Szelenyi, 1979, p. xv).

In our view, these objections to describing the rulers of the state capitalist countries as a state capitalist class are based on a misunderstanding both of the nature of class and of the nature of capitalism. For us, the method by which a class reproduces itself is not a question of prime importance. History provides numerous examples of alternative means by which a class can maintain itself other than the direct transmission of individually-held property to offspring, to which Trotsky attached so much importance. Meritocratic patterns of class recruitment, such as that practised in imperial China via the examination system, or such as the hierarchical system employed by the Catholic Church, which was a vast landowner in medieval Europe, have been successful methods of perpetuating class rule. As we pointed out in Chapter 1, it is wrong to identify capitalism with the privately-owning capitalist class. Capitalism is characterised not by the existence of a particular method of owning and inheriting property, but by the fact that the means of production function as capital and that wage labour is exploited.

We can refute the arguments of those such as Trotsky, Burnham or Konrad and Szelenyi by envisaging a far more 'extreme' model of state capitalism than has ever actually existed in order to demonstrate that, even if it incorporated numerous egalitarian elements, it would still be capitalism. Thus, even if there were an extremely high level of social mobility, which ensured that there was no continuity whatsoever between generations of leaders and officials, state capitalism would remain a form of capitalism. Likewise, even if there were no privileged consumption, so that the leaders and officials in state capitalist countries experienced precisely the same standard of living as ordinary workers and peasants, capitalism would remain in operation. In other words, as long as production occurs within a monetary system, for the purpose of realising profit, from which capital can be further accumulated, the essential nature of capitalism in unaffected by the personal characteristics of those who act as the custodians of capital. At any particular instant, those with ultimate responsibility

for ensuring that the means of production operate as capital personify capital – and so are capitalists – irrespective of the permanence or otherwise of their position, and no matter whether they derive personal benefit from maintaining the capitalist system in existence.

Of course, there are obvious sociological reasons why the model which we considered above is far removed from the everyday reality of state capitalism. In the real world, the unequal distribution of power inevitably leads to the unequal distribution of goods. The high standard of living enjoyed by the state capitalist class may not be the defining feature of state capitalism, but we cannot afford to ignore privileged consumption, since it is a prominent – although theoretically not essential – characteristic of all state capitalist countries. One means by which the state capitalists achieve their high standard of living is the bloated 'wages' which they receive. We purposely use inverted commas, since these so-called 'wages' are, in fact, nothing of the kind. The 'wages' of the state capitalists are no more the price of their labour power than are the 'salaries' paid to the directors of private companies and state enterprises in the West. Rather than being the price of labour power, such 'wages' and 'salaries' represent a share of the total surplus value which the working class creates.

As in the West, 'wages' or 'salaries' are not the sole means, and not even the most important means, by which privileged consumption is enjoyed by those who personify capital. But bloated 'wages' are easier to quantify than some of the other sources of the state capitalists' personal incomes and are therefore a useful point at which to start. In Russia, the monthly 'wage' of enterprise-managers is reported to be four to five times greater than the wages paid to low-skilled industrial workers and junior scientific personnel, and seven to eight times the minimum wage (Yanowitch, 1977, p. 40). Mervyn Matthews's investigations revealed that in the early 1970s, when the minimum wage was 60–70 rubles and the average wage (including bonuses) was 130 rubles, the total 'wages' of managers of the largest industrial enterprises were in the range 352–656 rubles.[4] During the same period, the reported *basic* 'wage' of a major-general was 600 rubles, the rumoured *basic* 'wage' of the First Secretary of the 'Communist' Party was 900 rubles and the *total* 'wage' of a marshal in the armed forces was some 2000 rubles (Matthews, 1978, pp. 22–7).

On the subject of the state capitalists' 'wages', it should be noted that the practice of individuals receiving multiple 'wages' has a long history in state capitalist countries. Writing of the Stalin period,

Medvedev explained that: 'Many officials increased their salaries even more through a system of pluralism . . .; that is, one man held several offices, receiving full pay for each' (Medvedev, 1972, p. 540). Also, various methods have been employed to supplement the state capitalists' basic 'wages', including in Russia the 'thirteenth month' bonus system (Matthews, 1978, p. 36) and what Medvedev called 'the disgraceful system of "packets" ' under Stalin:

> Each month almost every high official would receive an envelope or packet containing a large sum, often much higher than the salary formally designated for his post. These payments passed through special financial channels, were not subject to taxes, and were kept secret from the rank-and-file officials of the institution. (Medvedev, 1972, p. 540)

In most state capitalist countries, however, it would be a relatively poor state capitalist who had to rely solely on a 'wage', however bloated, to achieve a privileged standard of living. Katsenelinboigen has pointed out that the higher placed a person is within Russian society, the greater will be the proportion of that person's income which takes the form of benefits received in kind and perks. This tendency can be illustrated by taking as examples people at different ends of the social spectrum. On the one hand, the income received at the enterprises which employ them by workers such as machine-tool operators consists almost entirely of money wages. On the other hand, officials who have attained the level of secretary to the Central Committee of the 'Communist' Party (but who are not yet full members or candidate members of the Politburo) receive only about one-third of their income in the form of money. Two-thirds of their income consists of 'payments in kind and perquisites' which accompany their posts (Katsenelinboigen, 1983, p. 232).

The practice has emerged of establishing a network of consumption outlets which are reserved for the state capitalist class. There is a parallel here with the expensive shops and exclusive restaurants which are patronised by the private capitalist class in Western countries. But the parallel can be drawn only so far. In the West, access to high-quality goods and services is primarily controlled by pricing, whereas the custom in most state capitalist countries is physically to exclude workers and peasants from the consumption outlets reserved for the privileged. The network of exclusive shops, restaurants, houses, schools, hospitals, transport, clubs, cemeteries and so forth

provides an environment which is so far removed from life as workers and peasants experience it that the state capitalist class has been said virtually to inhabit a separate country from the rest of the population (Voslensky, 1984, pp. 235–40).

Following a state capitalist revolution, time is required to establish a smoothly functioning distribution network reserved for the state capitalist class. Yet the haphazard origins of this system of institutionalised privilege accompany the formation of the state capitalist class during and immediately after the state capitalist revolution. Russia will again serve as an example of this general state capitalist phenomenon. Ante Ciliga described what he called the state capitalists' 'morals on the morrow of the October revolution' as follows:

> From the first days of the October revolution, the Communist [*sic*] leaders had shown a great lack of shame in these matters. Having occupied the building, they furnished it with the best furniture from shops that had been nationalized. From the same source their wives had procured themselves fur coats, each taking two or three at a time. All the rest was in keeping. (Ciliga, 1979, p. 121)

Far from the emergence of the privileged consumption enjoyed by the state capitalist class coinciding with Stalin's rise to power, some of the state capitalists of Stalin's day looked back with nostalgia to the comfortable life they had experienced during the early years of Bolshevik rule:

> During the winter of 1930 fuel ran short and we had to do without hot water for a few days. The wife of a high official who lived at the Party House was full of indignation. 'What a disaster to have this man Kirov! True, Zinoviev is guilty of "fractionism", but in his day central heating always functioned properly and we were never short of hot water. Even in 1920, when they had to stop the factories in Leningrad for lack of coal, we could always have our hot baths with the greatest comfort.' (Ibid., pp. 121–2)

Another illustration that Stalin was not personally responsible for establishing state capitalist privilege in Russia is that during the period 1923–5, when Stalin had only an old car at his disposal, 'Kamenev had already appropriated a magnificent Rolls' (Medvedev, 1979, p. 33).

To complete the picture of the benefits enjoyed by the state capitalist class, it is necessary to raise our sights to those who stand at the apex of power in the state capitalist countries. Far from these ultra-privileged individuals having to rely on 'wages', bonuses and access to special consumption outlets in order to secure their personal share of surplus value, all the resources of the state are at their disposal to satisfy their every whim. Roxane Witke has written that the rulers of imperial China 'lived in lavish palaces walled off from their subjects, dressed magnificently, dined sumptuously, and surrounded themselves with courtiers' (Witke, 1977, p. 315). What her book on Mao's wife, Chiang Ching, unconsciously revealed is that the leaders of state capitalist China practise an identical style of living. Witke reported that Chiang Ching took 'pleasure in knowing that the food was delivered from all parts of the country to her cosmopolitan table in the capital' (ibid., p. 32). Meals in Chiang Ching's country villas were a standard ten courses, 'unusual and handsomely prepared without being vulgarly extravagant', and throughout their duration Chiang Ching would 'flick her chopsticks over fresh plates of delicacies' (ibid., p. 144). Chiang Ching was regularly attended by bodyguards, two personal physicians, nurses, interpreters, assistants, cooks and servants. There was also what Witke called a 'court recorder', who noted down all conversation (ibid., pp. 42 and 144). In the Cantonese countryside, Chiang Ching 'had reserved for her pleasure . . . an orchid park stretching between her villa and the Pearl River'. On the occasion when Witke visited this 'lush secret garden', planted with 'hundreds of varieties of orchids', she found Chiang Ching dressed in 'luminous silk' (ibid., p. 290).

However decadent the life-style of Chiang Ching and the leaders of other state capitalist countries might be, it is physically impossible for them to consume more than a small percentage of the total surplus which is extracted from the workers and peasants. The dynamic of capitalism, whose workings in the state capitalist countries we shall examine in the next chapter, also ensures that the bulk of the surplus is channelled into capital accumulation and that only a relatively small portion is diverted to finance the pleasures of the state capitalist class. Yet although the extravagance of the state capitalist class does not play a crucial role in determining how state capitalism functions, the state capitalists' power and privileges are clear evidence that socialism does not exist in the state capitalist countries. No doubt the

contrast between the luxuries enjoyed by the few and the relative poverty experienced by the many was one factor which led the imprisoned Ukrainian factory worker, Mykola Pohyba, to declare:

> I came to the conclusion that ultimately it is the state which is the exploiter along with the State-party bourgeoisie which is in its service and which is the one wielding the real power in the country. The socialism and internationalism of which one so often speaks in the Soviet Union is no more than a smokescreen for a means of production and distribution of material goods which is not in the least socialist.
>
> In short, I have come to the conclusion that our country is actually a State capitalist society with a totalitarian form of government.[5]

INADEQUATE QUESTIONS; INADEQUATE ANSWERS

If state capitalist revolutions result in societies which function along recognisably capitalist lines, why is it that such revolutions should widely be regarded as having an association with socialism? To answer this question, we can refer to a basic rule which applies when using computers: 'garbage in; garbage out.' The quality of the insights which one gains into the nature of state capitalist revolutions depends on the quality of the questions which one poses – and since the study of state capitalist revolutions has been dogged by inadequate questions, it is hardly surprising that the result has been a succession of what seem to us to be equally inadequate answers. Let us examine some of these 'inadequate' questions and contrast them to what we regard as 'penetrating' questions (i.e. those which can yield revealing, rather than mystifying, answers).

What was the Role of the Working Class in the Revolution?

This question is of limited use. It is true that, by directing our attention to the forces which carried out the revolution, it enables us to realise that most state capitalist revolutions have been accomplished not by the often minuscule working class, but by peasants under the leadership of intellectuals and disaffected members of the old privileged classes. Among state capitalist revolutions, only the Russian Revolution can plausibly be presented as a revolution car-

ried out by the working class, and then only if one focuses on Petrograd and on the rank and file of the Bolshevik Party, as opposed to its leadership. Yet this question is deficient in that it asks 'Who were the revolutionaries?', instead of 'What were the revolutionaries forced to do?' To concern oneself with the supposedly working-class character of state capitalist revolutionaries is to commit a similar error to those who have interpreted state capitalist revolutions as the rise to power of the intellectuals. The social origins of the leaders and officials of state capitalist countries is irrelevant. Once in power, the new leaders have unfailingly acted in the interests of neither the working class nor the intellectuals. This is because the compulsive need to accumulate capital has brought them into conflict with their previous constituencies and has forced them to play the *de facto* role of state capitalist class. Calloused hands and working-class accents, even on the comparatively rare occasions when such attributes have been available to state capitalist revolutionary leaders, have offered no protection from the fate which capitalism inevitably prepares for them.

Has the Revolution Raised the Living Standards of the Working Class?

Earlier in this chapter we indicated one reason why this is a misleading question. Economic development under state capitalism ensures that, in proportion to the accumulation of capital, the working class will receive a relatively smaller proportion of what it produces even when its living standards improve in absolute terms. However, there is another more fundamental reason why this question should be regarded as false. The inability of state capitalist revolutions to achieve socialism is demonstrated not by their failure to deliver adequate benefits to the working class, but by the continued existence of the working class. As we shall explain in more detail in Chapter 6, socialism entails the self-abolition of the working class and its replacement by a community of producers who no longer work for wages. Hence, whether workers' wages – and therefore living standards – are high or low is a question of, at most, secondary importance in evaluating state capitalist revolutions. Even when state capitalist revolutions result in improved wage levels and welfare benefits for the working class, the very existence of a class of men and women who are forced to sell their labour power for wages is

evidence that the means of production are not communally owned and that they function as capital. In other words, the persistence and growth of the wage-earning working class following state capitalist revolutions is testimony to the fact that such revolutions strengthen rather than weaken the bases of capitalism.

How Democratic is the Post-revolutionary Regime? Is there Workers' Control? Are Councils (Soviets) Exercising Power?

It may not immediately be obvious why we argue that these related questions should again be regarded as inadequate. Our objection to these questions certainly does not rest on the beliefs that socialism would be an undemocratic society, that the community of producers would not control socialist production or that councils of revocable delegates could not provide a suitable administrative network for running a socialist society. On the contrary, in our view, a society which is genuinely worthy of the name socialism must necessarily be democratic, must be based on the communal control of production and requires forms of administration which are direct and unsecret, along the lines of popular delegate councils. (Again, we refer readers to Chapter 6 for a more extended discussion of these issues.)

Nevertheless, the drawback of the above questions is that none of them is adequate for distinguishing an economy based on exchange from socialism. We say this because neither democracy, nor workers' control, nor delegate councils are totally incompatible with an exchange economy. It would not theoretically be impossible in an exchange economy for enterprises to be managed democratically by those who worked in them, with political power resting in the hands of the self-managed enterprises or their aggregates. Indeed, such a reorganisation of economic and political activity has been the aim of recurrent attempts to reform capitalism. Yet if, on the basis of these reforms, self-managed enterprises continued to produce commodities for sale on the world market, those who worked in them would also continue to be dictated to by market forces and would remain in competition with rival groups of self-managed producers. The need to undercut rivals on the world market would still make it necessary to accumulate capital in order to be able to produce commodities more cheaply. The only difference to existing forms of private capitalism would be that, instead of the responsibility for restricting consumption in the interest of capital accumulation resting with a

capitalist minority, competition would force the producers to discipline themselves and restrict their own consumption. Far from this situation being socialism, it would not represent a significant improvement on the experience of the working class under capitalism.

Did the Revolution Develop Internationally?

As with some of the other questions we have considered, there is a grain of truth implicit in this question (i.e. 'socialism in one country' is an impossibility). But the way in which this question is customarily posed (by Trotskyists, in particular) is false. The transition to world socialism would not be a succession of national revolutions, occurring over a period of years. Strictly speaking, the world socialist revolution would not be *inter*national, any more than socialism would be *inter*national. Socialism does not mean a world where nation-states persist while links are constructed between (*inter*) them and cooperation is achieved. Socialism necessarily means a world community without national frontiers (see Chapter 6) and since the capitalism which socialism replaces is itself a global and world-enveloping system, so the revolution to overthrow capitalism must be worldwide. In order to overthrow world capitalism and achieve socialism, the working class throughout the world (or, at least, throughout those areas of the world which function as the power-houses of the capitalist economy) would have to organise itself and act as a single world movement which did not recognise national frontiers.

Not only does the need for world revolution derive from the nature of both capitalism and socialism as mutually exclusive world systems, but in addition it is inconceivable that in a world which is integrated by the supranational market, the working class in a single country could choose socialism while beyond that country's frontiers workers would continue to support capitalism. As we shall demonstrate in Chapter 5, the ideologies which have won the allegiance of substantial numbers of workers in the course of some countries' state capitalist revolutions have been amalgams of state capitalist ideas and have conflicted with socialist theories. This is an additional reason for rejecting arguments which claim that a state capitalist revolution such as the Russian Revolution was potentially socialist but was doomed by its failure to spread internationally. The ideas current among Russian workers in 1917 provide little evidence of their commitment to socialism (Moore, 1978, pp. 357–75). Furthermore, the isolation of

the Russian Revolution should help us to see it as a revolution which did not address universal working-class problems, but which was an attempt to achieve a state capitalist solution to the specific dilemma which confronted Russian capital as it sought to catch up with the West.

As we have implied in the preceding discussion, the questions which we believe can expose the essential character of state capitalist revolutions are:

Did commodity production and wage labour persist after the revolution?
Was the post-revolutionary society divided into classes?
Did state power continue to be exercised?
Did national boundaries remain?

Questions such as these are acid tests for any revolution which is claimed to be socialist. If the answers to these questions are positive, socialism cannot possibly have been achieved. By posing these questions, we can see that today's state capitalist countries are not the result of a process of degeneration which undermined their earlier 'socialist' achievements. The existence today of state capitalism in countries such as Russia and China is entirely consistent with the state capitalist nature of the revolutions which they experienced.

4 The Capitalist Dynamic of State Capitalist Economies

Oceans of ink have been spilt on behalf of those who hold power in the state capitalist countries in order to explain and justify the various features of the societies which they control, and in order to portray those societies as fundamentally different from private capitalism. Despite the mutual hostility and distrust of a number of state capitalist countries, which have led on occasions to charges of a 'reversion to capitalism', there is a marked similarity in the image of 'socialism' which all these countries project as a supposed alternative to private capitalism. Each state capitalist country claims to be socialist, on the principal grounds that the major means of production within its boundaries have been nationalised or collectivised. Nationalisation and collectivisation are said to have laid the basis for satisfying the population's material and intellectual needs, and also for eradicating class exploitation and national oppression. With the important exception of Yugoslavia, the state capitalist countries also assert that nationalisation enables the planned development of production to occur, so that the crises and unemployment, which are inseparable from private capitalism, are thereby eliminated.

Although economic forms such as profit, wages, commodities and so forth are plainly in evidence in the countries which label themselves socialist, their content is said to be fundamentally different from that which pertains in private capitalism. 'Socialist' profit is not capitalist profit because 'all profits belong to the people' or, to put it another way, because 'the state distributes profit for the benefit of the people'. 'Socialist' wages are not the mark of an exploited working class, but are the means by which social wealth is distributed according to each individual's contribution to production. Thus in many state capitalist countries the standard explanation of the widespread use of piece-rates (which Marx described as 'the most fruitful source of reductions of wages and capitalistic cheating' – Marx, 1919 (vol. I) p. 605) is that piece-rate payment best reflects the quantity and

quality of the labour each individual contributes to production. As for commodities, there used to be a fashion (set by Stalin) in many state capitalist countries of denying that the goods exchanged between state enterprises are commodities and attributing the phenomenon of commodity production to the persistence of a non-nationalised agricultural sector of the economy which enters into trading relations with state-owned industry. Nowadays these arguments are heard less often and most of the official ideologists of the state capitalist countries admit that even the relationship between state enterprises is based on commodity exchange: 'The economic relations between state enterprises on the one hand, and the collective farms on the other, and also the relations of these enterprises among themselves, are founded on a commodity-money basis' (Kolesov, 1982, p. 44).

Nevertheless, although commodity production is now held to be more extensive than was admitted in Stalin's day, commodity relations are still said to have less force than under private capitalism. This is primarily because, whereas the law of value (about which more later) underlies the exchange of commodities in private capitalism, its effects are blunted by various 'economic laws of socialism'. Foremost among these is 'the basic economic law of socialism', which Kolesov, paraphrasing Stalin, has formulated as follows:

> the fullest possible satisfaction of the people's growing material and intellectual requirements is achieved by raising the efficiency of social production and the quality of work, by means of dynamic, planned and balanced development of the national economy. (Ibid., p. 35)

Other 'laws' of Stalinist vintage are the 'law of balanced (proportionate) development of the national economy' and the 'law of the faster growth of the production of means of production relatively to the production of means of consumption'. However, apart from the apologists of state capitalism, few commentators have been able to take any of these laws seriously. Stalin described 'laws of economic development' as 'objective laws, reflecting processes of economic development which take place independently of the will of man' (Stalin, 1952, pp. 5–13), whereas the supposed 'economic laws of socialism' bear all the marks of subjectivity. No serious evidence has ever been offered to show how these laws arise inexorably from the

social formation whose operation they are said to govern. The absence of such evidence naturally strengthens the suspicion that, far from being laws, they are merely propagandistic formulae expressing the wishful thinking and self-justification of those who hold power under state capitalism.

Most Western scholars who make a living from the study of the supposedly socialist countries are hostile to the societies which they spend their professional lives analysing. Yet although it is rarely acknowledged, there is a wide area of agreement between the majority of Western scholars and the official ideologists of state capitalism about the nature of the societies which they are respectively concerned with attacking and defending. Most Western scholars are convinced that socialism exists in the state capitalist countries, since they too identify socialism with widespread nationalisation or collectivisation. For them, capitalism is conceptually linked to the existence of a class of privately-owning capitalists and, since individual entrepreneurs have been eliminated, driven underground or reduced to economic marginality in the state capitalist countries, this is taken to mean that capitalism itself has been abolished.

Although most Western scholars evaluate economic planning differently from the ideologists of state capitalism (the latter celebrating it as one of the greatest achievements of 'socialism', the former viewing its effects largely negatively), both parties are united in the importance which they attach to economic planning as a defining characteristic of the system found in the state capitalist countries. Most Western scholars emphasise the constraints which planning imposes on the autonomous economic activity of enterprises and sharply criticise the degree to which decision-making is centralised under state capitalism. The central authorities are generally seen as imposing *political* decisions onto enterprises whose ability to pursue *economic* rationality (sacking excess workers is a favourite example) is thereby thwarted. Finally, although the language employed might be radically different (few Western scholars would talk in terms of 'limiting the sphere of operation of the law of value'), Western scholars are not saying anything essentially different from their state capitalist counterparts when they argue that prices, profit and money play only a 'subsidiary' (or even 'passive') role in state capitalism. Production is conceived as being mainly geared to the success indicators laid down by the economic plan, and the attempt to achieve planned production targets, particularly when these are expressed in

physical terms (tonnes, metres, etc.), is viewed as a fundamentally different activity from the pursuit of monetary profit which characterises private capitalism.

A further set of ideas which need to be mentioned are the theories of the Trotskyist loyal opposition to the state capitalist regimes. A noteworthy feature of Trotskyist theory is that, in many ways, the Trotskyists are more ardent defenders of state capitalism, and make more extravagant claims on its behalf, than the official ideologists of the system. Although the Trotskyists use a different verbal formula to describe state capitalism ('degenerated/deformed workers' state' as opposed to 'socialism'), they too believe that capitalism has been surpassed in the state capitalist countries, and again this is explained as being due to the widespread nationalisation and collectivisation of the means of production. Economic planning is regarded as a major positive achievement and, although Trotskyists criticise the 'workers' states' as being 'degenerate' or 'deformed' to the extent that a 'bureaucracy' has usurped political rule, they believe that the working class retains sufficient power to prevent denationalisation from occurring or the 'planned economy' from being dismantled.

Given Trotsky's bitter hostility to Stalin, it is ironical that, in certain respects, many Trotskyists are more Stalinist than those who have succeeded Stalin as the rulers of the state capitalist countries. Thus while, as we have seen, the official ideologists of state capitalism now generally concede that relations between state enterprises are based on commodity exchange, most Trotskyists defend Stalin's assertion that means of production are distributed according to plan and therefore are no longer commodities. And whereas familiarity with the vastly cumbersome and disjointed machinery of 'planning' injects a note of caution into some of the claims which the official ideologists of state capitalism make with regard to the control which can be exercised over the economy, Trotskyists, from their position of admirers from afar, often claim for the economic 'plan' a degree of precision which cannot possibly be achieved.[1] In view of this, it is not surprising that Trotskyists also generally see state capitalist profit merely as an 'accessory instrument in the hands of the state' and certainly as 'neither the purpose nor the chief driving force of production' (Mandel, 1968, p. 561). Likewise, state capitalist prices are regarded as simple accounting or book-keeping devices for checking the fulfilment of the plan, at least in so far as the production and distribution of means of production are concerned.

What emerges from the foregoing account is that, whatever the

political differences which separate the three camps whose ideas have been outlined above, there is a wide area of agreement between them on what constitute the chief distinguishing features of the state capitalist countries. They all maintain that state capitalism is not a form of capitalism because there is no class of privately-owning capitalists, because there is extensive planning of the economy, and because enterprises are prevented from operating independently and hence from making those economic choices which would result in the maximisation of profit at enterprise level. In order to prove to their satisfaction that the state capitalist countries are capitalist, one would thus need to demonstrate that individuals or groups of individuals, with wealth at their disposal, invest in enterprises which buy and sell freely on an unrestricted market and single-mindedly pursue the acquisition of profit. The corollary of this is that one would also have to show that the state had abandoned all attempts to plan the economy and fix prices, so that *laissez-faire* prevailed.

Let us say right away that if this is the proof of capitalism's existence which is demanded, we cannot furnish such proof from what we know of the state capitalist countries. We could also add, in passing, that on the basis of these criteria, it would be difficult adequately to prove that many avowedly capitalist countries are capitalist. Our main argument, however, is that what lies behind the demand for such proof of capitalism's existence is a misunderstanding of the nature of capitalism. As we explained in Chapter 1, capitalism for us exhibits six vital characteristics:

1. Generalised commodity production.
2. Investment of capital in production with a view to obtaining a monetary profit.
3. Exploitation of wage labour.
4. Regulation of production by the market via a competitive struggle for profits.
5. Accumulation of capital out of profits.
6. A single world economy.

In our view, in focusing attention on certain dispensable features of private capitalism (the existence of a class of privately-owning capitalists and so forth), most Western scholars overlook the crucial social relationships which lie at the heart of capitalism. The same can be said of both the official and the unofficial (or Trotskyist) ideologists of state capitalism. These social relationships are summarised in

the six vital characteristics which, we believe, capitalism always exhibits. Although some of these characteristics are more difficult to demonstrate than others in the state capitalist countries, we believe that adequate proof of all of them (or their equivalents) can be provided.

In attempting to provide this proof of the capitalist nature of the state capitalist countries, we shall not restrict ourselves to illustrations drawn only from the Russian economy. Russia is the oldest, and therefore in many people's eyes the classical, state capitalist country, but it is not necessarily representative of state capitalism as a worldwide phenomenon. Reference will certainly be made to Russia (and to other countries such as China, Yugoslavia and Hungary) where appropriate, but in principle when we discuss state capitalism, what we have in mind is a general model of the system. Even though Russia, and to a lesser extent China, provide the main elements of this model (which is surely reasonable, in view of their being the most populous and most powerful state capitalist countries), the model is not Russia as such. Rather, we have abstracted from the model specifically Russian features, such as the federal nature of the so-called USSR.

The main features of our model of state capitalism are as follows:

1. State ownership of the principal means of production.
2. Generalised wage labour.
3. Generalised use of money and monetary calculation.
4. A free market for consumer goods in the form of agricultural products and light industrial products.
5. A market for means of production which is closely monitored and 'directed' by the state.
6. Widescale 'planning' activity, although a fully 'planned economy' is not achieved. 'Planning' takes the principal forms of state departments allocating supplies and directing products within the sphere of heavy industry, setting production targets, fixing prices and directing the intersectoral flow of capital.
7. A sizeable black market.

As can be seen from this model, our differences with most Western scholars and with the ideologists of state capitalism lie less in the facts than in how to interpret them. Even those who reject the theory of state capitalism could mostly accept our model as a reasonable thumbnail sketch of the situation which exists in a majority of

self-styled socialist countries. Where we differ is in the significance which we attach to the various characteristics which those countries display. To give but one example, state ownership of the principal means of production is seen by many as a feature of prime importance, whereas the fact that wage labour is generalised throughout the economy is considered a secondary feature which deserves no more than a casual mention. For us, on the other hand, the relative significance of these two features is reversed.

If we talk about the *relative* significance of different features of state capitalism, this brings out the nature of the exercise in which we are engaged in this chapter. There is only limited value in proving that the state capitalist countries are capitalist by demonstrating that they exhibit the six vital characteristics which we say capitalism always displays. What is of far greater importance is to demonstrate how state capitalism functions, to identify the driving forces which provide its essential dynamic. Our approach is thus physiological rather than anatomical. We are less concerned with ticking off the various stigmata which constitute the marks of the (state) capitalist beast than we are with understanding how and why state capitalism functions. In other words, how and why supposedly socialist societies are compelled to accumulate capital.

WAGE LABOUR

For the wage-earning class, all the indignity and misery which capitalism entails finds its concentrated expression in the wages system. It is the lash of wages which drives working men and women into the factories, offices, mines and other productive enterprises to work for the benefit of capital and create surplus value. Conscious of this, the first generations of working-class militants habitually referred to the system of salaried employment as 'wage slavery'. Wage labour lies at the very heart of capitalism, so that when those same early working-class militants advanced the slogan 'Abolition of the Wages System', they were in the same breath demanding the abolition of capitalism. As Marx put it in a famous passage in *Wage Labour and Capital*: 'Thus capital presupposes wage labour; wage labour presupposes capital. They reciprocally condition the existence of each other; they reciprocally evoke each other' (Marx, 1947, p. 213).

In state capitalism, as within private capitalism, working for wages is the basic fact of working-class existence. Workers in the state

capitalist countries can only gain access to the means of production and engage in social production by selling their labour power to enterprises which (whatever the legal fiction) confront them as employers. Having once sold their labour power, working men and women under state capitalism, as with workers under any form of capitalism, have lost active control over how their mental and physical energies are used. They are no longer in a position freely to decide what is to be produced with their labour power or how production is to be organised. On the contrary, selling their labour power means alienating it as a commodity, and hence losing control over its use to the employing enterprise.

The wages system is thus not only one of the most obviously capitalist features of state capitalism, but its very existence points to the continued subservience of the working class. Why is it, then, that relatively little attention customarily is paid to this aspect of state capitalism? Since wages are synonymous with social inequality and an imbalance of power, on the face of it the existence of wage labour could provide hostile Western critics with a perfect stick with which to beat the state capitalist regimes. Yet most are reluctant to pursue this line of criticism, since it would prove as damaging to private capitalism as to state capitalism. Similarly, the Trotskyists are blind to the true significance of wage labour, as are even many of those, such as Charles Bettelheim, who have analysed the society which exists in Russia and elsewhere as state capitalism. Both the Trotskyists and Maoists like Bettelheim are inhibited in their criticisms of the state capitalist wages system, since the type of 'workers' state ' or 'dictatorship of the proletariat' which is their preferred alternative to the existing state capitalism would itself incorporate wage labour (and would, incidentally, for that very reason, be unable to escape from a capitalist fate).[2]

Some commentators play down the significance of the state capitalist wages system on the grounds that labour power is not a genuine commodity in the so-called socialist countries. In the past, a frequently heard argument in support of this contention was that, if labour power were a commodity, unemployment would exist. Nowadays, when unemployment is visible in state capitalist countries as diverse as Yugoslavia and China, this argument is heard less often and a more commonly voiced objection is that workers under state capitalism cannot accurately be said to sell their labour power, since there is only one buyer (the state) which, in the absence of competing employers, is able to dictate the prices of different grades of labour

power. On this view, not only is the state the sole employer, but the fact that workers are prevented from collectively organising in defence of their wages and working conditions is seen as an additional reason for denying that the state capitalist wages system represents a genuine market for labour power. The case that we develop below against this interpretation of the position of wage-earners under state capitalism is not the exegetical argument that it conflicts with the Marxist texts. Nevertheless, it is worth noting that the logical corollary of this interpretation is that in the state capitalist countries there is no working class in the Marxian sense of a social group which, because it is divorced from the means of production, can only exist by selling its labour power as a commodity. Yet writers such as Tony Cliff adhere to the above interpretation of the state capitalist wages system, at the same time that they expect the (on this basis, non-existent) working class to be the agent which will overthrow (state) capitalism (Cliff, 1970, pp. 158–9).[3] Other authors, such as Christopher Chase-Dunn, who also believe that under state capitalism there is no genuine market for labour power, but who wish to remain Marxist, have taken the well-trodden route to 'neo-Marxism'. This has involved redefining 'capital' and 'proletariat' more broadly, so that in the latter case not only wage-earners but other social groups which experience political coercion are incorporated into the working class (Chase-Dunn, 1982, pp. 21–49).

In our view, the notion that there is only one employer under state capitalism is mistaken and arises from grossly oversimplified attempts to portray the economy of each state capitalist country as a single giant enterprise. We shall have more to say below on why the functioning of state capitalist economies cannot adequately be understood in terms of Russia Ltd or Czechoslovakia Inc, but here we restrict our attention purely to the question of how labour power is purchased. Despite the fact that generally in the state capitalist countries, the state both supplies enterprises with their capital and skims off a good proportion of their profit, enterprises are not merely passively operating branch offices of the state. In many state capitalist countries, the state has made strenuous efforts at various times to bind enterprises hand and foot, and to minimise their economic initiative, but enterprises have always retained a degree of independence and a certain room in which to manoeuvre. Nowhere has this been more so than in the sphere of adjusting wages and working conditions. Competition between enterprises for labour power (particularly for skilled grades of labour power) has always been evident

and no amount of bureaucratic red tape has been able to conjure it away.[4] Although draconian restrictions on labour mobility have been introduced in certain periods, they have always proved unenforceable in the long term. To take Russia under Stalin as an example, although during the period 1940–56 it was illegal to change jobs without official permission, this system was eroded *de facto* in the late 1940s and was formally abolished in 1956. The counterproductive social tensions which had built up as a result of restrictions on labour mobility were shown by the fact that in 1956, 38 per cent of industrial wage-earners changed jobs. Currently, the rate of annual turnover has fallen back to about 20 per cent (Chavance, 1983, pp. 14–15).

Even though the central authorities generally fix national wage rates in the state capitalist countries, and may issue instructions to enterprises on the permitted wage bill and the size of the workforce, the actual hiring of the different grades of workers remains the responsibility of the enterprises. Since enterprises are under enormous pressure from the state to produce in accordance with the economic plan, they must have suitable workers in order to fulfil their production targets, even if this means bending the rules and acting illegally. To take Russia as an example again, most enterprises have notice-boards at their gates, where they not only advertise for workers, but tempt those with skills in short supply with details of the housing facilities, welfare benefits and lengths of vacation which the enterprise can provide. Such is the intensity of competition for scarce grades of labour power that even the Russian authorities admit that almost one-third of labour recruitment by-passes official channels, while many Western scholars believe that, with certain exceptions, 'the immense majority of workers and employees is recruited at the factory or office gates' (Sapir, 1980, p. 165 and 1984, p. 61). Having hired their workers, enterprises must also hang on to them by all manner of subterfuges. Risky though this might be, there is frequently no other alternative. Thus Fyodor I. Kushnirsky, a former economic planner in the Ukraine, reveals one facet of the 'planned economy':

> To satisfy plan requirements, managers often must conceal reality, misuse their authority, and even break the law. It is known, for example, that a well-trained worker paid on a piecework basis receives his monthly 'rate' even when there is no work. Production norms in construction, especially for unskilled workers, are so unrealistically high and wage rates are so low, that one task is often

recorded several times in order to pay a worker a reasonable amount. The result of such activities by managers may be classified by the authorities either as a success in meeting plan targets or a direct violation. No one knows in advance. (Kushnirsky, 1982, p. 46)

Although there is incontrovertible evidence that state capitalist enterprises compete for labour power, Tony Cliff, among others, still denies that this constitutes a genuine market for labour power. Cliff's reasoning is that although the level of *monetary* wages may be influenced by competition between enterprises, *real* wages are unaffected because 'the total amount of real wages and salaries is fixed in advance by the quantity of consumers' goods planned' (Cliff, 1970, p. 158). Cliff is doubly mistaken here, since he both exaggerates the impact of planning and overlooks the effect of the black market. It is not true that state capitalist regimes are able to plan the production of consumer goods as precisely as Cliff suggests. No one in Russia, for example, planned that refrigerators would be produced by enterprises under the jurisdiction of as many as 11 ministries. This situation arose haphazardly when ministries with responsibility in heavy industry found themselves with excess capacity, identified lines of consumer goods which were in great demand and authorised enterprises under their control to branch out into light industrial products (Sapir, 1980, p. 35). As for the black market, more attention will be paid to that below. Here it is sufficient to mention that it is precisely in the field of frustrated consumer demand that the black market flourishes most vigorously. The popular term 'black market' can be misleading, since it implies merely the illegal buying and selling of articles which have been produced legitimately. If that were the whole story, Cliff's point about the quantity of consumer goods being planned would, in this respect, be valid. The 'black market' extends into the sphere of production, however, and terms such as 'second economy' or 'alternative economy' therefore convey more accurately its significance for the state capitalist wages system and, indeed, for the state capitalist economy as a whole.[5]

We could easily go on piling up evidence that genuine markets for labour power operate in the state capitalist countries. What is more important, however, is to be absolutely clear about what the existence of a wages system tells us about the nature of state capitalism. First, working for wages is such a demeaning and alienating activity that its widespread development in any society has always depended

on the emergence of a class which, because it is propertyless, has no alternative method to provide itself with the means of life. In other words, the fact that the working class sells its labour power for wages in the state capitalist countries tells us that the workers are propertyless and do not own the means of production.[6] Secondly, a universal feature of buying and selling is that, in the buying process, the buyer acquires the right to use an article as he or she sees fit. This applies as much to the buying of labour power as it does to the purchase of any other commodity, and the fact that the working class works for wages in the state capitalist countries therefore tells us that it works on the employers' terms.

A third and equally vital lesson to be drawn from the state capitalist wages system is that, as in any other form of capitalism, the working class's consciousness is moulded by the experience of *selling* its labour power and *buying* articles of consumption. This brings out the inconsistencies inherent in the ideas of those, such as Ernest Mandel, who never tire of telling us that the 'planned economy' in the state capitalist countries is maintained by the working class in the face of the machinations of the 'bureaucracy' and the 'restorationist' ambitions of the bourgeoisie (Mandel, 1969, p. 16). The 'planned economy' is a mere abstraction for the working class. What the working class concretely experiences in the state capitalist countries are the planless activities of, on the one hand, working for wages and, on the other hand, seeking to purchase adequate means of consumption despite skimpy wages and poorly stocked shops. Steadfastly ignoring the fact that working-class existence in the state capitalist countries is dominated by the capitalist activities of selling and buying, and overlooking the crucial effect which this has on working-class consciousness, Mandel presents the working class as the main barrier to the 'reintroduction' of capitalist social relationships. Focusing myopically on superstructural arrangements such as planning and nationalisation, Mandel subscribes to the Trotskyist notion that a mere 'political revolution' would suffice to clear the way forward to socialism in the state capitalist countries. Yet on the contrary, the fundamental reason why a revolution of truly *social* proportions is required in the state capitalist countries (and in the rest of the capitalist world, of course) is that, in struggling to change society, the workers must change themselves, break conceptually with capitalist patterns of social behaviour such as buying and selling, and acquire a socialist consciousness.

Wage labour exists in every branch of productive activity in the

state capitalist countries and penetrates into even relatively backward sectors such as agriculture. This means that commodity exchange extends into all sectors of the state capitalist economy and the fact that, as we have seen, the prices of different grades of labour power cannot be planned by decree is bound to make an impact on the prices of other commodities. For the workers, wages are the price of their labour power, but for the (state) capitalists the wages bill is a part of their capital expenditure. Wages constitute the variable fraction of total capital, while the means of production are part of the constant capital. Although the ratio of variable to constant capital is broadly determined by the production process, there is always some room for adjustment in response to relative prices. Hence if the cost of labour power rises relative to the cost of means of production, enterprises whose economic performance is measured (at least in part) by the size of profits or profitability will attempt to alter the ratio of variable to constant capital in favour of the latter. Cheaper labour power would have the opposite effect.[7] The state can be expected to make efforts to block these moves, by increasingly strict central allocation of means of production or, conversely, by imposing limits on the size of the wages bill and the size of the workforce. Nevertheless, the enterprises' room for manoeuvre can never be eliminated entirely by state regulations. Allocation of means of production by the central authorities depends to an extent on the requests for supplies submitted by the enterprises (with each side trying to outsmart the other). If means of production are underpriced relative to labour power, this will produce an insatiable appetite for them on the part of the enterprises. In addition to this high level of demand being reflected in ever more strident and ever more exaggerated requests for supplies, enterprises will turn to the black market, and the unofficial prices of means of production will rise, irrespective of the official prices. Another commonly observed phenomenon in this situation of relatively highly priced labour power is that enterprises will attempt to cut costs by reducing their expenditure on the labour power required for the maintenance and repair of means of production, resulting in diminished efficiency if capital replacements are not forthcoming. Under these circumstances, there will be pressure on the state from several directions to increase the prices of means of production relative to the price of labour power.

The fact that the price of labour power cannot be controlled strictly by the state has profound implications for every nook and cranny of the state capitalist economy. Where labour power is a commodity, all

other goods and services will become commodities. Where labour power has its price, all other commodities will have their price too, by reference to labour power and by cross-reference to each other.[8]

COMMODITY PRODUCTION

As we explained in Chapter 1, a commodity is a good or service produced for the purpose of exchange, rather than directly for the purpose of use. There is no doubt that commodity production is extremely widespread in the state capitalist countries. Anyone can see that, except for the peasants and collective farmers, who produce partly for their own needs, popular consumption is mainly dependent on purchase. Food, clothing, consumer durables and so forth are marketed in retail outlets, which means that the commodity nature of much agricultural produce and many light industrial goods is beyond question.[9] As for the means of production, even those like Mandel, who maintain that much of the output of heavy industry is not distributed by commodity exchange, still concede that some categories of producer goods are bought and sold on the market (Mandel, 1968, pp. 567–8). Hence it is fair to say that, even leaving aside the fact that labour power is a commodity, there is a general consensus that commodity production is sizeably implanted in the state capitalist economy.

Now, it is well known that Karl Marx began *Capital* with the statement: 'The wealth of those societies in which the capitalist mode of production prevails, presents itself as "an immense accumulation of commodities"' (Marx, 1919 (vol. I) p. 41). How do those who deny that state capitalism is a form of capitalism, and who also claim to be Marxists, explain the fact that, by anybody's standards, a considerable proportion of the GNP of all state capitalist countries consists of commodities? The standard explanation of this state of affairs is that, just as commodities predated capitalism and were found, albeit peripherally, in feudal and other pre-capitalist societies, so commodities are found in post-capitalist society too (Mandel, 1968, pp. 565ff.). The trouble with this argument is that, since commodity exchange is conditional on a section of society owning products, it was clearly possible for commodities to arise within the framework of societies other than capitalism which were based on sectional property. Since the overthrowing of capitalism entails abolishing property and instituting common ownership, however, socialist society provides a

social and economic framework within which it is impossible for commodities to exist. Communism[10] and property are mutually exclusive because no combination of communist forms of social organisation with those which occur in systems based on property is feasible. This is why the notion of a 'transitional society', envisaged as a halfway house which incorporates both social relationships which are conditional on property (commodity exchange) and social relationships which are specific to communism (free supply of use values), is a pipe-dream.

As has become clear, our argument in this section is mainly with the Trotskyist supporters of state capitalism, like Mandel. This is so because, as has been noted, the official ideologists of state capitalism mostly admit that relations between enterprises are based on commodity exchange. As for the Western critics of state capitalism, most of them are not in the habit of thinking in terms of categories such as commodities. What, then, are the principal arguments advanced by Trotskyists in order to justify their contention that in the state capitalist countries the majority of the means of production have ceased to be commodities? First, they maintain that distribution of most means of production is consciously planned in advance, instead of the pattern of distribution emerging spontaneously as the aggregate effect of countless independent market transactions. Secondly, they hold that, since most enterprises are nationalised, no exchange can occur when articles are transferred from one enterprise to another, because the state remains the owner.

A striking aspect of both these arguments is that more attention is paid to legal forms (planning, nationalisation) than to the ways in which the economy functions in practice. By way of contrast, our view is that, from the standpoint of the wage-earning working class which produces state capitalism's wealth, the legal status of enterprises is just as inconsequential as is the mirage of the economic plan. What is important for the workers is the functional dynamic of the enterprises, since it is the way in which the enterprises actually operate which characterises them for their employees, and not the legal fictions of 'planning' or 'social ownership'.

With regard to planning, there are two counter-arguments to be made. First, planning is both a less extensive and more haphazard activity than is often admitted. Even in relatively small state capitalist countries, such as Hungary, 'we are dealing with a number of distinct commodities so large (of the order of millions) that [the economy] could not possibly be planned in every detail' (Hare *et al.*, 1981, p. 9).

As for the larger countries, Xue Muqiao (director of the Chinese Institute of Economics and an adviser to the State Planning Commission) has admitted with remarkable frankness that in China's case:

> [An all-inclusive plan setting arbitrary targets for the grassroots] is impracticable because . . . there are millions of products and even a greater number of varieties and specifications of these products which cannot be covered by a single plan. In China, only a few hundred products, accounting for a little over half of the GNP value, are handled directly by the State Planning Commission. While the commission can work out accurate figures for a few dozen products, it can only make rough estimates for the rest. Even in the case of the former, the figures cannot possibly cover all varieties and specifications, which can only be determined by business agencies or between supplier and user. (Xue, 1981, p. 164)

Although the typical state capitalist economic plan goes into great detail, it should be realised that much of the detail is based on guesswork and approximation. While the long-term plans (up to 20 years) are little more than wishful statements of intent, the advocates of state capitalism claim a high degree of accuracy for the short-term plans (one year or less). Yet it can be instructive to study the ways in which even short-term plans are fulfilled. Quoting research by P. Krylov, Kushnirsky has shown that in 1979, whereas 15.3 per cent of all Russian enterprises failed to meet production targets at the eleven-month stage, only 6.5 per cent were below target by the end of the year. One reason for this dramatic improvement (on paper) was that many enterprises which were underperforming had their production targets reduced in December – a case of the 'plan' conforming to performance, rather than vice versa (Kushnirsky, 1982, p. 103).[11]

Secondly, in addition to the abundant empirical evidence of the deficiencies of state capitalist planning, it is important to explore the more theoretical question of 'What is being planned?' Bettelheim has suggested that to counterpose planning to the market is naive (Bettelheim, 1978, pp. 529 ff.). What state capitalist regimes vainly attempt to do in the field of production of the means of production is not to supplant the market by means of the plan, but rather *to plan market transactions* between enterprises. To this end, the central authorities lay down production targets, allocate raw materials, direct many products as sales from one enterprise to another (one way of ex-

pressing this is that the authorities arrange contracts between enterprises), and fix prices. Clearly, such an economy is not a free market economy, but *it is a market economy*, albeit one which is moulded and influenced by the constant attentions of the 'planners'. The 'plan' does not abolish exchange relationships between enterprises, but merely attempts (not too successfully) to quantify the exchanges in advance. Means of production continue to be transferred between enterprises by means of a buying and selling process, so that physical flows of equipment are balanced by corresponding counterflows of money (Holesovsky, 1977, p. 84).

No doubt, an objection which will be raised to the above observations is that the processes which we have described have only the *form* of buying and selling operations. It will be claimed that their *content* is different, because the buying and selling enterprises are not free agents. On the contrary, they are subject to various legal restrictions which are intended to prevent them from dealing with each other independently and directly.[12] However, the concept of free agents engaging in exchange is a dubious one even within the context of modern private capitalism. Yet even if we set this consideration aside, and conceptualise the more or less abstract case of entirely free and equal exchange under private capitalism, the question we need to ask is what concrete expression does the relation between buyer and seller take? The answer is price. And what ultimately determines prices in private capitalism is value, even though, due to the tendency towards a rough equalisation of rates of profit, commodities do not normally sell at their values. In other words, the law of value in private capitalism is 'refracted through the prism of profit' (Mandel, 1968, p. 569).

If, in the state capitalist countries, exchange between enterprises occurred at prices which were established entirely arbitrarily by the state, the case for seeing this as genuine commodity exchange would be weakened. Yet what, in fact, ultimately determines state capitalist prices is once again value. As in all forms of capitalism, the purpose of production under state capitalism is the extraction of surplus value from the working class and its accumulation as ever-expanding capital. The process of extracting surplus value can be accomplished efficiently only when suitable indicators for measuring value exist, in the form of money prices which take into account the law of value. Certainly state capitalist prices do not directly reflect value, but – as we have just noted – this is not the case in private capitalism either. Instead, what underlies state capitalist prices is 'the law of value . . .

refracted through the prism of the plan' (Mandel, 1968, p. 569). Yet just as the refracting effect of profit in private capitalism does not cancel the status of commodities, so the refracting effect of planning modifies but does not cancel the commodity status of the means of production in state capitalism.

As to the argument that commodity exchange does not occur between enterprises because the state remains the owner of means of production wherever they are transferred, formally and legalistically this is correct. But the state invariably relates to enterprises by requiring them to act as economic units which are financially accountable, and which therefore are forced to look after their own narrow economic interests. This turns enterprises into competing rivals, each pursuing its own sectional interest, and if anyone notices a striking resemblance to the way companies relate to one another under private capitalism, they are not mistaken. Again, Xue is worth quoting in this regard:

> As for the exchange of products among state enterprises, it is indeed an exchange between an owner and himself, between the state and the state, in a national sense. But when we look at state enterprises as independent business accounting units, each with its particular interests, the exchange of products between them still has to be an equal exchange based on the recognition of their respective economic interests as in an exchange between two different owners. (Xue, 1981, p. 113)

The very possibility of social cooperation at the inter-enterprise level is obliterated by the fulfil-the-plan-at-all-costs, devil-take-the-hindmost milieu. Coordinated production and distribution in the overall interest of society are impossible. Any enterprises which attempted to relate to one another on a socially cooperative basis (not that such an idea would even cross the minds of the enterprise-managers!) would immediately fall foul of the state. Enterprises are required to produce only for exchange (the exchange laid down in the plan) and to pursue the goal of maximum economic efficiency (as defined by the plan, and at no matter what the social cost). In other words, enterprises are required to take a narrow, enterprise-only view of production, and are forbidden to adopt a society-wide perspective. The dominant ideology of private capitalism is that, while companies pursue their own narrow interests, the market will see to it

that society's interests are served in the end. The dominant ideology of state capitalism is that, while enterprises pursue their own narrow interests, the state will see to it that society's interests are served in the end. It is hardly surprising then that, from a working-class point of view, the similarities of private companies and state capitalist enterprises, as employers engaged in commodity production, far outweigh any differences.

Little has been said about the role of the black market in this section, even though there is widespread illegal trade in the means of production in many state capitalist countries. Although the black market does provide some outstanding examples of audacious entrepreneurship in producer goods, these should not be misunderstood as evidence of the forces of capitalism spontaneously breaking out of the straitjacket of the plan. Black marketeering is not qualitatively different from authorised economic activity. The state does not attempt to clamp down on the black market because commodity exchange is involved, but merely because the buying and selling transactions are conducted through extra-legal channels. Products are not suddenly transformed into commodities when they find their way onto the black market. On the contrary, most goods traded on the black market were produced as commodities, but were intended to be sold through the channels controlled by the state. This is why we say that there is no qualitative difference between legal and illegal economic activity. The dividing line between what is permitted and what is beyond the pale is entirely arbitrary. This explains why a grey market also exists, where legitimate commodity exchange merges almost imperceptibly into illegal trading.[13]

PRODUCTION FOR PROFIT

Capital can be seen to exist in the state capitalist countries both because its corollary, wage labour, exists and because wealth presents as 'an immense accumulation of commodities'. As we said in Chapter 1, capital is value invested in production for the purpose of obtaining additional or surplus value, the source of that surplus being the unpaid labour of the working class. In the state capitalist countries, capital is supplied by the state to enterprises which engage in production. We have argued that, strictly speaking, state capitalism is not a planned economy, but we do not deny that production at the enterprise level is subject to a process of planning which is imposed

by the central authorities. Plans are drawn up in physical terms and are then converted into monetary units, so that (with the exception of countries such as Yugoslavia and Hungary) each enterprise receives a battery of targets expressed in both physical and monetary form. The variety of targets is almost endless, but Alec Nove has recently given a useful list of the kind of checks and efficiency measurements against which enterprise activity is scrutinised in Russia:

> physical output for principal items of output (sometimes corrected by coefficients to take quality into account); the carrying out of principal delivery obligations; labour productivity; increase in the volume of sales; numbers of workers and employees; percentage reduction in unmechanized hand labour; percentage reduction in utilization of materials and fuel; profitability; cost reduction; relationship between net output and the wages bill; proportion of goods of first quality; introduction of new techniques; payments into the State budget; various targets connected with investments. (Nove, 1981, p. 36)

It is worth noting, in passing, that this combination of physical and monetary accounting is not unknown in private capitalism. Where companies are highly diversified and are engaged in various branches of production, it is inevitable that accounting has to be largely a financial exercise. But Rodney Clark has shown that specialised Japanese companies, engaged in a single line of production, prefer to avoid some of the distortions which arise from the instability of currency by conducting part of their bookkeeping in physical units – in tonnes of steel, numbers of vehicles or percentage share of the relevant market (Clark, 1979, pp. 63–4 and 136). These considerations which apply in private capitalism have their counterparts in state capitalism. Thus one reason why resort has to be made to monetary targets in the state capitalist countries is the heterogeneous nature of much production. Most enterprises produce a range of products and few products are sufficiently homogeneous to be usefully measured in physical units alone. When physically incompatible lines of production need to be aggregated, this can only be accomplished by means of a common unit, which in state capitalism, as in private capitalism, invariably turns out to be money (Holesovsky, 1977, pp. 206–7).

Yet important though money is as a common unit of measurement in which all aspects of a particular enterprise's activity can be ex-

pressed, this is not the fundamental reason why money asserts itself in state capitalism. If that were the case, it would still be legitimate to look upon planning as an operation essentially conducted in physical terms, with monetary calculation figuring as no more than a convenient supplementary exercise. In fact, this is precisely how planning generally is understood by most commentators on the state capitalist countries. Attempts to grasp the meaning of planning in this fashion lead to the oft-repeated assertion that the (physical) production plan is merely 'clothed in monetary form'. In our view, this inverts the real significance of physical planning and monetary calculation in the state capitalist countries. We argue that, on a national scale, financial calculation, which expresses the state's pursuit of profit, is not the form but the essence of state capitalist economic activity.

The purpose of state capitalist production is not merely to obtain end-products in the form of use values, but to pump surplus value out of the wage-earning working class. This is the fundamental reason why economic calculation in state capitalism ultimately has to be conducted in units of value measured by money. For the state (representing the general interest of capital in state capitalist countries), it is not enough to know that X million tonnes of steel or Y million metres of fabric have been produced. Such information does not reveal how 'efficient' production is in the capitalist terms in which the state is interested – that is, in terms of how much surplus is being extracted from the working class. Any group of capitalists, no matter whether they are private capitalists or state capitalists, has to ensure that surplus value is being squeezed from the workforce at a rate which is at least equivalent to the rate of surplus value achieved by its rivals. If they fail to match their rivals, there will be insufficient surplus to maintain the required rate of capital accumulation. As a result, inevitably they will become uncompetitive, and eventually they will perish. As a first step towards avoiding the fate which awaits an uncompetitive company in private capitalism, the state in the state capitalist countries has to have at its disposal a measure of value which enables it to compare the rates of surplus value in different enterprises and different economic sectors. This measure is money.[14]

Essentially, our argument is that the cross-sectoral comparison of economic efficiency, which is necessary in a society where wealth takes the form of value, can be accomplished only by monetary calculation. As we have seen, state capitalist enterprises are checked and counter-checked by a battery of both physical and monetary

targets. Broadly speaking, physical data are useful for comparing like with like. In other words, statistics on production expressed in physical units may be very suitable for comparing the present performance of an enterprise with its past performance, or for comparing the performance of two similar enterprises which produce the same products from the same inputs. But for comparing enterprises or economic sectors engaged in different lines of production, only monetary calculation is suitable.[15]

Most commentators on the state capitalist countries deny that profit plays a crucial role because they mistakenly focus attention on the individual enterprise as the counterpart of the profit-making company in private capitalism. They point out that enterprise-managers, confronted by a battery of often conflicting targets, only some of which can be fulfilled, have generally not seen profit as their highest priority. In Russia and other state capitalist countries, gross value of output was traditionally regarded as the prime indicator of enterprise performance, but there has been a tendency for other indicators, such as net value of output and labour productivity, to assume greater importance. Many commentators have stressed that some state capitalist enterprises, or even entire industrial sectors, run at a permanent planned loss and never make a profit. More will be said on these planned losses in the following section, but here it is sufficient to mention that, despite the well-known exceptions, the rule which governs the overwhelming majority of state capitalist production is that enterprises must make a monetary profit.[16] This is necessarily the case, since otherwise the national economy could not attain a sufficient rate of surplus value and the state's survival would be jeopardised.

In the state capitalist countries, the state pursues its goal by means of a web of instructions and targets which it spins around the enterprise-managers. The enterprise-managers seek to retain their positions and privileges by using whatever room for manoeuvre is left to them in order to execute the plan to the letter, if not in spirit. Faced with the shifting strategies and subterfuges of the enterprise-managers, the state responds by emphasising different targets at different times. From the enterprise-managers' point of view, state capitalist production is primarily about fulfilling those targets which are currently in high fashion. Unless profit happens to be one of those targets, it does not command the enterprise-managers' single-minded attention. On the other hand, the state can never afford to shift its eyes from the acquisition of surplus value. Every instruction it issues

and every target it sets has this goal in mind. And as we have explained, monetary calculation is an indispensable tool used by the state to compare the rates at which surplus value is created in different enterprises and sectors of the economy. Thus as soon as we alter the focus of attention from the level of the enterprise to the level of the state, we can see that the pursuit of surplus value, expressed as monetary profit, is an essential characteristic of state capitalism.

MARKET AND STATE

The strongest argument which can be directed at the theory of state capitalism is that the regulation of production by the market, via a competitive struggle for profits, does not occur. In this respect, state capitalism differs from private capitalism. In private capitalism a capital market exists, and capital can clearly be seen to be chasing high profits. Capital is in a constant state of flux, moving from less profitable to more profitable sectors of the economy, and it is by means of these spontaneous shifts of capital that production is regulated. This process of regulating production is unplanned and is dependent on a free commodity market, where prices fluctuate in response to changes in supply and demand. One could argue that today few countries where private capitalism prevails conform entirely to this model, due to the influence of monopolies and to intervention in the economy by the state. Yet despite the not inconsiderable deviations from the model which occur in the real world, this characterisation of private capitalism remains basically valid.

By way of contrast, most of the conditions which would allow the state capitalist countries to operate in accordance with this model are absent. Although there is a market for means of production, it is not a *free* market, and although prices are adjusted periodically, they do not officially respond to short-term fluctuations in supply and demand. It is true that, by its very nature, the black market is free from state interference and that prices regulate themselves automatically in this sector of the state capitalist economy. Furthermore, although conditions do not allow the illegal capital market to be investigated, no doubt it exists as part of the black economy. Nevertheless, despite the sizeable scale of the black market in many state capitalist countries, we do not wish to base our arguments on it, and we shall ignore it for the purpose of this discussion. Setting the black market aside, we can therefore say that the capital market is insignificant in the

state capitalist countries, because legal capital formation is largely controlled by the state.

Strictly speaking, then, the characteristic of capitalism which we have formulated as 'regulation of production by the market' is not found in the state capitalist countries, due to the control exercised by the state. Yet the great paradox of state capitalism is that the state blocks the spontaneous regulation of production by the market, only to be forced to introduce a similar process itself. Given the facts that the market is not free, that prices are fixed bureaucratically (at increasing economic cost, the more they ignore the law of value), and that enterprises are not financially independent of the state, the state has to take responsibility for allocating capital in such a way that an adequate rate of surplus value can be realised, instead of allowing the process to proceed spontaneously by the 'natural' mechanisms of the free market and the free intersectoral movement of capital. In other words, the state has to devise substitute mechanisms in order to do consciously (and many would say less efficiently – but that is not our concern) what the market does automatically in private capitalism.

Admirers of state capitalism often talk as though the economic planners have *carte blanche* and can allocate capital to whichever economic sectors they choose. This is not the case. State capitalist countries exist in a capitalist world where there is cut-throat competition, not only from rival producers in countries where private capitalism prevails, but from other state capitalist countries too. All state capitalist countries are therefore under pressure to achieve an overall rate of surplus value which is at least equal to that achieved by their competitors. Failure to achieve this rate of surplus value could prevent the accumulation of capital from occurring at the rate required to keep abreast of international rivals.

In private capitalism there is an automatic (i.e. market-achieved) tendency for a roughly equal rate of profit to be realised wherever capital is invested. This tendency does not manifest itself in state capitalism. In Russia in 1978, the average rate of profit throughout industry was 13.5 per cent, but the rates achieved in different industrial sectors varied enormously, from −3.2 per cent in the coal industry to 25.3 per cent in light industry (Nove, 1980, p. 185). Even within the same industry, variation can be considerable. Kushnirsky has claimed that in the garment industry, the most efficient enterprises achieve rates of profit about four times greater than the least efficient enterprises (Kushnirsky, 1982, p. 22). In private capitalism, enterprises which make low or negative profits are eventually driven

out of business, but this does not occur in the state capitalist countries because most profits and losses revert to the state, instead of being borne by enterprises. This is a major source of confusion for many commentators on state capitalism, since for many critics and supporters of state capitalism alike, capitalism is identified with the need for individual enterprises to make profits and engage in independent capital formation. Yet what needs to be grasped is that whereas the mechanisms of profit distribution are different in private capitalism and state capitalism, what is being distributed is precisely the same: surplus value. In the state capitalist countries unequal rates of profit can be tolerated in different enterprises and in different sectors of the economy because the surplus value from all sectors is first largely acquired by the state and then is redistributed among the different enterprises and sectors. This emphatically does not mean, however, that the state can be indifferent to profit.[17] As we said before, if the overall rate of profit fell significantly below that of international rivals, the economy would ultimately founder and the state capitalists would risk losing political power (MacIntosh, 1972, pp. 28–42).

Once this has been explained, it can be seen that the allocation of capital by the state has to be conducted with reference to levels of profitability. In general, capital will either be invested most heavily in highly productive enterprises and sectors, or the investment of capital in other sectors will be accompanied by enormous pressure to increase the rate of surplus value. We have already seen that some sectors with low or even negative profitability can be tolerated in state capitalism, because of the process whereby the state first appropriates a high proportion of surplus value wherever it is produced and then redistributes it. Yet it would be foolish to imagine that this ability to tolerate unprofitable sectors is peculiar to state capitalism. One frequently observes the same phenomenon within private capitalism. By means of state intervention, certain sectors of a private capitalist economy can be allowed to make less than the average rate of profit or can even be run at an outright loss. To permit this, the state either disburses subsidies (derived from surplus value obtained from other sectors of the economy in the form of taxes) to the unprofitable sectors, which may then remain in private hands, or the state nationalises the loss-making sectors and runs them as a service in the general interest of capital within its frontiers. Yet in the case of both state capitalist and private capitalist countries, there are strict limits on the extent to which this tolerance of unprofitable sectors can be exercised. Since the subsidising of loss-making enterprises reduces

the total quantity of surplus value available for distribution among the different sectors of the economy, state capitalist economic planners are as reluctant as their private capitalist counterparts endlessly to pour resources into unproductive enterprises.

Stalin used to boast that the fact that heavy industry had outstripped highly profitable light industry was proof that the law of value does not regulate the proportional development of different branches of production in Russia (Stalin, 1952, p. 27). As with so many of Stalin's pronouncements, this was a gigantic red herring. There is no law which automatically compels those with responsibility for realising surplus value always to opt for short-term profit maximisation. Even within private capitalism one can often see other considerations at work. The strong performance of many large Japanese companies in recent decades has been partly attributable to their tendency to take a longer-term and more strategic view of profit acquisition than many of their international competitors. Stalin's own pronouncements (see note 17) reveal that a long-term, strategic approach to profit-making was uppermost in his mind. Even so, there is a law which operates within the Russian economy (and within all other sections of the capitalist world) and this is that sufficient surplus value has to be generated in order to achieve the necessary rate of accumulation. In conformity with this law, Stalin could forsake some of the high profits associated with light industry, but he could not afford to neglect the need for a sufficient rate of profit in the Russian economy as a whole.

To summarise, we can say that, in contrast to the automatic regulation of production by the market which occurs in private capitalism, in state capitalism production is consciously regulated by the state and its planning bureaux. Yet conscious 'planning' by the state in the state capitalist countries is a response to pressures which are not of its own making and which act on it remorselessly. Ultimately, those pressures arise from the international rivalry of competing capitals. In other words, the pressures which act on the state and its economic planners in the state capitalist countries are identical to the pressures which act on their private capitalist counterparts via the market. In precisely the same fashion as their private capitalist counterparts, the state capitalist planners can ignore those pressures only at their peril.

This fundamental identity of the role of the market in private capitalism and the role of the state in state capitalism has its parallel

in the ways in which price formation occurs in these two variants of the same capitalist economy. Whereas in private capitalism, prices are mostly automatically determined in the market place, in the state capitalist countries (countries such as Hungary and Yugoslavia are partial exceptions) prices are for the most part decided in the planners' offices. But this does not mean that the 'planners' have *carte blanche* when it comes to fixing price levels. If the state capitalist authorities wish to maximise surplus value, they can do so only by using as their instruments prices which take into account the law of value.[18] Of course, a limited number of prices can ignore the law of value without major problems arising, but if there are too many false prices, it becomes impossible to calculate accurately where satisfactory rates of surplus value are being realised and where surplus value is haemorrhaging away. If that situation is allowed to continue unchecked, the economy will underperform, and eventually the ruling position of those exercising political control will be threatened.

ACCUMULATION OF CAPITAL

When discussing, in the previous sections, the need for (state) capital to realise surplus value, and for production to be regulated by reference to rates of surplus value, we paid little attention to the dynamic nature of capitalism. Nevertheless, it is because there is competition between rival capitals that capitalism is a dynamic social system. Innovation and development of the forces of production are inherent in capitalism, because, in order to survive, capital constantly has to attempt to gain an advantage over its rivals. Advantage is gained by economies of scale and by introducing more efficient methods of production, which enable commodities to be sold more cheaply and rivals to be undercut. To put it another way, advantage is gained by accumulating capital – by investing in new plant which can handle bigger production runs or can produce more for less (i.e. can reduce the quantity of socially necessary labour required to produce a commodity, and consequently reduce its value and its price).

No capitalist interests can afford to neglect this need to accumulate. Merely in order to maintain its share of the market, let alone to expand its share, capital constantly has to direct the bulk of the surplus value which it realises towards investment. In a well-known passage in *Capital*, Marx wrote that:

> the development of capitalist production makes it constantly necessary to keep increasing the amount of the capital laid out in a given industrial undertaking, and competition makes the immanent laws of capitalist production to be felt by each individual capitalist, as external coercive laws. It compels him to keep constantly extending his capital, in order to preserve it, but extend it he cannot, except by means of progressive accumulation. (Marx, 1919 (vol. I) p. 649)

The 'individual capitalist' referred to by Marx has largely been eliminated from modern private capitalism, and needless to say from state capitalism. Yet the 'external coercive laws' continue to act even on giant multinational companies and on entire blocs of state capital. Capital of any size or shape has to run fast simply in order to stay still, and no more than private capital can state capital escape from the compulsion to accumulate. Since state capitalist enterprises are not financially independent, however, the need to accumulate capital is another case of a force unleashed by capitalism which, in the state capitalist countries, acts primarily on the state, rather than at the level of the individual enterprise.

Some of those who recognise that there is competition between state capitalist countries and private capitalist countries argue that this is not a manifestation of the economic rivalry which is inherent within capitalism as a worldwide phenomenon. On the contrary, they interpret such competition as a confrontation between opposing capitalist and non-capitalist social systems. Whereas we emphasise the fundamental similarity of state capitalist and private capitalist countries, and the economic roots of their rivalry, others stress the differences which exist between them, and insist that their conflict must be explained in military rather than economic terms. For example, Mandel has claimed that competition between Russia and the other great powers 'primarily takes a military form' and 'is not capitalist competition' because it 'results precisely from the different social characters of the U.S.S.R. and the capitalist world, which confront each other' (Mandel, 1968, p. 562). Not only does it become impossible, on this basis, to explain the evident hostility between rival state capitalist countries such as Russia and China, but we believe it is mistaken also to attempt to draw a sharp distinction between military and commercial considerations.

If rival private capitalist countries (or rival state capitalist countries) develop new economic sectors, such as the computer industry, state

capitalist countries must do likewise for commercial as well as military reasons. In 1983, Deputy Prime Minister Jozef Marjai frankly admitted the commercial pressures acting on Hungary:

> Even in the present world economic climate, amid disequilibrium and slow growth, a new technical revolution is taking place. Hungary must strive to keep up with this revolution, so as not to be left behind. Our main economic priority – improving the country's economic equilibrium – presupposes that we also change thoroughly the economy's structure.
>
> What does 'structural change' entail in practice? It means making products which the world will buy, which have a higher intellectual content, and which require less raw material and energy to produce. By carrying out such structural changes, we directly improve the external balance of the Hungarian economy.[19]

Should state capitalist countries fail to develop the new economic sectors which appear elsewhere, not only will their weapon systems be outclassed by those deployed by military rivals, but their levels of productivity will similarly be outstripped by those achieved by commercial rivals. To the extent that state capitalist economies are integrated into the world economy and sell their products on the world markets (see the following section), just like any other capitalist undertakings, they must strive to produce their commodities at least as cheaply as rival products. This is the reason why the notion of 'economic efficiency' which prevails in the state capitalist countries is indistinguishable from that which is found in private capitalism, and why the interests of labour are subordinated to the realisation of profit.[20] It is the need to compete both militarily and commercially, and therefore to accumulate capital, which explains why all advanced countries, whether avowedly capitalist or allegedly 'socialist', basically conform to the same pattern. The same economic sectors are in evidence and the organisation of production is basically similar wherever one looks. The need to compete, and therefore to accumulate capital, also explains why, in the state capitalist countries, as in private capitalism, the organic composition of capital is rising (Kushnirsky, 1982, p. 29).

A SINGLE WORLD ECONOMY

The fundamental identity of Stalinist and Trotskyist illusions about

state capitalism is once again revealed by their views on the relationship between the economies of state capitalist countries and the world economy. In 1952, Stalin declared that 'the single all-embracing world market disintegrated, so that now we have two parallel world markets, also confronting one another' (Stalin, 1952, p. 35). At various stages during the 1960s, Mandel argued not only that:

> It is absurd to assume that capitalist production was somehow reintroduced [*sic*] 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). (Mandel, 1969, p. 13)

but that:

> The Soviet economy, however, while retaining definite links with world capitalist economy, is exempt from the fluctuations in the conjuncture of world economy. Indeed, periods of most remarkable advance by Soviet economy have coincided with periods of crisis, depression or stagnation in world capitalist economy. (Mandel, 1968, p. 562)

Even at the time these comments were made, they were unconvincing. Developments over the past decade, however, have given them an additional period flavour, not least in the light of numerous rueful utterances from leaders of the state capitalist countries. For instance, Brezhnev admitted in 1976 that: 'Because of the broad economic links between capitalist and socialist countries, the ill effects of the current crisis in the West have also had an impact on the socialist world' (Frank, 1980, p. 180).

As such remarks indicate, no state capitalist country can escape the influence of, and the fate of integration into, the world economy. Even giant countries such as Russia and China, despite their relatively favourable position with regard to supplies of raw materials from within their own frontiers, have been forced to establish increasingly intimate links with the world markets. At the other extreme, small countries such as Hungary, with few raw materials, are susceptible to the slightest tremors registering on the world markets. As the economic problems confronting not a few state capitalist countries demonstrate, the world crisis has shown no respect what-

TABLE 4.1 *Growth of national income and foreign trade of Russia, 1950–80*

Year	*Index of national income*[a]	*Index of foreign trade*[b]
1950	100	100
1960	265	344
1970	528	755
1980	855	3 216

[a] In constant prices.
[b] Calculated in rubles at the 1961 exchange rate.
SOURCE Clarke and Matko (1983) pp. 7 and 61.

soever for 'socialist' pretensions. It has been a truly *world* crisis, involving all sections of the world capitalist economy, state capitalist and private capitalist, developed and underdeveloped.

Since the days of Stalin's and Mandel's pronouncements in the 1950s and 1960s, Russia's trade with the rest of the world has grown considerably. As Table 4.1 shows, there was almost a ninefold increase in national income, expressed in constant prices, between 1950 and 1980, whereas foreign trade, calculated at a constant exchange rate, grew by more than 32 times.

Referring to Russian figures for 1977, Scott Bozek has given Russian foreign trade turnover as 15.4 per cent of national income (Bozek, 1979, p. 507). Estimating foreign trade and GNP in 1970 domestic ruble factor prices, Michael Dohan has calculated that in 1977, exports represented 6.7 per cent of GNP and imports represented 9 per cent of GNP – 'approximately the same as the United States in the 1970's' (Dohan, 1979, p. 347). These estimates are not markedly different from those calculated by other analysts of the Russian economy. Roger Munting, for example, has written that Russia's exports accounted for about 6 per cent of national product in 1970 and 8 per cent in 1975 (Munting, 1982, p. 206).

In China's case, Terry Cannon has calculated that in 1980 foreign trade accounted for about 8.5 per cent of the value of total industrial and agricultural output (Cannon, 1983, p. 298). This situation has come about because, by following a pattern which bears more than a passing resemblance to Russia's recent economic development, China's foreign trade has grown at a much faster rate than its national income (see Table 4.2).

If Russia's and China's integration into the world economy has progressed rapidly in recent years, both countries have a long way to

TABLE 4.2 *Growth of national income and foreign trade of China, 1952–80*

Year	*Index of national income*[a]	*Index of foreign trade*[b]
1952	100	100
1957	154	162
1965	235	205
1975	425	771
1980	616	1 988

[a] Calculated in millions of yuan at current or near-current prices.
[b] Calculated in millions of US dollars at current prices.
SOURCES *Beijing Review*, 10 August 1981; Cannon (1983) p. 294.

go before they attain the position of other smaller state capitalist countries, such as Yugoslavia and Hungary. Yugoslavia's foreign trade equals one-third of GNP, while Hungary exports about 50 per cent of its national income. Yugoslav officials have long admitted 'the considerable dependence of our economy, and especially foreign trade, on world trends' (Farkas, 1975, p. 105), and the same could be said with equal validity about Hungary.

An objection which will be raised to the foregoing account is that, in discussing foreign trade, no distinction has been made between trade with private capitalist countries and trade with other state capitalist countries. Those who envisage state capitalist economies as 'planned economies' will, no doubt, insist that trade relations between state capitalist countries are also planned. Yet as we shall show in the following paragraphs, not only does trade with the avowedly capitalist countries of the West represent an increasing proportion of the total foreign trade of most state capitalist countries, but trading relations between state capitalist countries are in important respects unplanned.

As Table 4.3 illustrates, Russia's trade with other state capitalist countries has shown a long-term decline, relative to its trade with private capitalist countries. Besides Russia, many other state capitalist countries have a similar distribution of trade (Vienna Institute, 1983).

One reason why state capitalist countries have developed extensive trading relations with private capitalist countries is that many of the former are heavily indebted to the latter and must earn hard currency in order to repay their debts. At the end of 1982, the total hard currency debt of Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania was US $53.3 billion, which has been estimated

TABLE 4.3 *Percentage of Russian foreign trade with state capitalist, Western capitalist and 'developing' countries, 1960–80*[a]

Year	*1960*	*1970*	*1975*	*1978*	*1980*
State capitalist countries	73.2	65.2	56.3	59.8	53.7
Western capitalist countries	19.0	21.3	31.2	28.0	33.6
'Developing' countries	7.8	13.5	12.4	12.2	12.7

[a] In foreign-exchange rubles at current prices.
SOURCE Derived from figures in Vienna Institute (1983) p. 181.

at 8 per cent of the combined GNP of these six countries.[21] With debt repayments absorbing 40 per cent of hard currency earnings from exports in East Germany's case, 46 per cent in Hungary's case and a staggering 91 per cent in Poland's case, the enormous pressure exerted by private capitalism on these state capitalist countries hardly needs stressing (Luke and Boggs, 1982, p. 109). In order to earn hard currency, they must sell their commodities at competitive prices on private capitalist markets. As a result, forces originating in private capitalist markets penetrate into the state capitalist enterprises where commodities are produced, and dictate the levels of productivity which must be achieved and the intensity of exploitation to which the producers must be subjected.

Although we have explained that an increasing proportion of state capitalist countries' foreign trade is conducted with private capitalist countries, we do not wish to give the impression that capitalism is imposed on the state capitalist countries from the outside, by virtue of their relations with private capitalist markets. State capitalism is capitalism in its own right, and trade between state capitalist countries forms an integral part of the world capitalist markets. Even in a world composed exclusively of state capitalist countries, where all vestiges of private capitalism had been eradicated, foreign trade would still express the same capitalist relationships as it does today. People would still be doubly alienated from one another, firstly as 'foreigners' and secondly as 'traders' of commodities.

Relations *between* state capitalist countries are essentially projections onto a larger screen of relations which exist *within* state capitalist countries. We have repeatedly argued that state capitalist economies are not planned economies, and it follows that trading relations between state capitalist countries also cannot be fully planned. Similarly, because (as we argued in a previous section) relations between enterprises within state capitalist countries are not

based on cooperative production and distribution in the overall interest of society, it is obviously unrealistic to expect relations between state capitalist countries to express anything other than rivalry and self-interest. We do not deny that there is an element of planning in the trade relations which exist between state capitalist countries, any more than we shut our eyes to the activities of the economic planners within state capitalist countries. It is well known that fixed-term deals are negotiated, and binding contracts are signed, between state capitalist countries, as the concrete manifestations of this international planning. Yet these concrete manifestations of state capitalist countries' attempts at international planning are basically no different from the deals which are struck and the contracts which are signed between private capitalist interests. What they entail is the capitalist relationship of exchange.

Exchange between state capitalist countries, just like exchange between private capitalist companies, is necessarily based on the conflicting interests of buyer and seller. This conflict of interests finds its concrete expression in price, and one illustration that the state capitalist countries are integral parts of a single world capitalist economy is that the prices of many of the commodities which they exchange are based on world-market prices. It is true that a state capitalist trading alliance such as Comecon has attempted to introduce a degree of stability into its pricing arrangements by introducing a system where current prices reflect average world prices over a number of years.[22] Nevertheless, this still leaves prices at the mercy of fluctuations on the world markets, and results in totally unplanned (even if delayed) consequences for the economies of the state capitalist countries concerned. For example, P. Marer has shown that changing prices of exports to and imports from those areas of the world with which Hungary trades in dollars resulted in the Hungarian terms-of-trade index (the export price index expressed as a percentage of the import price index) for dollar areas declining from a base of 100 in 1970 to 80.5 in 1978. By way of comparison, changing prices of exports to and imports from those areas of the world which Hungary trades with in rubles resulted in a decline in the terms-of-trade index for ruble areas over the same period from 100 to 82.1. Although the Comecon pricing system slightly retarded the process in the areas with which Hungary trades in rubles, price movements in both dollars and rubles were broadly similar. The effects of these changes in prices on the Hungarian economy were severe and unforeseen. In 1974–5 alone the combined effects of the worsening terms of

trade with dollar and ruble areas resulted in unplanned losses which were equivalent to 7.5 per cent of Hungary's national income (Marer, 1981, pp. 184–5).

In this chapter we have attempted to demonstrate that the economic dynamic of the state capitalist countries is provided by their pursuit of profit, which is derived from the surplus value which state capital extracts from the unpaid labour of the wage-earning working class. Profit is pursued because, due to the competition which is inherent in world capitalism, state capital continually has to invest newly acquired surplus value in a compulsive effort to accumulate and hence expand itself. Despite certain resemblances between our interpretation of state capitalism and the 'world-system' theory derived from Immanuel Wallerstein, we differ fundamentally from the adherents of that school in that they see the state capitalist countries as providing settings for thwarted experiments in 'socialist' construction. According to their theory, state capitalist countries have made valiant attempts to build 'socialism', but have ultimately been defeated and forced to compromise by an overwhelmingly powerful capitalist world-system (Chase-Dunn, 1982). On the other hand, we see state capitalism as an anti-working class and anti-socialist formation not only in its opportunist maturity but even in its various 'heroic' and revolutionary periods in different parts of the world. Capitalism is certainly a worldwide system, but state capitalism is as integral to that system as is private capitalism.

5 The Ideology of State Capitalism

All ruling classes defend their power and privileges with an ideology. Similarly, all aspiring ruling classes justify their pursuit of power with an ideology. The ideology of state capitalism initially was fashioned during the nineteenth century as groups in various European countries advanced plans for reorganising society along state capitalist lines and for raising their own social status in the process.

Since the nineteenth century, some of these groups (for instance, the Russian Bolsheviks) have fulfilled both these ambitions, with the result that state capitalist ideology has been transformed by them from sets of ideas which challenge existing social arrangements into doctrines which celebrate the status quo and attempt to maintain it. Although some varieties of state capitalist ideology have thus been transformed into conservative creeds and even quasi-religious dogmas, we shall argue that there is an essential continuity between the nineteenth-century and early twentieth-century ideological formulations of political radicals such as Kautsky and Lenin and the subsequent records of state capitalist groups in government in different parts of the world.

When we argue that nineteenth-century and early twentieth-century ideologists such as Kautsky or Lenin were spokesmen for state capitalist interests, we are not relying exclusively on the benefit of historical hindsight. The essentially capitalist nature of their ideas was apparent long before the parties with which they were associated took power, and was denounced as such by anarchists, syndicalists and elements within the pre-First World War Social Democratic movement to which Kautsky and Lenin belonged. Writers such as Jan Makhaisky (1979) and Robert Michels (1962) also made pertinent criticisms. Many of these critics realised that what Kautsky and Lenin stood for was a class society in which the party leaders would

become a new ruling class on the basis of the wages system. However, there was a measure of confusion in that this society was generally – and misleadingly – described as 'state socialism' rather than state capitalism.

In this chapter, we shall examine the political programmes and ideological pronouncements of Social Democracy, Labourism and Bolshevism. As a contrast to our examination of these state capitalist movements, we shall also clarify the origins of the theory and criticism of Russian society as state capitalism.

SOCIAL DEMOCRACY

Social Democracy is a political movement which emerged in the latter half of the nineteenth century and grew to mass proportions in a number of European countries. Despite the Social Democrats' habitual use of the vocabulary of socialism, one of the principal aims of their movement was to reorganise capitalism in such a way that state corporations would replace private capitalists. In many countries, parliamentary democracy did not exist when Social Democratic parties were formed. Accordingly, a second objective of Social Democracy was to democratise the political systems found in such countries. Thirdly, Social Democracy sought to improve the position of the working class, both by raising wage levels and by means of various welfare schemes to be administered by the state. Fourthly, although it was never frankly acknowledged, another key aim of Social Democracy was to raise the Social Democratic politicians and the trade union leaders to the ruling position within society. In effect, these new rulers were expected to administer the system of wages and capital accumulation in such a way that it would supposedly operate in the interest of the working class.

The Social Democratic Second International was established in 1889, and until it fell apart on the outbreak of the First World War, the German Social Democratic Party (SPD) was its biggest and most influential constituent party. The SPD's prestige was derived in part from the apparent success of its electoral strategy, since the increasing number of votes which the party received at successive general elections seemed to be leading it to the point where it would achieve a parliamentary majority and thereby take power. In addition, the SPD also benefited from its association with Marx and Engels, who (until their deaths in 1883 and 1895 respectively) acted as advisers to

the German Social Democrats from their places of exile in Britain. Karl Kautsky and Eduard Bernstein consulted Engels when they drafted the programme which the SPD adopted at its congress held in Erfurt in 1891, and the so-called Erfurt Programme therefore became an immensely prestigious document within the Second International.[1] Together with Kautsky's book-length supplementary text, which offered an explanation of its principles, the Erfurt Programme was translated and widely diffused, with the result that it was taken as a model by many Social Democratic parties outside Germany.

What made the Erfurt Programme a quintessentially Social Democratic document was that, side by side with the maximum goal which it proclaimed, it also advanced a set of minimum demands which it sought to realise 'to begin with'.[2] The maximum goal was outlined, in somewhat vague phrases, as follows:

> Only the conversion of capitalistic private property in the means of production . . . into common property, and the change of the production of goods into a socialistic production, worked for and through society, can bring it about that production on a large scale, and the ever-growing productiveness of human labour, shall develop, for the hitherto exploited classes, from a source of misery and oppression, into a source of the highest well-being and perfect universal harmony. (Russel, 1965, p. 138)

In order to achieve this end, it was indicated that the class-conscious workers of all capitalist countries would have to act to emancipate the whole human race. Classes would be abolished, as would 'every kind of exploitation and oppression, whether directed against a class, a party, a sex, or a race' (ibid., p. 139).

The minimum demands were described far more concretely and exactly than the maximum goal. They consisted of a set of proposed measures for reforming political and economic life in imperial Germany. Typical demands were for the reform of the electoral, legal and tax systems; the replacement of the standing army by a popular militia; the granting of the rights of free assembly and coalition; the separation of the state and religion; sexual equality before the law; and free education, free medical treatment and free burial (ibid., pp. 139–41). In addition, the Erfurt Programme advocated a further series of reforms for 'the protection of the working classes'. These included demands for the eight-hour day; the prohibition of child employment; and the prohibition of night work, unless unavoidable (ibid., p. 141).

If we consider the Erfurt Programme in its entirety, it was clearly a reformist programme. Even if some of these reforms were designed to undermine the foundations of imperial rule and the political ascendancy of the Junker landowners, not one of them could not have been accommodated by capitalism in Germany. Indeed, the historical outcome of the SPD's long campaign was that when the Kaiser abdicated and the Junkers lost their political dominance at the end of the First World War, capitalism survived intact, thanks in no small part to the reforms which the Social Democrats brought about.

It is known that Kautsky was responsible for the theoretical part of the Erfurt Programme, where the maximum goal was formulated, while Bernstein drafted the minimum demands. In view of the subsequent divergence between Kautsky, who was renowned as a defender of so-called Marxist orthodoxy, and Bernstein, who became the most prominent spokesman of 'revisionism', it is tempting to identify the different wings of the SPD which they represented with 'revolution' (the maximum programme) and 'reform' (the minimum demands) respectively. However, this would be quite mistaken. Despite the socialist verbal formulae which he employed, and his attachment to the maximum goal as an expression of faith, Kautsky was no less an advocate of reforms than was Bernstein.

In 1902, at the height of the controversy over revisionism, when he was leading the fight against Bernstein's heresy, Kautsky published under the title *The Social Revolution* two talks which he had given in Holland in April that year. There was nothing inherently reformist about the setting he imagined in the talk entitled 'On the Day After the Social Revolution', which formed the second half of this book. The situation he envisaged was such that 'at one stroke all power is thrown into the lap of the proletariat' (Kautsky, 1902, p. 107). But Kautsky then went on to lead his readers, step by step, through the successive stages of 'social revolution' as he understood it.

First, the minimum demands of the Erfurt Programme would be realised. 'But the revolution would naturally not stop at these transformations. It would not be simply a bourgeois democratic, but a proletarian revolution' (ibid., p. 110) and would therefore go further. Kautsky expected his 'proletarian revolutionaries' to take action to assist the unemployed by means of generous unemployment benefit. The effect of this would be to remove the fear of unemployment from the working class as a whole, which would 'completely alter the relative strength of the proletariat and capitalist' (ibid., p. 112). With the tables thus turned against them, the capitalists would voluntarily wish to sell their enterprises.

As to who would be the purchasers, Kautsky informed his readers:

> It is clear . . . that capital would find its most extensive and generous purchaser in the States or municipalities, and for this very reason the majority of the industries would pass into the possession of the States and municipalities. (Ibid., p. 113)

Kautsky equated such a massive extension of state and municipal ownership with 'the domination of the whole productive process by society and its organs, – the State and municipalities' (ibid., p. 114). This conflation of society and the state reflected the confusion and ambiguity which had existed from the beginning in the attitude of the SPD towards state ownership.

This question had come up at the SPD congress which was held in Berlin in 1892 (the year after the Erfurt congress), when one of the issues which was debated was 'state socialism' or the takeover of industries by the existing state, as favoured by some members of the SPD. Wilhelm Liebknecht, speaking on behalf of the SPD leadership, declared that this had nothing to do with socialism but was state capitalism (Nieuwenhuis, 1975, pp. 145–6 and 185–6) and the SPD accordingly adopted a resolution which declared that Social Democracy and 'state socialism' were irreconcilable. But the SPD's position remained ambiguous in that what it objected to in 'state socialism' was not the state takeover and running of industries as such, but the fact that the state which did this would not be controlled by Social Democracy. In other words, it was only the takeover and running of industries by a state controlled by, or in the interests of, private capitalists which was conceded to be state capitalism, while the takeover and running of industries by a Social Democratic government was seen as 'socialism'.

Although Kautsky was not aware of it, the society which he envisaged in *The Social Revolution* was a form of state (and municipal) capitalism. The state and municipalities were to take over the role of employers, while the workers employed by these institutions were to remain wage-earners, as under private capitalism. Kautsky realised that his plan to maintain the wages system would arouse controversy and he therefore defended his proposal against the objections which he anticipated:

> What, it will be said , will there be wages in the new society? Shall we not have abolished wage-labor and money? How then can one

> speak of the wages of labor? These objections would be sound if the social revolution proposed to immediately abolish money. I maintain that this would be impossible. (Kautsky, 1902, p. 129)

What Kautsky failed to grasp was that what was really 'impossible' was to talk of social revolution in a context where wages and money were not abolished. At most, it might have been legitimate to describe the changes which Kautsky proposed as a *political* revolution, by means of which the administration of the capitalist system would have passed from the hands of private capitalists and their representatives into those of Social Democratic politicians and state officials, but which would have left unchanged the social position of the wage-earning majority as a subordinate, exploited class.

Kautsky strenuously denied that society organised along the lines which he favoured would be capitalist, and he stressed the differences between such a society and existing forms of capitalism. For example, he wrote that it would be possible to replace metallic money by 'token money'. He also claimed that 'wages under the proletarian regime would be something wholly different from under capitalism' (ibid., pp. 133–4). Despite such assurances, Kautsky's defence of the society which he proposed was unconvincing. This was for a reason which Kautsky himself admitted, without realising its significance: 'When we expropriate capital we must at the same time take over its social functions. The most important of these is the accumulation of capital' (ibid., p. 136). In Kautsky's scheme, state and municipal capital would have been compelled to accumulate. This would have ensured that the pressures which were transmitted to those who worked for wages by those who personified capital could not have been significantly different from those found in any other form of capitalism. State and municipal enterprises would have squeezed surplus value out of wage-earners, and consequently all the other fundamental problems associated with capitalism inevitably would have arisen.

The specific case of the SPD illustrates the general role played by Social Democracy. Over the past 100 years, Social Democratic parties have attracted millions of working men and women. Many of these workers have been appalled by capitalist society and have hoped that Social Democracy could provide an alternative to capitalism. Yet Social Democracy has channelled working-class dissatisfaction with capitalism in directions which preserve the basic relationship of capital to wage labour. Even in its heyday as a radical

movement, Social Democracy fought against private capitalism with the objective of replacing it only with state capitalism, and not with a classless society in which the wages system would be abolished. Eventually, Social Democracy abandoned even its state capitalist objective and came to accept private capitalism subject to only minor modifications.

LABOURISM

Social Democracy never made much progress in the English-speaking countries. Its equivalent as a mass movement in countries such as Britain, Australia and New Zealand was Labourism, which played down the class struggle and merely sought pragmatic improvements within the framework of private capitalism.For these reasons, the British Labour Party was often the despair of European Social Democracy during the years before the First World War. Formed in 1900 as the Labour Representation Committee, even after it became the Labour Party in 1906, it acted as a mouthpiece for trade unions which favoured the market economy and the wages system. However, towards the end of the First World War, faced with the prospect of uncertain trading conditions, and with mass unemployment due to the approaching demobilisation of troops, the trade unions assented to the Labour Party adopting its first formal political programme. Known as *Labour and the New Social Order*, this document was written by Sidney Webb, who was a prominent Fabian. The adoption in 1918 of first a new constitution and then *Labour and the New Social Order* are often interpreted as steps which signified that the Labour Party was finally converted to 'socialism'.[3] Such claims do not stand up to investigation.

Certainly, *Labour and the New Social Order* denounced the 'individualist system of capitalist production, based on the private ownership and competitive administration of land and capital . . ., with its reckless "profiteering" and wage-slavery . . . ' (Labour Party, 1918, p. 3). As an alternative, the Labour Party projected a so-called 'new social order', which rivalled the maximum goal of the SPD's Erfurt Programme in the vagueness of its contours:

> . . . we must ensure that what is presently to be built up is a new social order, based not on fighting but on fraternity – not on the competitive struggle for the means of bare life, but on a delib-

erately planned co-operation in production and distribution for the benefit of all who participate by hand or by brain – not on the utmost possible inequality of riches, but on a systematic approach towards a healthy equality of material circumstances for every person born into the world – not on an enforced dominion over subject nations, subject races, subject Colonies, subject classes, or a subject sex, but, in industry as well as in government, on that equal freedom, that general consciousness of consent, and that widest possible participation in power, both economic and political, which is characteristic of a true Democracy. (Ibid., p. 4)

To the extent that this nebulous 'new social order' was brought into any clearer focus, the four basic 'pillars of the house' which the Labour Party proposed to construct were given as:

(a) The Universal Enforcement of the National Minimum;
(b) The Democratic Control of Industry;
(c) The Revolution in National Finance; and
(d) The Surplus Wealth for the Common Good. (Ibid., p. 5)

The 'National Minimum' referred to in (a) was a proposed minimum wage, to be fixed by law and adjusted to fluctuating prices. Thus, despite the Labour Party's ritual denunciation of capitalist wage slavery, (a) was a commitment to maintain the wages system. 'The Democratic Control of Industry' (b) meant a combined policy of nationalisation and the continuation of various wartime controls on the operation of private capitalist enterprises. Measures such as these would have increased the power of the state in relation to private capital, but can only be interpreted as 'democratic control' if strengthening of the state is equated with promotion of the common good. Far from the suggestion to overhaul national finance being worthy of designation as a 'revolution', the proposals outlined under (c) were concerned with reforming the system of taxation. Finally, the 'Surplus' which figured in (d) was, of course, surplus value. Partly this would consist of the surplus value realised by enterprises under state and municipal control, and partly it would derive from taxing private capitalists. One relevant passage in *Labour and the New Social Order* read:

It is from this constantly arising Surplus (to be secured, on the one hand, by Nationalisation and Municipalisation and, on the other,

> by the steeply graduated Taxation of Private Income and Riches) that will have to be found the new capital which the community day by day needs for the perpetual improvement and increase of its various enterprises, for which we shall decline to be dependent on the usury-exacting financiers. (Ibid., p. 21)

Although Sidney Webb, unlike Karl Kautsky, declined to call a spade a spade, when translated into language which expresses the harsh reality of international competition between rival capitals, here was a recognition that the need for capital accumulation would remain in the 'new social order'. Even while the First World War was still in progress, the Labour Party was unconsciously planting the seeds of future capitalist conflicts by looking towards a world where national divisions would remain, with 'a constantly developing exchange of commodities' between countries (ibid., p. 22).

Much has been left out of this account of the Labour Party's first, allegedly socialist programme. Its support for the British Empire (ibid., p. 22), its patronising attitude towards 'the non-adult races' (ibid., p. 22), and its illusion that government action could 'prevent any considerable or widespread fluctuations in the total numbers employed in times of good or bad trade' (ibid., p. 10) have been ignored. In addition, we have not dwelt on the fact that *Labour and the New Social Order* was permeated with what its Fabian author described at one Labour Party conference as '*the inevitable gradualness* of our scheme of change' (Cole, 1961, p. 175 – emphasis in the original). Nevertheless, enough has been said to demonstrate that, even when the trade union leaders' commitment to liberal politics weakened during the First World War, the 'socialism' which the Labour Party adopted was merely a form of state capitalism. The very language which the Labour Party used showed that, in so far as it did criticise capitalism, it was private capitalism that was the target. It was *private* ownership and production for *private* profit that were denounced, not the separation of the producers from the means of production nor the system of production for sale with a view to profit; these remained acceptable as long as it was the state and not private individuals who employed wage labour and made profits. Similarly, 'unearned' income was denounced, but state officials and managers were to be allowed high incomes as long as these took the form of 'salaries' and not interest or dividends.

It was no wonder that Webb ended up a fervent admirer of Stalin's Russia, even though in practice (as we saw in Chapter 2) the British

Labour Party, when in power, has always limited itself to managing capitalism in the interest of the incumbent private capitalist class and has never really served, as it might have been expected to from the constitution and programme it adopted in 1918, as an instrument for the rise of a new state capitalist ruling class. Labour politicians and trade union leaders, far from trying to replace the private capitalist class, have been content to accept relatively minor privileges within the structure of private capitalism (a knighthood, a seat in the House of Lords or a place on the board of a nationalised industry or some quango). Some have denounced this behaviour as a betrayal, but, if it is interpreted in this fashion, it represents a betrayal not of socialism but of state capitalism, not of the working class but of a would-be state capitalist class.

BOLSHEVISM

One of the few groups which did not betray the Social Democratic ideal of replacing private capitalism with state capitalism was the Bolsheviks, who regarded themselves until the First World War as orthodox Social Democrats. As indeed they were, except on the issue of the nature of the party, which ironically was what enabled them to realise the goal of state capitalism to which the rest of Social Democracy aspired unsuccessfully.

The Russian Social Democratic Labour Party was formed in 1898. In 1903 it divided into opposing Bolshevik and Menshevik wings, principally over this question of the nature of the revolutionary party. The Bolsheviks, under Lenin, wanted a vanguard party of professional revolutionaries who would be tightly organised and subjected to strict, centralised discipline. In arguing for a political party organised along these lines, the Bolsheviks were reacting to the lack of political liberties in tsarist Russia. At the same time, the Bolsheviks were also placing themselves firmly in the *Russian* revolutionary tradition, and certainly Lenin inherited many of his ideas on revolutionary organisation from an earlier generation of populist (*narodnik*) activists in the Russian revolutionary movement. Conversely, in seeking to construct a mass party based on looser organisational principles, the Mensheviks were consciously imitating the Social Democratic parties of Western Europe, above all the SPD.

The split in 1903 between the Bolsheviks and the Mensheviks is often carelessly presented as though it were a process in which

Bolshevik revolutionaries separated from Menshevik reformists. This was not the case. The political demands advanced by both the Bolsheviks and the Mensheviks would, if successfully implemented, have swept aside not only the tsarist regime but also the pre-capitalist impediments to Russia's modernisation. Within the context of a backward country such as Russia, both the Bolsheviks and the Mensheviks were thus revolutionaries, and both were treated as such by the tsarist authorities. However, since both the Bolshevik and the Menshevik schemes of modernisation essentially consisted of enrolling new drafts of wage labourers to operate newly developed means of production, which would function as capital, they were revolutionaries of a specific type – capitalist revolutionaries. Not only did the Bolsheviks and the Mensheviks share a fundamentally capitalist perception of the task which confronted them, but they also shared the illusion that the struggle in which they were engaged was a component of an international 'socialist' project. Hence the Bolsheviks, no less than their Menshevik rivals, used the vocabulary of socialism in order to express their plans to modernise Russia on a capitalist basis.

In September 1917, a few weeks before the Bolsheviks seized power, Lenin wrote a pamphlet entitled *The Impending Catastrophe and How to Combat It* which clearly expresses Bolshevik thinking on capitalism and 'socialism'. In this pamphlet, Lenin declared that Russia was threatened with catastrophe and famine, and he asked what were the means to avoid these disasters. Lenin's answer to his own question was: 'Control, supervision and accounting are the prime requisites for combating catastrophe and famine' (Lenin, 1964 (vol. XXV) p. 324). Lenin claimed that all the belligerent states in the First World War, with the exception of Russia, had been forced by the exigencies of warfare to adopt measures for exercising economic and social control. Furthermore, these measures were largely the same in all countries. Lenin's argument was that, although those who held power in Russia knew which measures were required to meet the dire situation, they did not act because of their servility towards the capitalists.

As we shall see, the measures which Lenin believed were necessary to extricate Russia from its crisis were all compatible with capitalism. This is not to say that the class of private capitalists in Russia would have welcomed such measures. On the contrary, Lenin was justified in emphasising the hostility of the private capitalists, since the measures which he envisaged were designed to deprive private capital of

the big profits which accrued from wartime profiteering. Nevertheless, what Lenin's argument unconsciously boiled down to was a set of proposals whose effect would have been to have strengthened capitalism in Russia by taking drastic action against the existing capitalists. Grasped in this way, *The Impending Catastrophe and How to Combat It* can be seen as an accurate prediction of the route which the Bolshevik Party was to take after 1917.

It will be noticed that we are not questioning Lenin's undoubted sincerity. An unprejudiced reader of *The Impending Catastrophe and How to Combat It* cannot fail to recognise Lenin's passionate hatred of capitalism *as he understood it*. (The same could be said about Kautsky and Webb, whose writings we considered earlier.) Unfortunately, however, good intentions are no guarantee of clear thinking. As the leader of the Bolshevik Party and the chief architect of its ideology, Lenin consistently confused the vitality of capitalism with the prosperity of the private capitalist class.

The principal measures which Lenin wished to see implemented in Russia were enumerated as follows:

(1) Amalgamation of all banks into a single bank, and state control over its operations, or nationalisation of the banks.
(2) Nationalisation of the syndicates, i.e., the largest, monopolistic capitalist associations (sugar, oil, coal, iron and steel, and other syndicates).
(3) Abolition of commercial secrecy.
(4) Compulsory syndication (i.e., compulsory amalgamation into associations) of industrialists, merchants and employers generally.
(5) Compulsory organisation of the population into consumers' societies, or encouragement of such organisation, and the exercise of control over it. (Ibid., p. 329)

Even the combined effect of all these proposals for exercising state control would not have put capitalism at risk. The social relationships and economic mechanisms of capitalism would have survived intact, even if the status of individuals and social groups would have been altered and their freedom of action constrained.

However, it tells us a good deal about the concept of 'socialism' which was current in Russia in 1917 that Lenin thought it necessary to deal with the possible objection from Mensheviks and others that the Bolshevik Party was advocating socialist measures which were

inappropriate in backward Russia. Lenin's response was to argue that because capitalism in the early twentieth century had become 'monopoly capitalism' or 'imperialism', 'there can be no advance except towards socialism'. Indeed, according to Lenin, increasing state intervention brought about by the war meant that 'monopoly capitalism' had, in its turn, become 'state-monopoly capitalism', as exemplified by imperial Germany. Lenin therefore argued that what was required was for the state, which hitherto had served the interests of the landlords and the capitalists, to become a 'revolutionary-democratic state' (a type of state which he defined as 'the armed organisation of the population, the workers and peasants above all'). In Lenin's estimation, given such a 'really revolutionary-democratic state, state-monopoly capitalism inevitably and unavoidably implies a step, and more than one step, towards socialism!' (ibid., pp. 357–8).

In effect, Lenin agreed with those critics of Bolshevik Party policy who regarded the Bolsheviks' proposals as tantamount to attempting to establish socialism in undeveloped Russia. This was because Lenin shared the concepts of many of his critics, even though there was obviously disagreement between them over the desirability of the measures which the Bolsheviks recommended. Naturally, Lenin was careful to qualify his advocacy of 'socialism' for backward Russia. He did so by mostly talking in terms of '*advancing* towards socialism' and 'taking *steps* towards it (steps conditioned and determined by the level of technology and culture . . .)' (ibid., pp. 358–9).[4] Nevertheless, such qualifications did not affect his profoundly mistaken, state capitalist concept of 'socialism'.

Lenin spelt out the meaning which he attributed to the term 'socialism' in the following passage:

> For socialism is merely the next step forward from state-capitalist monopoly. Or, in other words, socialism is merely state-capitalist monopoly *which is made to serve the interests of the whole people* and has to that extent *ceased* to be capitalist monopoly. (Ibid., p. 358)

What *The Impending Catastrophe and How to Combat It* makes clear is that 'socialism' was envisaged by Lenin as a combination of two sets of factors. On the one hand, there were the economic arrangements achieved in wartime Germany and elsewhere (so-called 'state-monopoly capitalism') and, on the other hand, power had to be transferred to a 'revolutionary-democratic state' (which, as sub-

sequent events confirmed, was a euphemism for the Bolshevik Party).

This concept of 'socialism' as state capitalism run by a particular form of government was inherited directly from Lenin's Social Democratic past since, as we saw, the Social Democrats only criticised 'state socialism' in the 1890s because the state which took over industry was not controlled by Social Democracy. Lenin's difference with Social Democracy was not over this issue, but over questions such as the nature of the political regime which could supposedly make state capitalism 'serve the interests of the whole people'. The Social Democrats maintained their view that this could be done by a democratically elected government operating within a parliamentary regime, while Lenin said this could only be done through the political dictatorship of a vanguard party. Somewhat ironically, this enabled Kautsky to denounce Lenin's concept of 'socialism' as state capitalism (Kautsky, 1920, pp. 201–2), but he did so not because it was based on the economic form of 'state-capitalist monopoly' but because control was to be exercised by an undemocratic minority rather than by a democratic government. Lenin, for his part, denounced Kautsky's concept of 'socialism' as a mere reform of private capitalism (Lenin, 1965 (vol. XXVIII) pp. 227–318).

Lenin's concept of 'socialism' suffered, however, from the same double defect as that of his erstwhile mentor, Kautsky. Considered in its economic aspect, there was the mistaken belief that, by using the power of the state, an economic form which Lenin frankly admitted to be 'state-capitalist monopoly' could be 'made to serve the interests of the whole people'. This was merely the long-standing illusion that, given sufficient political will, or a change of political leaders, or both, capitalism could be forced to operate in a non-capitalist fashion so that human interests would take precedence over the acquisition of profit. Similarly, considered in its political aspect, there was the unfounded expectation that, within the economic framework of 'state-capitalist monopoly', the state could be 'democratic' and could look after 'the whole people'. Again, this was based on the illusion that those who hold political power under capitalist economic conditions have the freedom of choice to pursue different policies from those which inevitably arise from the compulsive need to promote capital accumulation.

The economic side of this question has already been dealt with in sufficient detail in Chapter 3. We showed there that the application of Bolshevik political power to 'state-capitalist monopoly' has not resulted in a system which has been made to benefit the whole people.

Rather than Lenin's hopes and wishes having come true, the available evidence suggests that the accumulation of capital by the state has far outstripped the provision of improved benefits for the people. The political side of this question has been largely neglected, however, and we must therefore briefly deal with the gap which was revealed, when the Bolsheviks took power, between Lenin's ideological musings on the need for a 'revolutionary-democratic state' and the realities of Bolshevik rule.

Under capitalism, the state is used to maintain the situation where those who produce wealth own neither the means of production nor the wealth which they produce. Without the apparatus of propaganda and coercion which constitutes the state, this situation could not continue. Once they had attained power, the Bolsheviks rapidly discovered that they had to direct the propaganda efforts of the state which they now controlled towards achieving the same ends as the class of private capitalists strives for under private capitalism. As Lenin wrote in *The Immediate Tasks of the Soviet Government* in early 1918:

> Keep regular and honest accounts of money, manage economically, do not be lazy, do not steal, observe the strictest labour discipline – it is these slogans, justly scorned by the revolutionary proletariat when the bourgeoisie used them to conceal its rule as an exploiting class, that are now, since the overthrow of the bourgeoisie, becoming the immediate and the principal slogans of the moment. (Lenin, 1965 (vol. XXVII) pp. 243–4)

Yet, as those who personify capital invariably discover, propaganda alone was not sufficient to achieve the desired results. The coercive force of the state was also used by the Bolsheviks to impose on the producers '*iron* discipline while at work, . . . *unquestioning obedience* to the will of a single person, the Soviet leader, while at work' (ibid., p. 271). Those who protested about individuals wielding unlimited power were denounced by Lenin as conscious or unconscious 'representatives of petty-bourgeois laxity' who were conducting 'a positively hooligan agitation' (ibid., p. 267). The struggle which the Bolsheviks launched against these supposedly 'petty-bourgeois' elements: ' . . . cannot be waged solely with the aid of propaganda and agitation, solely by organising competition and by selecting organisers. The struggle must also be waged by means of coercion'

(ibid., pp. 265–6). Thus, in unmistakably ideological fashion, the Bolsheviks' verbal commitment to a 'revolutionary-democratic state' never faltered, but – as with the commandments in George Orwell's *Animal Farm* – embellishments were required to clarify the inadequate formulations of the past: 'There is . . . absolutely *no* contradiction in principle between Soviet (*that is*, socialist) democracy and the exercise of dictatorial powers by individuals' (ibid., p. 268).

What is striking in these accounts of the Social Democratic, Labour and Bolshevik ideologies of state capitalism is the wide area of common ground on which they stand. As rival contenders for state power and for the privileges which accompany the administration of capitalism, Social Democratic and Labour politicians on the one hand and Bolshevik politicians on the other have frequently denounced each other in the most vitriolic terms imaginable. However, from the standpoint of the class which is perpetually excluded from power, and which produces the wealth from which others' privileges derive, the differences between Social Democratic/Labour rule and Bolshevik rule are insignificant, as indeed are the differences between both these types of rule and rule by avowedly capitalist parties. From the standpoint of the working class, as long as the accumulation of capital out of the surplus value produced by wage labour continues, it makes no fundamental difference which political forces control the government or which social group personifies capital and enjoys a privileged consumption.

THE THEORY OF STATE CAPITALISM

The theory of Russia as state capitalism is widely regarded as having originated in the late 1930s and early 1940s. For example, David Lane remarks: 'Rizzi (1939) is usually credited with the first "state-capitalist" explanation of the USSR. He was followed by Burnham (1941), Tony Cliff (1964), and Binns and Haynes (1980)' (Lane, 1982, p. 129). In fact, neither Rizzi nor Burnham analysed Russian society as state capitalist, and the theory of state capitalism emerged almost two decades earlier than Lane claims (Jerome and Buick, 1967).

It was the Russian Revolution of 1917, and the ambition of the Bolsheviks to achieve widespread state control of the economic enterprises, which provided the stimulus to devise a theory of state capitalism. As we have seen, the possibility that the state could acquire the means of production from their private capitalist owners

and, by so doing, could become the personification of capital had been recognised long before 1917. In the 1870s, Engels had written in *Anti-Dühring* that:

> The modern state, whatever its form, is an essentially capitalist machine, the state of the capitalists, the ideal aggregate capitalist. The more productive forces it takes over into its possession, the more it becomes a real aggregate capitalist, the more citizens it exploits. The workers remain wage-workers, proletarians. The capitalist relationship is not abolished, rather it is pushed to the limit. (Engels, 1976, p. 360)

This and similar statements, such as that by Wilhelm Liebknecht at the 1892 SPD congress, provided some of the foundations on which to construct a theory of state capitalism, even though the term 'state capitalism' had generally been used before the First World War to describe the takeover of industries by a state controlled by or for private capitalists.

It was in this respect that the situation which confronted those who embarked on the project of developing a theory of state capitalism after the Bolsheviks took power was very different from that which had existed prior to 1917. In Engels's day, the battle lines between socialism and capitalism appeared to be clearly delineated. Engels envisaged a situation where an avowedly capitalist state would assume increasingly direct responsibility for managing the economic enterprises, and would do so for the unambiguous purpose of defending the overall interests of capital. After 1917, the Bolsheviks set about developing state capitalism in Russia, while simultaneously they used their considerable propaganda resources to proclaim that they were building 'socialism'. Paradoxically, in mounting such a propaganda campaign, the Bolsheviks were aided by those who represented the interests of private capital in the West. As a result of the 1917 revolution, sections of the private capitalist class in many Western countries had lost the capital which they had invested in tsarist Russia. Other private capitalists in the West felt threatened by the prospect of an increasing role for state capital in their own countries. In addition to these sectional considerations, there was general alarm in all Western countries over the possibility of a resurgent and modernised Russian state becoming a powerful competitor for surplus value within the world economy. This combi-

nation of the particular hostility felt by some sections of the private capitalist class towards state capitalism with the general rivalry which exists between competing national capitals made Western countries eager to tar Russia with a 'socialist' or 'communist' brush. Hence, attempts to devise a theory of state capitalism took place under very difficult circumstances after 1917. The small groups of working men and women who were involved had to withstand the ideological (and sometimes the physical) assaults of powerful forces which, for diverse reasons, had an interest in popularising the myth of 'socialist' or 'communist' Russia.

In Britain the theory of state capitalism was pioneered by the Socialist Party of Great Britain (SPGB). Formed in 1904 as part of the 'impossibilist' revolt against the opportunist leadership of the Social Democratic Federation, the tiny SPGB distinguished itself in the years before the First World War by its harsh criticisms of the reformist (in the language of the times, 'possibilist') policies promoted by the Second International and by its denunciation of schemes of nationalisation and municipalisation as 'state capitalism' and 'municipal capitalism'. Since the SPGB opposed all the belligerent states in the First World War, it was initially well disposed towards the Bolsheviks, about whom it knew little more than the fact that they had denounced the war as a confrontation between rival imperialisms. During the First World War, the Bolsheviks were represented in Britain by Litvinov, and when the newspapers refused to print a statement which he had issued criticising the participants in an international conference of pro-war Social Democrats which was held in London, the SPGB published his declaration in the *Socialist Standard* in March 1915. After the Bolsheviks gained power, the SPGB again gave credit to them for taking Russia out of the war, but it consistently denied that the Bolshevik seizure of power was a socialist revolution or that the possibility existed of achieving socialism in Russia.

The SPGB advanced at least five reasons why the Russian Revolution of 1917 could not be a socialist revolution. First, there was the minority position of the Russian working class, which was greatly outnumbered by the non-wage-earning (predominantly peasant) sections of the population. Secondly, socialist consciousness was deficient both in Russia and in the advanced capitalist countries. Put bluntly, workers who had just spent several years butchering each other in the trenches evidently did not understand socialism. As the SPGB asked about Russia:

> Is this huge mass of people, numbering about 160,000,000 and spread over eight and a half millions of square miles, ready for Socialism? Are the hunters of the North, the struggling peasant proprietors of the South, the agricultural wage-slaves of the Central Provinces, and the industrial wage-slaves of the towns convinced of the necessity, and equipped with the knowledge requisite, for the establishment of the social ownership of the means of life?
>
> Unless a mental revolution such as the world has never seen before has taken place, or an economic change has occurred immensely more rapidly than history has ever recorded, the answer is 'No!' (*Socialist Standard*, August 1918)

Thirdly, socialism could not be achieved by following leaders – even socialist leaders, as Lenin, Trotsky and their colleagues claimed to be. Fourthly, the low level of the productive forces in Russia ruled out any chance of socialism being established there (even if 'socialism in one country' had been a possibility, which the SPGB rejected). Fifthly, Russia was surrounded by a capitalist world, to which it had to adapt. The Bolsheviks had issued 'their loud and defiant challenge to the capitalist world', but had soon 'been silenced by their own internal and external weaknesses' (*Socialist Standard*, July 1920).

If, according to the SPGB, socialism was not being established in Russia in the years following 1917, what was the social system which the Bolsheviks found themselves administering? The SPGB's answer was unambiguous: Russia remained part of world capitalism. Assessing half a century of Bolshevik rule in 1967, the SPGB succinctly delivered the same verdict as it had done 50 years previously:

> The social system in Russia can be described as capitalist since the essential features of capitalism predominate: class monopoly of the means of production, commodity production, wage-labour and capital accumulation. (SPGB, 1967, p. 27)

However, although from 1917 onwards the SPGB argued that Russia remained capitalist, uncertainties existed at first over whether the Bolsheviks would retain power, the extent to which they would compromise, and whether state capital or private capital would eventually predominate. Nevertheless, the SPGB grasped that the Bolsheviks' ambition was to establish state capitalism, and it criticised Lenin's beliefs that state capitalism would lead to socialism or

that, in combination with a particular form of 'revolutionary-democratic state', state capitalism *is* socialism:

> If we are to copy Bolshevik policy in other countries we should have to demand State Capitalism, which is not a step to Socialism in advanced capitalist countries . . .
>
> That Socialism can only be reached through State Capitalism is untrue. Socialism depends upon large-scale production, whether organised by Trusts or Governments. State Capitalism may be the method used in Russia, but only because the Bolshevik Government find their theories of doing without capitalist development unworkable – hence they are forced to retreat along the capitalist road. (*Socialist Standard,* July 1920)

Lenin's death in 1924 was the signal for a vicious struggle for power between the various factions which made up the Bolshevik Party. The SPGB offered support to none of the warring factions, arguing for example that: 'Both Trotsky and Stalin draw up their programmes within the framework of state and private capitalism which prevails in Russia' (*Socialist Standard*, December 1928). What the SPGB discerned by about 1929 was that Stalin's victory and the course of the first Five-year Plan represented the definitive defeat of private capital, with the result that state capitalism had become the dominant form taken by capitalism in Russia. In the SPGB's opinion, far from socialism having been realised in Russia, all the Bolsheviks 'have been able to do is to foster the growth of State Capitalism and limit the growth of private Capitalism' (*Socialist Standard*, July 1929).

Subsequently, the SPGB's state capitalist analysis of Russia was extended to other countries, such as China, which were to label themselves 'socialist'.

On the continent of Europe, the theory of state capitalism was first devised by those who have become known as council-communists, because of the importance which they attach to the workers' councils (soviets), both as the means for overthrowing capitalism and as the means for organising production and distribution after its overthrow. In Germany for a brief period following the First World War, the council-communists became a mass movement. In 1920, when the council-communist Communist Workers' Party of Germany (KAPD) was formed in opposition to the Moscow-aligned Communist Party of Germany (KPD), the former party is said to have numbered 38 000, while the council-communists' industrial organisation – the General

Workers' Union of Germany (AAUD) – is reputed to have attained a membership of 150 000 during the winter of 1920/21 (Authier and Barrot, 1976, pp. 121 and 159). These numbers could not be sustained as the post-First World War wave of radicalisation receded, and during the 1920s the council-communist movement in Germany was decimated by splits and defections. By the beginning of the 1930s, the principal focus of the now much reduced council-communist movement had become the Group of International Communists (GIC) in Holland.

Otto Rühle was the first council-communist to recognise the development of state capitalism in the Russian Revolution of 1917 and its aftermath. Formerly an SPD deputy, Rühle had the distinction of being the second member of the Reichstag (Karl Liebknecht was the first) to vote against the war credits in March 1915. Having broken with the SPD, in 1920 Rühle travelled to Moscow as a KAPD delegate to the second congress of the Third International. Although Rühle refused to participate in the congress due to disagreement, his visit was valuable in providing first-hand information about conditions in Russia. Theorising on the basis of his observations of political and economic life in Russia, he wrote in 1921 in an article on 'The Basic Issues of Organisation':

> Russia has the bureaucracy of the Commissariat; this rules. It has no council system. The soviets are chosen according to lists of candidates drawn up by the party; they exist under the terror of the regime and thus are not councils in a revolutionary sense. They are 'show' councils, a political deception. All power in Russia lies with the bureaucracy, the deadly enemy of the council system.
>
> But proletarian autonomy and the socialist economy require the council system; here everything is produced for need, and all take part in administration. The party prevents Russia from achieving a council system, and without councils there is no socialist construction, no communism. The dictatorship of the party is commissar-despotism, is state capitalism. (Rühle, 1974, p. xvii)

Pursuing this theme three years later in 'From the Bourgeois to the Proletarian Revolution' (1924), Rühle again characterised the Bolsheviks' economic policy as state capitalism:

> The Bolsheviks carried out the nationalisation of industry, of transport, banks, factories, etc., and thus awoke quite generally

> the belief that socialist measures were involved here. Nevertheless, nationalisation is not socialisation. Through nationalisation you can arrive at a large-scale, tightly centrally-run state capitalism, which may exhibit various advantages as against private capitalism. Only it is still capitalism. (Ibid., p. 15)

Rühle also emphasised that the Russian Revolution of 1917 had been a 'bourgeois revolution', by which he meant a revolution whose historical function was to 'institute capitalism and to organise the bourgeois state' (ibid., p. 16).

In analysing Russia as state capitalist, Rühle blazed a trail which many other council-communists were to follow several years later. The KAPD (from which Rühle and his associates separated in 1920) was at first reluctant to interpret the differences between itself and the Bolsheviks as more than disagreements over tactics. After Lenin had criticised the council-communists in '*Left-Wing' Communism, an Infantile Disorder* (1920), the prominent KAPD member Herman Gorter wrote a spirited defence of council-communism in his *Reply to Lenin* (1920). Yet Gorter's essential thesis was simply that Bolshevik methods were suitable for Russia and other backward countries, but that the different conditions found in the advanced countries of Western Europe demanded different tactics, which Lenin did not understand. Gorter (who died in 1927) was prevented from recognising Russia as state capitalist principally because he identified capitalism with private capitalism. Although Gorter told the Bolsheviks in 1923 that 'As proletarians we shall more strenuously fight you as our class enemies the more you return to capitalism' (ibid., p. xvi), he clearly envisaged the 'return to capitalism' as taking the form of the private capitalists gaining power – either through the Bolshevik Party or by defeating it.[5]

Paradoxically, as the council-communists' numbers dwindled during the 1920s and 1930s, so their theoretical clarity on the nature of Russian society was heightened. This was demonstrated above all by the *Theses on Bolshevism* which the GIC issued in Holland in 1934, and which later appeared in English under the title *The Bourgeois Role of Bolshevism*. The *Theses on Bolshevism* stated that:

> The socialization concept of the Bolsheviks is . . . nothing but a capitalist economy taken over by the State and directed from the outside and from above by its bureaucracy. The Bolshevik socialism is state-organized capitalism. (*Bourgeois Role*, no date, p. 21)

Those council-communists who subscribed to the *Theses on Bolshevism* had advanced far beyond Gorter's perception of tactical differences between council-communism and Bolshevism. Lenin's basic concept of 'socialism' was now judged to be fatally flawed:

> Lenin himself had . . . no other fundamental conception of socialization of production than that of a bureaucratically conducted state economy. To him the German war economy and the postal service were illustrations of socialist organization, i.e. economic organization of an outright bureaucratic character, centralistically controlled from above. He saw only the technical, not the proletarian, social side of the socialization problem. (Ibid., p. 21)

The *Theses on Bolshevism* therefore contrasted the Bolshevik model of rule by a bureaucratic state and a centralised party to the council-communist vision of a society of free and equal producers, who would directly control their own affairs by means of workplace-based councils of mandated and revocable delegates.

The GIC also followed in Rühle's footsteps when it described the Russian Revolution of 1917 as a 'bourgeois revolution'. More specifically, it claimed that 1917 was a 'bourgeois revolution' of a particular kind:

> The first class characteristic of the Russian Revolution is, therefore, the fact that as a bourgeois revolution it had to be carried through not only without but directly against the bourgeoisie. (Ibid., p. 8)

In its view, since the bourgeoisie lacked the courage and determination to accomplish a capitalist revolution in Russia, the task fell to the Bolsheviks, who 'constitute the leadership party of Russia's revolutionary petty-bourgeois intelligentsia' (ibid., p. 10). To achieve their capitalist ends, the Bolsheviks made use of both the 'peasantry tied to private property' and the 'socialistically oriented proletariat' (ibid., p. 15).

As this last phrase shows, the council-communists, unlike the SPGB, were prepared to concede that the Russian Revolution had had a socialist aspect. This was because they regarded the very fact that the workers had organised councils (soviets) as an expression of a striving for socialism. However, they did not regard this as having altered the basic character of the Russian Revolution as a 'bourgeois

revolution'. The 1934 *Theses on Bolshevism* in effect echoed the conclusions which Rühle had arrived at ten years earlier: 'The Russian Revolution was and is a bourgeois revolution, no more and no less: the strong socialist admixture changes nothing in this essence' (Rühle, 1974, p. 16).

After the Second World War, other political currents, not all of whom were socialists, embraced, in part or in whole, the theory of state capitalism. Among these were dissenters from orthodox Trotskyism, such as Tony Cliff and his followers, and even the Maoists in their reckless search for ammunition with which to attack their Russian opponents after the Sino-Russian split of 1960. Where most of these latecomers to the theory of state capitalism differed from the currents which had pioneered the theory was that they wished to cling to the myth of 'red October'. According to them, the Russian Revolution of 1917 was a socialist revolution which succeeded in overthrowing capitalism for a while, only to be defeated eventually by a counterrevolution which restored capitalism. But the theory of state capitalism loses its coherence and becomes, in its turn, mere ideology unless it is linked (as those who first constructed the theory did link it) to a recognition that the Bolsheviks accomplished a capitalist revolution in 1917.

The crippling defect which these later adaptations of the theory of state capitalism suffer from is that, wherever the date of capitalism's 'restoration' in Russia is fixed (*circa* 1928 in Cliff's case; *circa* 1956 in Mao's case), all the elements which are cited as evidence of capitalism's existence subsequent to that date were also in existence previously. Ever since the German Social Democrats in the 1890s, the ideologists of state capitalism have seen the essence of state capitalism not as the state administration of the wages system and capital accumulation, but as depending on the politics of those who control the state. Such latter-day exponents of the theory of state capitalism as Cliff and Mao have been set firmly in this tradition. They consider capitalism to have been 'restored' in Russia because, in their view, all that is required for 'socialism' to become 'capitalism', and vice versa, is merely a change of political regime. Hence, what is really incongruous about the ideological use which those such as Cliff and Mao have made of the theory of state capitalism is that, while denouncing state capitalism in Russia, the alternatives they have recommended have merely been alternative varieties of . . . state capitalism.

6 The Alternative to Capitalism

If state capitalism is not socialism, what is? In other words, if state ownership and management of production does not amount to the abolition of capitalism but only to a change in the institutional framework within which it operates, what would be the essential features of a society in which capitalism had been abolished?

Although it is possible to imagine that capitalism could be replaced by some new form of class society in which some other method of exploitation would replace the wages system, we shall concern ourselves here only with the replacement of capitalism by a society from which, to remain deliberately vague for the moment, exploitation and privilege would be absent.

Since capitalism is, as we saw in Chapter 1, a worldwide class society and exchange economy, it is clear that the exploitation-less alternative to capitalism would have to be a classless world society without exchange.

NO CLASSES, NO STATE, NO FRONTIERS

The basis of any society is the way its members are organised for the production of wealth. Where a section of society controls the use of the means of production, we can speak of a class society. Control of the means of production by a class implies the exclusion of the rest of society from such control, an exclusion which ultimately depends on the threatened or actual use of physical force. An institutionalised organ of coercion, or state, is thus a feature of all class societies and historically first made its appearance with the division of society into classes.

In all class societies, one section of the population controls the use of the means of production. Another way of putting this is that the members of this section or class 'own' the means of production, since

to be in a position to control the use of something is to own it, whether or not this is accompanied by some legal title deed.

It follows that a classless society is one in which the use of the means of production is controlled by all members of society on an equal basis, and not just by a section of them to the exclusion of the rest. As James Burnham put it:

> For society to be 'classless' would mean that within society there would be no group (with the exception, perhaps, of temporary delegate bodies, freely elected by the community and subject always to recall) which would exercise, as a group, any special degree of control over access to the instruments of production; and no group receiving, as a group, preferential treatment in distribution. (Burnham, 1945, p. 55)

In a classless society every member is in a position to take part, on equal terms with every other member, in deciding how the means of production should be used. Every member of society is socially equal, standing in exactly the same relationship to the means of production as every other member. Similarly, every member of society has access to the fruits of production on an equal basis.

Once the use of the means of production is under the democratic control of all members of society, class ownership has been abolished. The means of production can still be said to belong to those who control and benefit from their use, in this case to the whole population organised on a democratic basis, and so to be 'commonly owned' by them. Common ownership can be defined as:

> a state of affairs in which no person is excluded from the *possibility* of controlling, using and managing the means of production, distribution and consumption. Each member of society can acquire the *capacity*, that is to say, has the opportunity to realise a variety of goals, for example, to consume what they want, to use means of production for the purposes of socially necessary or unnecessary work, to administer production and distribution, to plan to allocate resources, and to make decisions about short term and long term collective goals. Common ownership, then, refers to every individual's potential ability to benefit from the wealth of society and to participate in its running. (Bragard, 1981, p. 255 – emphases in original)

Even so, to use the word 'ownership' can be misleading in that this does not fully bring out the fact that the transfer to all members of society of the power to control the production of wealth makes the very concept of property redundant. With common ownership no one is excluded from the possibility of controlling and benefiting from the use of the means of production, so that the concept of property in the sense of exclusive possession is meaningless: no one is excluded, there are no non-owners.

We could invent some new term such as no-ownership and talk about the classless alternative society to capitalism being a 'no-ownership' society, but the same idea can be expressed without neologism if common ownership is understood as being a social relationship and not a form of property ownership. This social relationship – equality between human beings with regard to the control of the use of the means of production – can equally accurately be described by the terms 'classless society' and 'democratic control' as by 'common ownership' since these three terms are only different ways of describing it from different angles. The use of the term 'common ownership' to refer to the basic social relationship of the alternative society to capitalism is not to be taken to imply therefore that common ownership of the means of production could exist without democratic control. Common ownership *means* democratic control *means* a classless society.

When we refer to the society based on common ownership, generally we shall use the term 'socialism', though we have no objection to others using the term 'communism' since for us these terms mean exactly the same and are interchangeable. If we have opted for the term 'socialism' this is as a means of showing that we decisively reject the Leninist insertion of some sort of 'transitional society', wrongly called 'socialism', between capitalism and its classless alternative, generally called 'communism'. For us socialism is communism, since both terms describe the society which immediately follows the abolition of capitalism.

Common ownership is not to be confused with state ownership, since an organ of coercion, or state, has no place in socialism. A class society is a society with a state because sectional control over the means of production and the exclusion of the rest of the population cannot be asserted without coercion, and hence without a special organ to exercise this coercion. On the other hand, a classless society is a stateless society because such an organ of coercion becomes unnecessary as soon as all members of society stand in the same

relationship with regard to the control of the use of the means of production. The existence of a state as an instrument of class political control and coercion is quite incompatible with the existence of the social relationship of common ownership. State ownership is a form of exclusive property ownership which implies a social relationship which is totally different from socialism.

As we saw, common ownership is a social relationship of equality and democracy which makes the concept of property redundant because there are no longer any excluded non-owners. State ownership, on the other hand, presupposes the existence of a government machine, a legal system, armed forces and the other features of an institutionalised organ of coercion. State-owned means of production belong to an institution which confronts the members of society, coerces them and dominates them, both as individuals and as a collectivity. Under state ownership the answer to the question 'who owns the means of production?' is not 'everybody' or 'nobody' as with common ownership; it is 'the state'. In other words, when a state owns the means of production, the members of society remain non-owners, excluded from control. Both legally and socially, the means of production belong not to them, but to the state, which stands as an independent power between them and the means of production.

The state, however, is not an abstraction floating above society and its members; it is a social institution, and, as such, a group of human beings, a section of society, organised in a particular way. This is why, strictly speaking, we should have written above that the state confronts *most* members of society and excludes *most* of them from control of the means of production. For wherever there is a state, there is always a group of human beings who stand in a different relationship to it from most members of society: not as the dominated, nor as the excluded, but as the dominators and the excluders. Under state ownership, this group controls the use of the means of production to the exclusion of the other members of society. In this sense, it owns the means of production, whether or not this is formally and legally recognised.

Another reason why state ownership and socialism are incompatible is that the state is a national institution which exercises political control over a limited geographical area. Since capitalism is a world system, the complete state ownership of the means of production within a given political area cannot represent the abolition of capitalism, even within that area. What it does mean, and this has been one

of the major themes of this book, is the establishment of some form of state capitalism whose internal mode of operation is conditioned by the fact that it has to compete in a world market context against other capitals.

Since today capitalism is worldwide, the society which replaces capitalism can only be worldwide. The only socialism possible today is world socialism. No more than capitalism can socialism exist in one country. So the common ownership of socialism is the common ownership of the world, of its natural and industrial resources, by the whole of humanity. Socialism can only be a universal society in which all that is in and on the earth has become the common heritage of all humankind, and in which the division of the world into states has given way to a world without frontiers but with a democratic world administration.

NO EXCHANGE, NO ECONOMY

Socialism, being based on the common ownership of the means of production by all members of society, is not an exchange economy. Production would no longer be carried on for sale with a view to profit as under capitalism. In fact, production would not be carried on for sale at all. Production for sale would be a nonsense since common ownership of the means of production means that what is produced is commonly owned by society as soon as it is produced. The question of selling just cannot arise because, as an act of exchange, this could only take place between separate owners. Yet separate owners of parts of the social product are precisely what would not, and could not, exist in a society where the means of production were owned in common.

However, socialism is more than just not an exchange economy; it is not an 'economy' at all, not even a 'planned economy'. Economics, or political economy as it was originally called, grew up as the study of the forces which came into operation when capitalism, as a system of generalised commodity production, began to become the predominant mode of producing and distributing wealth. The production of wealth under capitalism, instead of being a direct interaction between human beings and nature, in which humans change nature to provide themselves with the useful things they need to live, becomes a process of production of wealth in the form of exchange value. Under this system, production is governed by forces which operate indepen-

dently of human will and which impose themselves as external, coercive laws when men and women make decisions about the production and distribution of wealth. In other words, the social process of the production and the distribution of wealth becomes under capitalism an *economy* governed by *economic* laws and studied by a special discipline, *economics*.

Socialism is not an economy, because, in reestablishing conscious human control over production, it would restore to the social process of wealth production its original character of simply being a direct interaction between human beings and nature. Wealth in socialism would be produced directly as such, i.e. as useful articles needed for human survival and enjoyment; resources and labour would be allocated for this purpose by conscious decisions, not through the operation of economic laws acting with the same coercive force as laws of nature. Although their effect is similar, the economic laws which come into operation in an exchange economy such as capitalism are not natural laws, since they arise out of a specific set of social relationships existing between human beings. By changing these social relationships through bringing production under conscious human control, socialism would abolish these laws and so also 'the economy' as the field of human activity governed by their operation. Hence socialism would make economics redundant.

What we are saying, in effect, is that the term 'exchange economy' is a tautology in that an economy only comes into existence when wealth is produced for exchange. It is now clear why the term planned economy is unacceptable as a definition of socialism. Socialism is not the planned production of wealth as exchange value, nor the planned production of commodities, nor the planned accumulation of capital. That, as we saw, is what state capitalism aims to be. Planning is indeed central to the idea of socialism, but socialism is the planned (consciously coordinated) production of useful things to satisfy human needs precisely instead of the production, planned or otherwise, of wealth as exchange value, commodities and capital. In socialism wealth would have simply a specific use value (which would be different under different conditions and for different individuals and groups of individuals) but it would not have any exchange, or economic, value.

Conventional academic economics in the West rejects the definition of economics as the study of the forces which come into operation when wealth is produced to be exchanged. But even on the alternative definition it offers – that economics is the study of the

allocation of *scarce* resources to meet *some* human needs[1] – socialism would not be an economy. For socialism presupposes that productive resources (materials, instruments of production, sources of energy) and technological knowledge are sufficient to allow the population of the world to produce enough food, clothing, shelter and other useful things, to satisfy all their material needs.

Conventional economics, while denying that the potential for such a state of abundance exists, nevertheless admits that if it did this would mean the end, not only of 'the economy' as a system of allocating scarce resources but also of goods having an economic value and price; goods would simply become useful things produced for human beings to take and use, while economics as the study of the most rational way to employ scarce resources would give way to the study of how best to use abundant resources to produce 'free goods' in the amounts required to satisfy human needs.[2] Significantly, the ideologists of state capitalism take up a basically similar position: if abundance existed, value, prices, money, markets and wages could be abolished but, since abundance does not yet exist and could not be brought into existence for some considerable time, all these categories of capitalism must continue.[3]

As far as academic economics in the West is concerned, this question is not really one of fact but of definition. Scarcity is built in to its theoretical system in that it regards a 'factor of production' as being scarce so long as it is not available in unlimited supply. Thus for it 'abundance' can only be a theoretical limiting case – a situation where land, capital and labour were all available, quite literally, for the taking – which could never exist in practice, so that by definition scarcity will always exist. But this is a quite unreasonable definition both of scarcity and of abundance. Abundance is not a situation where 'an infinite amount of every good could be produced' (Samuelson, 1980, p. 17). Similarly, scarcity is not the situation which exists in the absence of this impossible 'total' or 'sheer' abundance. Abundance is a situation where productive resources are sufficient to produce enough wealth to satisfy human needs, while scarcity is a situation where productive resources are insufficient for this purpose.

In any event, value and its categories do not arise from scarcity as a supposed natural condition; they arise, as we saw, from the social fact that goods are produced as commodities. Similarly, socialism is not a mere 'state of abundance'; it is a social rather than a physical or technical condition. It is the set of social relationships corresponding to a classless society, i.e. to a society in which every member stands in

the same position with regard to controlling and benefiting from the use of the means of wealth production. The establishment of a classless society means an end to the wage labour/capital relationship which is the basic social relationship of capitalist society. The wage (or employment) relationship expresses the fact that control over the use of the means of production is exercised by a section only of society. It is a relationship between two social classes, presupposing a division of society into those who control access to the means of production and those who are excluded from such control and are obliged to live by selling their ability to work. Since the very existence of wage labour (employment) implies a class of owners and a class of non-owners of the means of production, no society in which the predominant form of productive activity continues to be wage labour can be regarded as being socialist.

In socialist society productive activity would take the form of freely chosen activity undertaken by human beings with a view to producing the things they needed to live and enjoy life. The necessary productive work of society would not be done by a class of hired wage workers but by all members of society, each according to their particular skills and abilities, cooperating to produce the things required to satisfy their needs both as individuals and as communities. Work in socialist society could only be voluntary since there would be no group or organ in a position to force people to work against their will.

Socialist production would be production solely for use. The products would be freely available to people, who would take them and use them to satisfy their needs. In socialism people would obtain the food, clothes and other articles they needed for their personal consumption by going into a distribution centre and taking what they needed without having to hand over either money or consumption vouchers. Houses and flats would be rent-free, with heating, lighting and water supplied free of charge. Transport, communications, health care, education, restaurants and laundries would be organised as free public services. There would be no admission charge to theatres, cinemas, museums, parks, libraries and other places of entertainment and recreation. The best term to describe this key social relationship of socialist society is *free access*, as it emphasises the fact that in socialism it would be the individual who would decide what his or her individual needs were. As to collective needs (schools, hospitals, theatres, libraries and the like), these could be decided by the groups of individuals concerned, using the various

democratic representative bodies which they would create at different levels in socialist society. Thus production in socialism would be the production of free goods to meet self-defined needs, both individual and collective.

CALCULATION IN KIND

Under capitalism wealth is produced for sale, so that particular items of wealth (goods produced by human labour, useful things) become commodities which have an exchange value. Indeed, it is only as exchange value that wealth has significance for the operation of capitalism; all the millions of different kinds of useful things produced by human labour are reduced to a common denominator – their economic value – based ultimately on the average working time needed to produce them from start to finish, of which money is the measure. This enables them to be compared and exchanged with reference to a common objective standard and also allows the calculations necessary to an exchange economy to be made in a common unit.

With the replacement of exchange by common ownership what basically would happen is that wealth would cease to take the form of exchange value, so that all the expressions of this social relationship peculiar to an exchange economy, such as money and prices, would automatically disappear. In other words, goods would cease to have an economic value and would become simply physical objects which human beings could use to satisfy some want or other. This does not mean that goods would come to have no value in any sense; on the contrary, they would continue to have the physical capacity to satisfy human wants. The so-called economic value which goods acquire in an exchange economy has nothing to do with their real use value as a means of satisfying wants, since the value of a good to human beings, i.e. its capacity to satisfy some want, has never borne any relation to the time taken to produce it. In socialism goods would cease to be commodities but they would remain use values; indeed, with the shedding of their useless economic value their importance as use values would be enhanced, as this would be the sole reason why they were produced.

The disappearance of economic value would mean the end of 'economic calculation' in the sense of calculation in units of 'value' whether measured by money or directly in some unit of labour-time.

It would mean that there was no longer any common unit of calculation for making decisions regarding the production of goods. This has often been regarded as a powerful argument against socialism as a moneyless society, so powerful in fact that when it was first expressed in a systematic way by Ludwig von Mises in 1920 (Hayek *et al.*, 1935, pp. 87–130) it led many self-proclaimed Marxists, including Karl Kautsky, to abandon finally the definition of socialism as a value-less society (and thus, in effect, to recognise that they had always stood for state capitalism rather than socialism)[4] and others to elaborate complicated schemes for using labour-time as a common unit of account in socialism (GIC, 1930; Pannekoek, 1970, pp. 23–9). Only one participant in the discussion, Otto Neurath, an academic on the margin of the German Social Democratic movement, pointed out that socialism, as a moneyless society in which use values would be produced from other use values, would need no universal unit of account but could calculate exclusively in kind.[5]

Calculation in kind is an essential aspect of the production of goods in any society, including capitalism. A commodity is, as we saw, a good which by virtue of being produced for sale has acquired in addition to its physical use value a socially-determined exchange value. Correspondingly, the process of production under capitalism is both a process of production of exchange values and a process of production of use values, involving two different kinds of calculation. For the former, the unit of calculation is money, but for the latter there is no single unit but a whole series of different units for measuring the quantity and quality of specific goods used in the process of producing other specific goods (tonnes of steel, kilowatt-hours of electricity, person-hours of work and so on). The disappearance of economic or value calculation in socialism would by no means involve the disappearance of all rational calculation, since the calculations in kind connected with producing specific quantities of goods as physical use values would continue.

What it would involve would be the end of the subordination of the choice of which use values to produce and which technical methods to employ to exchange value considerations. In particular, the aim of production would cease to be to maximise the difference between the exchange value of the goods used up in the process of production and the exchange value of the final product.

One critic of socialism as a moneyless society, the Dutch academic and former minister, N. G. Pierson, writing in 1902 in reply to Kautsky's talk 'On the Day After the Social Revolution' (Kautsky,

1902), argued that, without the common unit of account represented by value as measured by money, socialist society would be unable to calculate its 'net income':

> We will now discuss the division of income and we will assume that this is effected according to the most advanced method, that of communism. We at once discover a value problem in the strict sense of the word. What is to be regarded as income, and what therefore comes into the question when considering the division? Naturally only net income; but the income of the socialist State will also be gross income. Raw materials will be required for the goods which it manufactures, and in the course of manufacture fuel and other things will be consumed and machines and tools will be wholly or partly worn out. The live stock which has been reared will have consumed fodder. In order to calculate its net income the communist society would therefore have to subtract all this from the gross product. But we cannot subtract cotton, coal and the depreciation of machines from yarns and textiles, we cannot subtract fodder from beasts. We can only subtract the value of one from the value of the other. Thus without evaluation or estimation the communist State is unable to decide what net income is available for division. (Hayek *et al.*, 1935, p. 70)

Pierson was right: without economic value and money it would be impossible to calculate 'net income' but this – as the difference between the amount of exchange value in existence at the end as compared with at the beginning of a year – is a calculation that would be quite unnecessary, indeed perfectly meaningless, in socialism. The aim of production in socialism being to produce concrete use values to satisfy human needs, all that could interest socialist society at the end of a year would be whether specific quantities of specific goods had been produced over that period. To check this there would be no need to reduce (to continue with Pierson's examples) cotton, coal, machines, yarns, textiles, fodder and beasts, to some common unit; on the contrary, it is precisely in their concrete physical forms of cotton, coal and so on that socialist society would be interested in these goods and would want to count them.

Socialist society has no need for value computations such as net income, national income, gross national product and other such abstractions obtained by ignoring the concrete use values of the specific goods produced during a given period. Indeed, socialism

involves precisely the freeing of production from its subordination to these exchange value considerations. The aim of production in socialism is not to maximise 'national income' or GNP or 'growth' (of exchange values), which are meaningless concepts for it, but to produce the specific amounts and kinds of use values which people had indicated they wanted to satisfy their needs. The calculations involved in organising and checking this would be calculations in kind and would not require any universal unit of measurement.

Similarly, at the level of the individual productive unit or industry, the only calculations that would be necessary in socialism would be calculations in kind. On the one side would be recorded the resources (materials, energy, equipment, labour) used up in production and on the other side the amount of the good produced, together with any by-products. This, of course, is done under capitalism but is doubled by an exchange value calculation: the exchange value of the resources used up is recorded as the 'cost of production' while the exchange value of the output (after it has been realised on the market) is recorded as 'sales receipts'. If the latter is greater than the former, then a 'profit' has been made; if it is less, then a 'loss' is recorded. Such profit-and-loss accounting has no place in socialism and would, once again, be quite meaningless. Socialist production is simply the production of use values from use values, and nothing more.

Even though the existence of socialism presupposes conditions of abundance (i.e. where resources exceed needs), socialist society still has to be concerned with using resources efficiently and rationally, but the criteria of 'efficiency' and 'rationality' are not the same as they are under capitalism.

Under capitalism there is, in the end, only one criterion: monetary cost, which, as a measure of economic value, is ultimately a reflection of the average time taken to produce a good from start to finish. The managers of capitalist enterprises are obliged by the working of the market to choose the technical methods of production which are the cheapest, i.e. which minimise production time and therefore monetary cost. All other considerations are subordinate, in particular the health and welfare of the producers and the effects on the natural environment. Many commentators have long pointed out the harmful effects which production methods geared to minimising production time have on the producers (speed-up, pain, stress, accidents, boredom, overwork, long hours, shiftwork, nightwork, etc., all of which harm their health and reduce their welfare), while more recently scientists have documented the damage such production methods

cause to nature (pollution, destruction of the environment and wildlife, exhaustion of non-renewable resources).

Socialism, as a society geared to producing only use values and not exchange value, would take these other considerations into account and subordinate the choice of production methods to the welfare of human beings and the protection of their natural environment. No doubt this would lead in many cases to the adoption of production methods which, by capitalist standards, would be 'inefficient' and 'irrational' in the sense that were they to be adopted under capitalism they would 'cost' more and so be 'unprofitable'. This is why such methods are not adopted under capitalism, where it is exchange value and not use value that counts, and why capitalism would have to be replaced by socialism if the original aim of production as a means to serve and enhance human welfare were to be restored.

In socialism, men and women in the various industries and individual productive units which would have the responsibility for producing given amounts of a particular good to a particular standard, would seek to minimise (ideally eliminate) the harm done to the health and welfare of human beings and to the environment. As there would thus be a clear object and clearly defined constraints, industries and productive units could use mathematical aids to decision-making such as operational research and linear programming to find the most appropriate technical method of production to employ. As neutral techniques these can still be used where the object is something other than profit maximisation or the minimisation of monetary cost.

As to decisions involving choices of a general nature, such as what forms of energy to use, which of two or more materials to employ to produce a particular good, whether and where to build a new factory, there is another technique already in use under capitalism that could be adapted for use in socialism: so-called 'cost-benefit analysis' and its variants. Naturally, under capitalism the balance sheet of the relevant benefits and costs – advantages and disadvantages – of a particular scheme or rival schemes is drawn up in money terms, but in socialism a points system for attributing relative importance to the various relevant considerations could be used instead. The points attributed to these considerations would be subjective, in the sense that this would depend on a deliberate social decision rather than on some objective standard, but this is the case even under capitalism when a monetary value has to be attributed to some such 'cost' or 'benefit' as noise or accidents. Furthermore, in so far as money is an

objective measure, what it measures is production time to the exclusion of all other factors. In the sense that one of the aims of socialism is precisely to rescue humankind from the capitalist fixation with production time/money, cost-benefit type analyses, as a means of taking into account other factors, could therefore be said to be more appropriate for use in socialism than under capitalism. Using points systems to attribute relative importance in this way would not be to recreate some universal unit of evaluation and calculation, but simply to employ a technique to facilitate decision-making in particular concrete cases. The advantages/disadvantages and even the points attributed to them can, and normally would, differ from case to case. So what we are talking about is not a new abstract universal unit of measurement to replace money and economic value but one technique – among others – for reaching rational decisions in a society where the criterion of rationality is human welfare.

PLANNING AND INDUSTRIAL ORGANISATION

Socialism would inherit from capitalism the existing material basis: a complex worldwide productive network linking all the millions of individual productive units in the world (farms, mines, factories, railways, ships, etc.) into a single system. The links we are talking about are physical in the sense that one unit is linked to another either as the physical user of the other's product or as the physical supplier of its materials, energy or equipment. Under capitalism such links are established in two ways: organisationally (as between different productive units forming part of the same private or state enterprise) and, above all, commercially (as when one enterprise contracts to buy something from, or to sell something to, another enterprise). In socialism the links would be exclusively organisational.

Planning in socialism is essentially a question of industrial organisation, of organising productive units into a productive system functioning smoothly to supply the useful things which people had indicated they needed, both for their individual and for their collective consumption. What socialism would establish would be a rationalised network of planned links between users and suppliers; between final users and their immediate suppliers, between these latter and their suppliers, and so on down the line to those who extract the raw materials from nature.

By industrial organisation we mean the structure for organising the

actual production and distribution of wealth. Some activities, such as intercontinental transport and communications, the extraction of oil and of certain other key raw materials, developing the resources of the oceans, and space research, are clearly best treated at world level, and we can imagine them being organised by a World Transport Organisation, a World Raw Materials Board, a World Oceanic Regime and so on. To begin with, and assuming (as seems likely) that socialism would inherit a problem of world hunger from capitalism, the production of certain key foodstuffs and animal feedstuffs might also need to be organised on a world level; there already exists in the Food and Agriculture Organisation (FAO) a world body that could easily be adapted for this purpose.

There would be a need for an administrative and decision-making centre at world level, democratically controlled by delegates from the various regions of the socialist world (we say nothing of the size and limits of these regions since such details must be left to the members of socialist society to settle), whose basic task would be to coordinate relations between the world industrial organisations, between these and the world-regions, and between the various world-regions. This centre would not be a 'world government' since, as we have already explained, there would be no state and no government, not even at world level, in socialism. It would be an administrative and coordinating body and would not be equipped with means of coercion.

Other industries, and in particular manufacturing and processing, could be organised at world-regional level. There is no point in drawing up in advance the sort of detailed blueprint of industrial organisation that the old IWW and the Syndicalists used to (despite the promising name of 'Industrial Workers of the World', these were in fact blueprints for industrial organisation within a national framework), but it is still reasonable to assume that productive activity would be divided into branches and that production in these branches would be organised by a delegate body. The responsibility of these industries would be to ensure the supply of a particular kind of product either, in the case of consumer goods, to distribution centres or, in the case of goods used to produce other goods, to productive units or other industries.

Since the needs of consumers are always needs for a specific product at a specific time in a specific locality, we will assume that socialist society would leave the initial assessment of likely needs to a delegate body under the control of the local community (although, once again, other arrangements are possible if that were what the

members of socialist society wanted). In a stable society such as socialism, needs would change relatively slowly. Hence it is reasonable to surmise that an efficient system of stock control, recording what individuals actually chose to take under conditions of free access from local distribution centres over a given period, would enable the local distribution committee (for want of a name) to estimate what the need for food, drink, clothes and household goods would be over a similar future period. Some needs would be able to be met locally: local transport, restaurants, builders, repairs and some food are examples as well as services such as street-lighting, libraries and refuse collection. The local distribution committee would then communicate needs that could not be met locally to the body (or bodies) charged with coordinating supplies to local communities.

Once such an integrated structure of circuits of production and distribution had been established at local, regional and world levels, the flow of wealth to the final consumer could take place on the basis of each unit in the structure having free access to what it needed to fulfil its role. The individual would have free access to the goods on the shelves of the local distribution centres; the local distribution centres free access to the goods they required to be always adequately stocked with what people needed; their suppliers free access to the goods they required from the factories which supplied them; industries and factories free access to the materials, equipment and energy they needed to produce their products; and so on.

Production and distribution in socialism would thus be a question of organising a coordinated and more or less self-regulating system of linkages between users and suppliers, enabling resources and materials to flow smoothly from one productive unit to another, and ultimately to the final user, in response to information flowing in the opposite direction originating from final users. The productive system would thus be set in motion from the consumer end, as individuals and communities took steps to satisfy their self-defined needs. Socialist production is self-regulating production for use.

To ensure the smooth functioning of the system, a central statistical office would be needed to provide estimates of what would have to be produced to meet people's likely individual and collective needs. These could be calculated in the light of consumer wants as indicated by returns from local distribution committees and of technical data (productive capacity, production methods, productivity, etc.) incorporated in input–output tables. For, at any given level of

technology (reflected in the input–output tables), a given mix of final goods (consumer wants) requires for its production a given mix of intermediate goods and raw materials; it is this latter mix that the central statistical office would be calculating in broad terms. Such calculations would also indicate whether or not productive capacity would need to be expanded and in what branches. The centre (or rather centres for each world-region) would thus be essentially an information clearing house, processing information communicated to it about production and distribution and passing on the results to industries for them to use to draw up their production plans so as to be in a position to meet the requests for their products coming from other industries and from local communities.

IMPOSSIBILITY OF GRADUALISM

The governments of some of the state capitalist countries, in particular those which have Leninism as their official ideology, proclaim as their long-term goal the establishment of a society which they call 'communism' and which at first sight bears a resemblance to the society we have outlined as the alternative to capitalism. For instance, at its 22nd Congress in 1961, the 'Communist' Party of the Soviet Union (CPSU) adopted a programme 'for the construction of communism'. One of the many books and pamphlets produced to popularise this programme tells us:

> Communist distribution is a system of supplying members of society with all they need free of charge. In this society money will be superfluous.
>
> Under communism, consumer goods – to say nothing of capital goods – cease to be commodities. Trade and money will outlive themselves. Flats, cultural, communication and transport facilities, meals, laundries, clothes, etc., will all be free. Stores and shops will be turned into public warehouses where members of communist society will be supplied with commodities for personal use. The need for wages and other forms of remuneration will disappear. (Man's Dreams, 1966, pp. 172 and 224)

The society here described as 'communism' is thus to be a moneyless society, but there is an implication that there might still be a body separate from the members of society which would be handing out

goods to them at *its* initiative. In other words, it is implied that the means of production might still be controlled by a minority group which would distribute products free to the excluded, non-controlling majority. That this is to be the case is confirmed by other passages in which we are told that 'communism' can be established in one country or group of countries and that the party will continue to exist for a long time even after the establishment of 'communism' on a world scale.[6] Above all, there is the incongruity that this system of 'free distribution' is seen as gradually evolving from the present state capitalist system in Russia. What is envisaged is a gradual evolution, under the direction of the party, from a form of state capitalism in which workers are paid money wages with which they buy the things they need to a form of state capitalism in which they would be supplied free of charge with the necessities of life, i.e. would in effect be paid entirely in kind.

This perspective of a gradual 'withering away' of commodity production and the money economy is not held by the CPSU alone but is the general Leninist view of how the so-called 'transition from socialism to communism' will take place. Mandel, for instance, has gone into great detail to show how 'decommoditization' would be economically possible as a series of administrative measures introduced, on the basis of state ownership, in response to increases in productivity and inelasticities of market demand (Mandel, 1968, pp. 654–86). Such a gradual transition to full payment in kind is perhaps theoretically conceivable (although in our view highly unlikely), but in any event the end result would not be socialism, since socialism is not payment in kind on the basis of state ownership; nor could socialism be introduced administratively by a state capitalist government.

The definition of 'communism' as state ownership plus payment in kind is shared by nearly all those who have participated in academic debates on so-called 'pure communism' and its feasibility (Wiles, 1962; Sherman, 1970). As a result, most of the discussion which has ensued is irrelevant to socialism/communism considered as a social relationship in which all members of society stand in an equal position with regard to the control of the use of the means of wealth production. We have already seen that a system in which the means of production are owned by a state is not a classless society where all members stand in the same relationship to the means of production, but a class society in which those who control the state stand in a privileged position with regard to the means of production, since they

control their use to the exclusion of the rest of society. This is the case even if, as in Leninist theory, this controlling group is to be a vanguard party conceived as being dedicated to serving the interests of the excluded majority. As long as a section of society is excluded from controlling the means of production, a class society exists, no matter how generous or well-meaning the ruling class is considered as being. This is one reason why a gradual evolution from state ownership (state capitalism) to common ownership (socialism) is impossible. Such a gradual evolution from a class society to a classless society is impossible because at some stage there would have to be a rupture which would deprive the state capitalist ruling class – be they well-meaning or, more likely, otherwise – of their exclusive control over the means of production. There would have to be, in other words, a political and social revolution in which the power to control the use of the means of production would be consciously transferred by the excluded majority from the minority state capitalist class to all members of society.

An equally fundamental reason why a gradual evolution from state capitalism to socialism is impossible is the difference in the form which wealth takes in the two societies. In socialism wealth appears simply in its natural form (as various use values capable of satisfying human wants), while under state capitalism wealth takes the form of value (goods having acquired an exchange value in addition to their natural use value).

As the totality of wealth produced today is a single product produced by the whole workforce acting as a 'collective labourer' (Marx, 1919 (vol. I) pp. 383–4), some goods cannot be produced in the one form and some in the other. The social product that is wealth today can only be produced either wholly as value or wholly as simple use value. Certainly some goods can be directly distributed in kind while others remain obtainable only against payment in money, but this is not the same thing. In this case the goods produced for distribution in kind would still be 'value' in that their production costs, i.e. the exchange value used up in producing them, would have to be paid for out of the surplus value realised in the priced goods sector. Profit-and-loss accounting in units of value would still be necessary. This is why all schemes such as Mandel's for a gradual withering away of commodity production insist on the need to retain some universal unit of account (whether this be monetary units as in the various schemes for 'shadow prices' or units of labour-time as an

attempt to measure economic value directly) in both the price *and* the 'free goods' sectors.

The changeover from commodity production to production solely for use can only take place as a rupture, not as a gradual transition. Since 'classless society' and 'common ownership' are synonyms, and since commodity production is a nonsense on the basis of common ownership, this rupture (revolution) is in fact the same as the one needed to move from class society to classless society. Neither classes nor the state nor commodity production nor money can gradually wither away. It is no more reasonable to assume that state capitalism could change by degrees into socialism than was the assumption of the classical reformists that private capitalism could be so transformed.

CONCLUSION

The alternative to capitalism as a society already existing on a world scale is, to define it somewhat negatively, a frontierless, classless, stateless, wageless, moneyless world. Or, more positively:

> The new system must be world-wide. *It must be a world commonwealth*. The world must be regarded as one country and humanity as one people.
>
> All the people will co-operate to produce and distribute all the goods and services which are needed by mankind, each person, willingly and freely, taking part in the way he feels he can do best.
>
> All goods and services will be produced for use only, and having been produced, will be distributed, *free*, directly to the people so that each person's needs are fully satisfied.
>
> The land, factories, machines, mines, roads, railways, ships, and all those things which mankind needs to carry on producing the means of life, will belong to the whole of the people. (Philoren, 1943 – emphases in original)

Opinions may legitimately differ as to whether or not such a society is feasible. That is a separate question which is beyond the scope of this book. However, in the interests of clarity, we suggest that those who pose as critics of capitalism, but who consider that the society outlined above is not feasible in the immediate future, should refrain

from using the term 'socialism' to refer to any society in which money, wages and the state exist. There already exists a perfectly adequate term to refer to such a society – capitalism or, as the case may be, state capitalism. It merely confuses the issue to talk of socialism being anything other than a moneyless, wageless, stateless world commonwealth.

Notes

CHAPTER 1

1. '. . . the relation between wage labor and capital determines the entire character of the mode of production. The principal agents of this mode of production itself, the capitalist and the wage worker, are to that extent merely personifications of capital and wage labor' (Marx, 1919 (vol. III) p. 1025). 'Capital and wage-labour (it is thus we designate the labour of the worker who sells his own labour power) only express two aspects of the self-same relationship' (Marx, 1979, p. 1006).
2. 'Where the state is itself a capitalist producer, as in the exploitation of mines, forests, etc., its product is a "commodity" and hence possesses the specific character of every other commodity' (Marx, 1972, p. 51). In volume II of *Capital* Marx also refers in passing to 'state capital, so far as governments employ productive wage-labor in mining, railroading, etc., and perform the function of capitalists' (Marx, 1919 (vol. II), p. 110).
3. For instance, James Burnham: 'Capitalist economy is a system of *private* ownership, of ownership of a certain type vested in private individuals, of private enterprise' and 'A capitalist is one who, as an individual has ownership interest in the instruments of production; who, as an individual, employs workers, pays them wages, and is entitled to the products of their labour' (Burnham, 1945, pp. 92 and 103 – emphasis in original). Burnham inherited this position, which was also that of Trotsky, from the orthodox Trotskyist movement from which he came. It is still the position of orthodox Trotskyism as well as of the official ideology of the Russian state.

CHAPTER 2

1. 'The State, the "committee for managing the common affairs of the whole bourgeoisie" as Marx called it, intervenes when the interests of the class as a whole are being injured or jeopardised commercially or from a military standpoint by some group which owns a key industry or transport system, or when for some reason (usually the great cost involved) a new technical development is being hampered by the inability of private groups to handle it on a sufficiently large scale' (SPGB, 1945, p. 33).

2. Compensation was calculated in a similar way for the owners of most of the industries nationalised in Britain after the war. 'Various methods were used for calculating the compensation paid to the former owners. In most cases (the Bank of England, the railways and the electricity and gas undertakings) payment was made in fixed-interest stock in amounts which took account of the stock-exchange prices and the dividends paid over a period prior to the takeover; special arrangements were made to negotiate values in the case of some electricity and gas undertakings whose stocks or shares were not quoted on the stock exchange' (Thornhill, 1968, p. 17). Special arrangements were also made for the coal industry: 'the sum of £164.66 million was fixed by a tribunal constituted under the Coal Industry Nationalization Act, 1946, as the compensation to be paid for the "coal industry value", but there were additional payments for other assets. This global sum for the collieries was to be apportioned among the colliery districts by a central valuation board, and district valuation boards were to determine the share due to the individual mining units. This process took a long time and the latter stages were often avoided by voluntary schemes agreed to by colliery companies. Valuation of all the assets taken over by the National Coal Board was not completed until 1956 and the total of the compensation payments amounted to £388 million' (ibid., pp. 102–3).
3. This point was well grasped in the instructions issued in February 1982 to the heads of the newly nationalised industries in France by the then Minister of Industry, Pierre Dreyfus (incidentally, as an ex-managing director of Renault, himself the former head of a state capitalist enterprise): 'You will seek above all economic efficiency, by a continuous improvement of competitiveness; as any lack of economic efficiency would affect the whole of the French economy. The normal criteria for managing industrial enterprises will apply fully to your group; its various activities must show an operating result sufficient to ensure the development of the enterprise, and the profitability of invested capital must be normal' (*Le Monde*, 19 February 1982).
4. 'The nationalized industries contributed about 10 per cent of gross domestic product in 1967, and their capital requirements were enormous. Their fixed investment of £1492 million was between one-quarter and one-fifth of total gross domestic fixed capital formation, and was higher than the total for the whole of manufacturing industry' (Reid and Allen, 1975, p. 16). In the financial year 1981–2 the capital employed in the nationalised industries was £83 178 million and their turnover £42 792 million (*The Times*, 18 July 1983).
5. 'The managers will exercise their control over the instruments of production and gain preference in the distribution of the products, not directly, through property rights invested in them as individuals, but indirectly, through their control of the state which in turn will own and control the instruments of production. The state – that is, the institutions which comprise the state – will, if we wish to put it that way, be the "property" of the managers. And that will be quite enough to place them in the position of ruling class' (Burnham, 1945, pp. 64–5).

CHAPTER 3

1. Throughout this book the term 'Russia' is used, in preference to 'the Soviet Union' or 'the Union of Soviet Socialist Republics'. 'Russia' is not entirely appropriate, as any Georgian or Ukrainian might tell us, but since the post-1917 successor to the tsarist empire is neither soviet nor socialist, terms such as 'the Soviet Union' or 'the Union of Soviet Socialist Republics' are even more inappropriate than 'Russia'.
2. Surplus is extracted from peasants/collective farmers in state capitalist countries, as well as from wage-earning workers. In this account, we primarily concentrate on the situation of the working class within state capitalist countries. It is worth mentioning, however, that there has been considerable academic debate on the respective contributions of the peasantry and the working class to capital accumulation in state capitalist countries. For a useful summary of this debate in relation to Russia, see Munting, 1982, pp. 106–10.
3. The information presented in this paragraph is derived from figures in Clarke and Matko, 1983, pp. 7, 16, 19, 39 and Eason, 1960, p. 83.
4. Matthews explained that his estimates of the total salaries of top managers 'do not include *all* the extra bonuses accessible to managers but are estimates, perhaps over-modest, based on Soviet averages' (Matthews, 1978, p. 31).
5. *Observer*, 16 August 1981.

CHAPTER 4

1. 'As for capital [*sic*!] goods, especially those produced by nationalised industry, they have lost their commodity character, since not only their overall production but also their precise distribution is fixed in advance by the plan' (Mandel, 1968, p. 567).
2. Bettelheim's ambivalence on wage labour is clearly demonstrated in his *Class Struggles in the USSR*. On the one hand, he correctly focuses on wages, prices, value, etc. as evidence of the continuation of capitalist relations of production, irrespective of the economic plan. On this basis, it is the existence of wages and of a class reduced to a wage-earning status which furnishes proof of the continued existence of capitalism. On the other hand, if that same wage-earning working class plays a 'leading role', Bettelheim is satisfied that 'socialist enterprises' then exist, despite the persistence of wages. Bettelheim is uncritical of Lenin's identification of capitalist relations with salary *differentials*, rather than with salaries *per se* (Bettelheim, 1978, p. 528 etc.).
3. Some of Cliff's followers have argued even more explicitly than Cliff that in countries such as Russia there is no wage-labouring class selling its labour power as a commodity. See Binns and Haynes, 1980, p. 29.

4. For simplicity's sake, we consider here competition at the inter-enterprise level only. Competition occurs at other levels of the state capitalist economy, however. As Alec Nove has written: 'Then we must appreciate that the state is not a monolith employer. Again the concept of "centralized pluralism" comes to our aid. *Ministries* and enterprises in practice compete for labour, and have to be restrained from overpayments (not always very effectively restrained)' (Nove, 1980, p. 205 – emphasis added).
5. Konstantin M. Simis, formerly a prominent lawyer in Russia, writes: 'Everyone knows that the Soviet state is the monopoly owner of all means of production and all land, and that private enterprise is a crime in the Soviet Union. But not even all its citizens know that in the Soviet Union there are many private enterprises in operation alongside the state factories. A network of private factories is spread across the whole country, manufacturing goods to the value of many hundreds of millions, perhaps even billions, of rubles' (Simis, 1982, p. 103).
6. 'The presence of hired wage labor, which implies a workforce devoid of substantive ownership rights with respect to material productive assets, points to the general class of capitalism' (Holesovsky, 1977, p. 55).
7. 'What is crucial here is the relationship between the prices of mechanical equipment and the level of wages, since there is always some range over which mechanical equipment and human labour are substitutable even in the short run (e.g. the usage of machinery and its upkeep). But analogous considerations apply to the prices of raw materials and of fuel and power relatively to one another and to the labour that is using them' (Dobb, 1960, p. 86).
8. '. . . the question of what is the "correct" relationship between the price-level of capital goods and of "living labour" enters into the determination not only of the *general* level but also of the structure of *relative prices* of capital goods' (ibid., p. 86).
9. '. . . the retail market is a market in the full sense even in a socialist economy' (ibid., p. 91).
10. Throughout this book, 'socialism' and 'communism' have identical meanings. We use both terms to describe the society which immediately follows the abolition of capitalism (see Chapter 6).
11. On the subject of changes to the 'plan' during the course of production, Nove (1981, p. 30) quotes from *Pravda* (12 November 1973) as follows: 'It is unusual for plans to be either internally consistent or to be drafted in time. Hence, frequent changes: "in the course of one year, among only a part of the enterprises examined, there were 1554 amendments to the production plan, and this without any changes in financial indicators".'
12. See Fantham and Machover, 1979, pp. 9–10.
13. See Katsenelinboigen, 1977, pp. 62–85.
14. 'Since commodity-money relations are preserved under socialism, the aggregate product has to be examined in its physical form as well as in its *value form*. This enables economic bodies to consider all its component parts in terms of money which is necessary for analysing economic development' (Kolesov, 1982, p. 51).

15. '. . . despite their well-known short-comings, only value indicators can be used to compare the operation of different enterprises' (Kushnirsky, 1982, p. 21).
16. 'Operating in accordance with the state plan, the enterprise (or amalgamation of enterprises) must cover all expenditures with its own income, i.e., with profits from the production and sale of its goods' (Kolesov, 1982, p. 86).
17. 'Some comrades draw the conclusion from this that the law of balanced development of the national economy and economic planning annul the principle of profitableness of production. That is quite untrue. It is just the other way round. If profitableness is considered not from the standpoint of individual plants or industries, and not over a period of one year, but from the standpoint of the entire national economy and over a period of, say, ten or fifteen years, which is the only correct approach to the question, then the temporary and unstable profitableness of some plants or industries is beneath all comparison with that higher form of stable and permanent profitableness which we get from the operation of the law of balanced development of the national economy and from economic planning . . .' (Stalin, 1952, pp. 28–9).
18. 'The enormous number of products, however, makes it impossible to calculate production and consumption materially. Both have to be counted in terms of value and their monetary form, i.e., prices. Therefore, how accurately prices approximate values is significant in business accounting. If prices vary too far from values, the surplus products created by one enterprise may be transferred to another through an exchange at unequal values' (Xue, 1981, pp. 196–7).
19. Interviewed in the *Financial Times*, 10 May 1983.
20. 'The use of new equipment is expedient provided it raises labour productivity and increases the production of material wealth at the lowest expenditure of labour and funds. The ratio of the growth of net profit to the sum total of capital investments shows the *economic efficiency of production* at an individual enterprise or in a whole branch of industry. The greater an enterprise's net profit and the smaller the volume of capital investments, the higher the economic efficiency' (Kolesov, 1982, pp. 53–4).
21. *Financial Times*, 9 May 1983.
22. Average world prices over a period of five years have been used, but there are indications that this period is being shortened to three years (*Financial Times*, 1 November 1983).

CHAPTER 5

1. For an examination of the part played by state capitalist ideology in the political thought of Marx and Engels, see Crump, 1975.
2. The Erfurt Programme appears in Kautsky, 1964. The page references in the following paragraphs are to the most accessible English translation, which is Russell, 1965.

3. See, for example, Williams, 1949, pp. 280–1; Reid, 1955, p. 231; McBriar, 1962, p. 343.
4. Here and elsewhere when quoting Lenin, emphases are in the original.
5. See Herman Gorter's 'The World Revolution', which appeared in English in the *Workers' Dreadnought*, February–May 1924.

CHAPTER 6

1. 'This leads to the basic assumption which economic analysis makes about the physical world. It is assumed that the fundamental feature of the economic world, the feature which gives rise to economic problems at all, is that goods are *scarce*. Very few things in the world, with the exception of air, water and (in some countries) sunshine, are available in unlimited amounts. It is because of scarcity that goods have to be shared out among individuals. If scarcity did not exist, then there would be no economic system and no economics' (Stonier and Hague, 1980, p. 3 – emphasis in original).
2. 'Abundance removes conflict over resource allocation since by definition there is enough for everyone, and so there are no mutually exclusive choices, no opportunity is forgone and there is no opportunity-cost. The golden age, a communist steady-state equilibrium, will have been reached. Gradual change, growth, will be simple and painless. The task of planning becomes one of simple routine; the role of economics is virtually eliminated. There is then no reason for various individuals and groups to compete, to take possession for their own use of what is freely available to all' (Nove, 1983, p. 15). 'There would then be no *economic goods*, i.e., no goods that are relatively scarce; and there would hardly be any need for a study of economics or "economizing". All goods would be *free goods*, like pure air used to be' (Samuelson, 1980, p. 17 – emphases in original).
3. 'Present productive forces are quite inadequate to provide the whole of mankind with up-to-date comfort' (Mandel, 1968, p. 610). 'The necessity of a transition period follows precisely from the fact that on the morrow of the abolition of capitalism, *society is still living in a situation of relative shortage of consumer goods*. The allocation of consumer goods during the epoch of transition from capitalism to socialism must therefore be effected essentially through exchange, that is, through buying and selling. Consumer goods continue to be commodities. Leaving aside the social wage, the labour force is essentially paid in money. A huge monetary sector therefore continues to exist in the economy' (ibid., p. 632 – emphasis in original).
4. 'In the same way, even if people were to limit themselves strictly to the exchange of natural produce, the existence of money would continue to be indispensable in a socialist society as a measure of value for accounting purposes and for calculating exchange ratios' (Kautsky, 1922, p. 318).

5. '. . . the economic analysis, which starts off with quantities, which are measured differently, and which ends up with quantities, which are measured differently, can never be reduced to a single common denominator, especially not to the common denominator "labour" ' (Neurath, 1925, p. 74).
6. 'It is not impossible that communism will have been established in the socialist countries before the capitalist countries take the socialist path' (Man's Dreams, 1966, p. 227). 'The Party will hold the leading position in communist society for a long time, although its working methods and forms and its structure will naturally alter substantially. The Party, the very embodiment of all that is progressive and organised, will still exist even in the first stages of communism, after its victory on a world scale. It will take communist society many years and even decades before the new mechanisms are fully developed and become maximally effective, before conditions are created for the withering away of the Party. This will be a long and gradual process' (ibid., p. 233).

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