

MICHAEL CHARLES HOWARD
JOHN EDWARD KING

A History of Marxian Economics

Volume I, 1883-1929



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M. C. HOWARD

and

J. E. KING

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M. C. HOWARD
J. E. KING

Introduction

In this first volume we take the history of Marxian economics from the death of Karl Marx in 1883 to 1929, the year which saw both the onset of the Great Depression in the capitalist world and the beginnings of Stalin's 'revolution from above' which subsequently transformed the Soviet Union into a modern superpower. The second volume of this work will bring the story of Marxian political economy up to the present day.

Judged by its own criteria it might be thought that an intellectual history of Marxism is unimportant. As it is widely understood today, Marxism assigns ideas to the superstructure while historically meaningful action is confined to the actual economy. Thus, a history of economic ideas would concern itself with the epiphenomena of human development. This is not a wholly artificial caricature of the Marxian position, and has been a significant theme in its own history. Nevertheless, even this variant of historical materialism makes an exception of Marxism itself, which assumed the role of informing practice so that the birth pangs of actual historical transformations could be alleviated. This was certainly the view of most Marxist economists between 1883 and 1929.

The development of Marxian political economy in these years was inextricably linked with practical political problems. Marxists treated theory as a guide to action, not as a matter of detached academic speculation. Few of the major authors assessed here were employed in university or research institutions. Almost all earned their living as political functionaries: journalists, party organisers, underground activists, teachers in the labour movement. Their economics arose in response to concrete problems and was orientated toward the goal of achieving socialist political power. The fact that they had access to a sophisticated body of theory, however, is one reason why Marxism increasingly triumphed over other forms of political radicalism.

During the last third of the nineteenth century various groups claiming allegiance to Marxism were to be found in almost every corner of Europe, and the star of Marxism was clearly ascending. But before 1929 the

important and original contributions to Marxian economics were made almost exclusively in two languages: German and Russian. It was not until the 1930s that British, American and Japanese economists began to make their mark and little of significance in economic theory appeared in French or Italian before the 1960s. This accounts for the structure of the present volume. Part I (Chapters 1–6) deals with the German literature before 1914, and Part II (Chapters 7–13) with Russian contributions up to 1917. Although the problems confronting German and Russian Marxists were very different, people and ideas did move freely from East to West and back again, and we refer at various points to the resulting theoretical interchanges.

The character of their controversies altered dramatically after the First World War. Until then there was a single political centre, the Second International, which – for all its internal divisions and impotency – served as a focus for Marxian socialism as a whole. In 1914–20 even this precarious unity was shattered. The following decade saw an open and bitter rivalry between the Second and Third (Communist) Internationals, together with the intervention in theoretical disputes of independent Marxists belonging to a range of fringe groupings. At the same time the economic problems confronting Russian Marxists had been transformed by the conquest of state power. We therefore treat this period separately, in Part III (Chapters 14–16).

Differences between German and Russian Marxism had in fact always been substantial, for reasons bound up with the histories of their respective countries. In the decades before 1914, Germany was rapidly becoming Europe's leading industrial power. The SPD saw its task as educating and organising the expanding German proletariat for its role in the socialist revolution, which the party theorists believed to be rapidly approaching, and this set the agenda for theoretical discussion. German Marxism concentrated upon the profound structural changes bound up with monopoly, finance capital, militarism and imperialist expansion, which they saw as inherent in capitalist maturation and of crucial importance for the nature and heritage of the social revolution. At the same time it was necessary to defend Marxism against bourgeois critics of the theory of value and exploitation, and those who sought to interpret the new developments as contradicting Marxism.

In a sense it was the presumption of modernity which proved the Achilles heel of German (and Austrian) theorists, for it meant that the objective difficulties actually facing German socialism were underestimated. Given the continued numerical weakness and fragmentation of the working class, coupled with the immense power of the German state, a revolution could have succeeded only with widespread support from the *petite-bourgeoisie*. This was never forthcoming, and any prospect of it was destroyed by the

theoretical orientation of German Marxists, who saw intermediate classes as doomed to extinction by capitalist development and were precluded from offering palliatives on the grounds that this would hinder economic progress. An alternative perspective was offered by the revisionists who urged an alliance with bourgeois liberalism of the type which produced significant (if limited) social reforms in Edwardian Britain, but glossed over the illiberalism of the German bourgeoisie.

Even more than in Germany, the *petite bourgeoisie* remained important in Russia. Indeed, as late as 1914 it was still an overwhelmingly peasant country characterised by an extreme economic, political and cultural backwardness which had been little altered by the rapid capitalist industrialisation of the preceding three decades. These conditions proved crucial for the concerns of theory, since Russian radicals had to defend the very relevance of Marxism itself. Before 1900 populists claimed that Russian capitalism had been artificially brought into being and was destined to burn itself out quickly, while the peasantry represented the real agent of revolutionary change. In countering these beliefs Russian Marxists were forced to extend Marx's analysis of the development of capitalism, rather than concern themselves with its demise as the German theorists did. By the turn of the century they had firmly established their case, but they had at the same time become acutely aware of Russian underdevelopment. In consequence the crucial question for them concerned the bourgeois-democratic revolution which would lay the foundation for further capitalist progress (which they believed essential for a subsequent socialist revolution). Marxist economic theory in Russia became especially interested in understanding the different forms of capitalist development, and realising – through an appropriate type of revolution – conditions for a broad and sustainable extension of bourgeois relations.

This proved to be an important political strength because it highlighted both the need for peasant support and the basis upon which it could be achieved. However, it simultaneously introduced a contradiction, as it was apparent to virtually all Russian Marxists that the bourgeoisie under tsarism was even less liberal and more subservient to the regime than its counterpart in Germany. Thus the proletariat was assigned the leading role in a revolution which was supposedly to confine itself to measures compatible with a bourgeois order.

The First World War finally separated these two streams of Marxism. But it did so in a peculiar way, since the two groups were actually drawn closer together in matters of economic theory. The Russian Bolsheviks now aligned themselves with the economic analysis of mainstream German Marxism, and radicalised it. On foundations laid by Kautsky, Hilferding and Luxemburg they claimed that capitalism as a world system was everywhere ripe for socialist revolution. They were not the only ones to

borrow ideas. In the West after 1917, leading figures of German Marxism used the theory of the Russian Mensheviks to argue that the October revolution had been premature and was doomed to failure.

These paradoxes affected actions as well as theory. While Marxists in Russia moved from bourgeois revolution to socialist revolution, in Germany and Austria they proved capable only of extending the democratic revolution. Thus the Russians, who had been primarily concerned with encouraging the development of capitalism, ended up by destroying it while the Germans, who had looked forward to the breakdown of capitalism, cooperated with the bourgeoisie to preserve it. Russian Marxists used German theory to justify what they did, just as many German Marxists appealed to Menshevism for theoretical weapons against the Bolsheviks.

There were deep problems in Marxian economics between 1883 and 1929, as well as important insights. Hence this is a critical history rather than a narrative or simple reconstruction of ideas. In many places our criticism is, it seems to us, unavoidably harsh. It should, however, be tempered by a recognition of the ambitious project Marxian economists took upon themselves, not only politically, but also intellectually. The intractable political environment in which they were forced to operate has already been emphasised. In a purely intellectual sense, too, the problems with which they grappled were acute ones; on the whole contemporary bourgeois economists either evaded the issues altogether or failed, equally comprehensively, to resolve them. Criticism must be tempered by understanding, and expectations reduced accordingly. Only disappointment awaits those who scour the works of Kautsky and Hilferding, Bukharin and Lenin, in search of a ready-made political economy for the 1990s.

Part I

*The German Contribution,
1883–1914*

1

Friedrich Engels and the Marxian Legacy, 1883–95

I Marx's Intellectual Legacy

Karl Marx died on 13 March 1883 at the age of 64, leaving much of his intended political economy unwritten and an even greater proportion unpublished. Since the publication of volume I of *Capital* in 1867, he had worked only sporadically on the remaining volumes, devoting an increasing proportion of his time to his other intellectual interests (for a discussion of some of these, see Chapter 7 below). The manuscripts which were to form the basis of the second, third and fourth volumes were subjected – as he once put it, regarding a different work – to ‘the gnawing criticism of the mice’. In view of the central political importance that he assigned to the economic analysis of capitalism, Marx’s lethargy was most unfortunate. Even allowing for the effects of ill health, it is difficult not to convict him of neglecting his responsibilities, both to the international socialist movement whose mentor he aspired to be, and more especially to his lifelong friend and collaborator Friedrich Engels, who was left to pick up the pieces.

At all events, only a small number of Marx’s economic writings appeared in his own lifetime. They included the *Communist Manifesto* (with Engels as co-author). Not in any sense a treatise on economics, the *Manifesto* did encapsulate the Marxian vision of the capitalist mode of production. It was by far the most widely-disseminated of Marx’s works, being reprinted in nine editions in six languages in the period 1871–3 alone. Marx’s *Critique of Political Economy* had been published in 1859, but it was almost completely ignored at the time and soon went out of print. Also unavailable at the time of Marx’s death was the *Poverty of Philosophy*, which had been published – in French only – in 1847. Volume I of *Capital*, first published in 1867, went into a second German edition five years later, and was translated into Russian in 1872 and French between 1872 and 1875. Somewhat to Marx’s surprise interest in *Capital* was especially strong in Russia, where the

4 *The German Contribution, 1883–1914*

growing populist movement was developing a political economy which drew heavily upon Marx (see Chapter 7 below). The populists saw *Capital*, however, as a manual on the dangers of capitalist industrialisation, and thus as setting out a path to be avoided. (The Russian censor's complacent belief was that *Capital* would prove too obscure to be dangerous.)¹

Together with the *Manifesto* and Engels's influential *Anti-Dühring*, which offered (in 1878) an overview of the materialist conception of history in addition to a summary of the theory of value and surplus value, volume I of *Capital* was thus the principal source on Marx's political economy before 1883. As late as 1907–9, for example, long after the appearance of the second and third volumes, volume I was the main text for Otto Bauer's lectures at the Arbeiter Schule of the Austrian Socialist Party in Vienna. In the wider working-class movement it was however almost certainly read less often than the compendia provided by Deville in France and (somewhat later) by Aveling in England, or – most popular of all – Kautsky's précis in Germany.² In 1883 very little else by Marx was available. Serious students had no access to his early writings or his correspondence; volumes II and III of *Capital* were still in manuscript form, along with the fourth volume on the history of economic doctrines (better known as *Theories of Surplus Value*); and few could even have suspected the existence of the important 'rough draft' of *Capital* which was eventually published as the *Grundrisse* and which provided a link between the themes of the 'young' and the 'mature' Marx. Almost none of the available material was in English. Even the *Manifesto*, translated in 1850 for Julian Harney's *Red Republican*, was long out of print, and Marx was best known in Britain for his broadsides against Palmerston's foreign policy and his involvement with the International Working-men's Association and the Paris Commune. Knowledge of his political economy was acquired at one remove, via the German socialist movement or the critical writings of Continental and US academics.³ Not surprisingly, the subsequent development of Marx's political economy was to be initially a predominantly German endeavour, or one like that of Plekhanov's Marxism (see Chapter 8 below) which was inspired by the German Marxists.

Readers of the *Communist Manifesto* would have been impressed first of all by its emphasis on the revolutionary nature of the bourgeoisie, which transforms the entire world in an endless quest for profit but simultaneously produces its own grave-diggers in the form of the proletariat. Several crucial economic themes emerge. Bourgeois society is increasingly polarised, with the destruction of pre-capitalist forms of production and the conversion of peasant and artisan producers either into capitalists or (for the great majority) into propertyless wage-labourers. The need for a constantly expanding market generates both the extensive spread of capitalist relations on the world market and their intensive penetration through the commercialisation of all aspects of human life. But capitalism is

increasingly unstable. Economic crises provide evidence of ‘the revolt of modern productive forces against the property relations that are the conditions for the existence of the bourgeoisie and of its rule’. Crises give rise to ‘an epidemic of over-production’, but the means by which the bourgeoisie attempts to overcome them are contradictory. New markets are created and old markets exploited more thoroughly, thereby ‘paving the way for more extensive and more destructive crises’. This intensifies the misery of the proletariat. Skills are degraded and the worker’s autonomy destroyed, so that he or she becomes ‘an appendage of the machine’. The price of labour is set by its costs of production: ‘in proportion, therefore, as the repulsiveness of the work increases, the wage decreases . . . The average price of wage-labour is the minimum wage, i.e. that quantum of the means of subsistence, which is absolutely requisite to keep the labourer in bare existence as a labourer.’ Increasing polarisation of society, relentless quest for new markets, ever more intense economic crises, immiseration of the working class: these, according to the *Manifesto*, are the economic foundations of proletarian revolution.⁴

Volume I of *Capital* refined and extended the central economic message of the *Manifesto*. It begins with a long, involved and notoriously difficult analysis of commodity production, before setting out the theory of surplus value as the form taken in capitalist society by the unpaid labour of the producers. Marx discusses the labour process; the length of the working day; the division of labour within the factory; and the impact of mechanisation. On the question of wage determination Marx revised the position taken in the *Manifesto*, replacing the early emphasis on a physical minimum with the more dialectical view, first expressed in the *Grundrisse*, according to which capitalism continually increases workers’ needs and thereby also raises their customary consumption standards. In addition to the basic physiological element of the wage, there is a variable component which depends on the degree of development of human needs. Wages are thus influenced by two contradictory tendencies: mechanisation, which reduces the demand for labour power and forces wages down; and the expansion of needs, which works in the opposite direction. ‘Immiseration’ is now a relative rather than an absolute phenomenon.⁵ Marx then pointed to a persistent tendency for the constant portion of capital to grow more rapidly than the variable component. This ‘absolute general law of capital accumulation’ leads to the formation of an industrial reserve army of the unemployed and to the increasing concentration and centralisation of capital. Volume I concludes – a little incongruously – with an account of the ‘primitive’ (that is, original) accumulation of capital before the establishment of the capitalist mode of production, and with an illustration drawn from the British colonies of the fundamental importance of wage labour in the production of surplus value.⁶

As the only major economic work which Marx saw through to publica-

tion, the significance of volume I of *Capital* is difficult to exaggerate. But it was only part of a much more ambitious project, and the omissions are no less telling than what it does contain. According to his own plan it emphasises production to the neglect of both the circulation of commodities and the relations between production and circulation.⁷ Thus there are only two brief references to the divergence of labour values and equilibrium prices, and no mention of the formation of a general rate of profit, still less any analysis of its long-run tendency to decline. Marx's discussion of capital accumulation is vigorous but informal, without either the rigour or the intricacy of his treatment, in volume II, of simple and expanded reproduction. His views on economic crises are sketchy and one-sided. Although there are occasional attacks on Say's Law and a powerful analysis of the relations between mechanisation, unemployment, real wages and the rate of accumulation, they do not amount to a coherent theory of cyclical fluctuations or a systematic account of the likelihood of economic breakdown. Volume I is full of references to the impending transcendence of capitalism and its replacement by a socialist society through a process of proletarian revolution. But the economic basis for Marx's theory of capitalist history is only partially developed, and a student of Marxian political economy in 1883 would necessarily have had a different view of its principal tenets from that of the modern reader.

II Engels as Editor and Theoretician

For the twelve years after Marx's death Engels was the unchallenged intellectual leader of European social democracy, the principal interpreter of Marx's writings, and the final court of appeal in all theoretical disputes. He was responsible not merely for the publication of Marx's manuscripts, but also for the colossal editorial labours which this required. Everything was in Marx's execrable handwriting, and nothing was in finished form ready for the press. At the same time Marxist journals pestered him for articles, party leaders sought his views on their manifestoes, socialist correspondents and fraternal visitors made increasing demands on his time. No longer second fiddle to Marx, Engels became (in Otto Henderson's words) 'the leader of the orchestra'. On questions of political economy he was less than adequately equipped for the task. As early as the mid-1840s Engels had agreed on an informal division of intellectual labour with Marx, focusing his attention upon political, military and scientific affairs while Marx concentrated on economic theory. By 1883 Engels must have been somewhat out of touch with the subject. As will shortly be seen, he appears to have accepted his new responsibilities with resignation rather than any great enthusiasm. Together with Marx's own dilatoriness, Engels's lack of

capacity as a political economist meant that Marxian economics advanced only very slowly in the final third of the nineteenth century.

Fortunately he was at least still in excellent physical and mental shape. When the young Eduard Bernstein visited Engels in London in 1880 he was deeply impressed by his host:

In those days Engels had just passed his sixtieth year, and amazed us by his great bodily and mental vigour. This tall, slender man hastened through the long London streets at a quicker pace than even the youngest of us. To keep step with him upon our walks was no easy matter . . . Although Marx was only two years older than Engels, he gave the impression of being a much older man.

Not until shortly before his death did Engels's health begin seriously to fail (though his eyesight proved much more vulnerable). The years from 1883 to 1895 were in many ways his most productive. He wrote one major book (*The Origin of the Family, Private Property and the State*); a shorter philosophical treatise (*Ludwig Feuerbach and the End of Classical German Philosophy*); no fewer than twenty-two prefaces to writings by Marx, including five to the *Communist Manifesto* alone; and a profusion of newspaper articles and letters.⁸

Marx had left no written testament, but simply told his youngest daughter Eleanor that she and Engels were to be his literary executors. However, Eleanor Marx seems to have possessed neither the patience nor the necessary self-confidence to involve herself deeply in editing her father's papers, and so the burden fell almost exclusively on Engels's shoulders. He saw as his principal task the rapid publication of the remaining volumes of *Capital*, rather than a definitive edition of Marx's writings in strict chronological order. Though tempted by the latter project Engels was forced to reject it as impracticable, partly because of the sheer enormity of the work entailed and partly because the German censors would not have permitted its appearance. The completion of Marx's 'Economics' must also have seemed to be of more immediate political relevance. At first *Capital* did monopolise Engels's time and energies. He worked on it for eight or ten hours a day for several months in 1884, and volume II was published early in the following year.⁹

Subtitled 'The Process of Circulation of Capital', the second volume of *Capital* began by showing how capital revolved between production and exchange in repeated circuits which were intertwined with each other. Marx elaborated on his criticisms (in volume I) of Say's Law in demonstrating how the system became vulnerable to crises. After a detailed account of the distinction between productive and unproductive labour, the book concludes with a long discussion of simple reproduction and a relatively brief

and incomplete treatment of expanded reproduction. Although these two-sector models of economic growth represent a remarkable intellectual achievement, and carry with them important implications for the theory of crises,¹⁰ volume II as a whole lacked both the broad historical sweep and the theoretical significance of its predecessor. Engels had always known that this would be the case: 'Volume II will cause great disappointment', he told Sorge in 1885, 'because it is so purely scientific and does not contain much agitational material. On the other hand [volume] III will come like a thunderclap, because here the whole of capitalist production is dealt with in its interconnectedness and all of the official bourgeois economic science will be thrown overboard.'¹¹

Volume III was delayed for almost a decade, under circumstances to which we will allude later. Meanwhile Engels prepared a fourth German edition of volume I, which came out in 1890, and edited several of Marx's lesser works. Those of direct economic relevance included the pamphlet *Wage Labour and Capital* (which was published in 1884 and thus preceded volume II), and the first German translation of *The Poverty of Philosophy* (in 1885). A Russian edition of volume II of *Capital* organised by the populist N. F. Danielson (who wrote under the pseudonym 'Nikolai-on') appeared in 1886, but this was the only translation before the end of the century. At last significant sections of Marx's economic writings became available to English readers. Engels supervised the translation of volume I which Edward Aveling and Samuel Moore published in 1887 (extracts having appeared in the socialist journal *Today* intermittently since 1883), and the following year saw the second English edition of the *Communist Manifesto*.¹²

Almost as important, between 1885 and his death ten years later, was Engels's own contribution. He had made a very promising start in the early 1840s, when his *Outlines of A Critique of Political Economy* (generally known as the *Umriss*) exerted a major influence on Marx. Thereafter a division of labour emerged between the two men in which Engels gave up the field of political economy to Marx and concentrated instead on history, politics, military affairs and the natural sciences.¹³ Even the *Anti-Dühring*, 'the formative book of the most influential leaders of the Second International',¹⁴ was little more than a gloss on a few of the central themes in volume I. After Marx's death, however, it became Engels's duty to interpret Marx's economics, and to reshape what Marx had written into publishable form. Moreover, capitalism had changed since the early and middle 1860s, when most of the manuscripts for *Capital* had been written. Thus Engels had also to concern himself with what Marx had *not* written, and to formulate opinions of his own on the major economic issues of the day. After an interval of almost forty years, he necessarily became a political economist again.

By the 1880s certain aspects of contemporary reality seemed to contra-

dict the graphic descriptions given by Marx in *Capital*. Real wages, at least in Britain, were rising rather than falling, while economic crises were becoming milder and less frequent. Trade unions were beginning to exert a permanent influence over some segments of the market for labour power. The intensely competitive conditions of earlier decades were being slowly eroded by the growth of cartels, trusts and giant joint-stock companies. Economic liberalism was in retreat, with militarism thriving, protective tariffs advancing at the expense of free trade, and the interventionist powers of the state increasing almost everywhere.

In his new role as leading theoretician of the socialist movement, Engels had no option but to respond to the challenge which these developments posed. He first expressed a view on the question of wages in 1885, when he looked back over the previous forty years to find that there had been permanent wage increases for only two groups – the factory workers and the members of large trade unions, the latter constituting ‘an aristocracy in the working class’. For the great mass of the proletariat neither the standard of living nor the security of existence had improved. This was a vindication of Marxian wage theory, Engels argued:

The law that the value of labour power is restricted to the price of the necessary means of subsistence, and the other law, that as a rule the average price of labour power is pushed down to the minimum of these means of subsistence, these two laws operate with the irresistible force of an automatic machine which grinds them between its wheels.¹⁵

Engels took a similar line in his later public announcements. Ever since the 1840s, he reminded Lujo Brentano in 1891, he and Marx had recognised that factory legislation and trade unions had benefited the British working class. But their impact was severely limited. Unions were effective only in prosperous times, and regularly collapsed in periods of stagnation and crisis. Brentano’s claim that they could paralyse the effects of the reserve army of the unemployed was ‘a laughable boast’; he had grossly exaggerated the impact of social reforms. In his Preface to the English edition of *The Condition of the Working Class*, published in 1892, Engels recognised that many of the abuses described in his book no longer existed. ‘Swindling and pilfering’ of the workers was no longer profitable, and ‘a certain standard of commercial morality’ was now essential in order to save the capitalists’ time and trouble. This accounted for the decline of the truck system and the suppression of the excessively long hours of work so common in 1845. The acquiescence of employers in trade unionism was similarly explained: social harmony was yet another means to the concentration of capital, since small capitalists could not afford the concessions that it required. Only a minority of workers had gained from these advances, however, and the law of wages ensured that the great mass of the

working class were as badly off as ever. Even the more privileged sections were finding their position threatened by the loss of England's world monopoly, in the proceeds of which they had shared. The growth of British socialism was the result.¹⁶

These published writings are signally lacking in confidence and incisiveness. Engels failed to explain why factory workers should be the sole beneficiaries of what his bourgeois contemporaries were increasingly terming the 'economy of high wages', and offered no reasons for his apparent belief that trade unionism must always be the province of a small minority. Nor did he explore the implications for real wages of what Marx had described as the 'historical and moral element' in the value of labour power. In private correspondence Engels showed greater flexibility, though the absence of theoretical explanation remained. Employers resented trade unions, he wrote to Oppenheim in 1891, and withdrew recognition from them at the first opportunity in times of depression. But union organisation *had* increased real wages by exerting a ratchet effect: in every succeeding crisis wages never fell below the nadir reached in the previous one.¹⁷ Commenting upon an early draft of the German Social Democratic Party's important Erfurt Programme, Engels objected to its unconditional assertion of increasing misery for the proletariat under capitalism: 'The organisation of the working class and their steadily growing resistance will possibly act as a check on the *growth of their misery*. It is the *uncertainty of life* which is certainly increasing.' The revisionist Bernstein was soon to make precisely this point in the course of his attack on Marxian orthodoxy as a whole (see Chapter 4 below).¹⁸

The second principal theme in Engels's reassessment of contemporary capitalism was the changed nature of economic crises. In 1878 Marx had written for the last time on this question, in the manuscripts used by Engels as the basis for chapters 20 and 21 of volume II of *Capital*. From these it is apparent that Marx's views on the regularity of economic fluctuations had not been shaken by the experience of the 1860s and 1870s and that he had been unable (or unwilling) to set out a systematic theory of the trade cycle. In his interpretation of recent economic events Engels was thus very much on his own. The essential problem, he informed Bebel in a letter early in 1884, was that – at least in England – the ten-year cycle analysed by Marx had broken down under the pressure of German and US competition, and had been replaced by constant depression. In the following year he identified 1876 as the turning-point, after which there was 'a chronic state of saturation in all leading branches of industry . . . a chronic over-filling of all markets for all forms of business.' This continual overproduction gave rise to a steady increase in unemployment and would eventually lead to a massive crisis.¹⁹

Lack of markets was the fundamental problem:

Even while [England's] monopoly lasted, markets could not keep pace with the growing productivity of English industry; the ten-yearly crises were the result. And now new markets are becoming harder to find every day, so much so that even the blacks in the Congo must have forced upon them the civilisation which flows out of Manchester cottons, Staffordshire pottery and Birmingham metalware.

Continental and US competition would only make matters worse. The output of British industry was growing in geometrical progression, while its markets could increase only arithmetically. 'This is the vulnerable Achilles heel of capitalist production. Its life depends upon perpetual expansion, and this perpetual expansion has now become impossible. Capitalist production is running into a blind alley.'²⁰

Engels seems to have thought this phenomenon so obvious as to need no supporting argument or documentation. When he returned to the subject in 1892 a major crisis had yet to materialise, but he continued to expect it:

The absence of crises since 1868 [is] also attributable to the expansion of the world market, which distributed the excess English and European capital *over the entire world* in transport equipment and the like, and equally in a whole mass of different types of machinery. Thus a crisis due to overspecialisation in railways, banks, etc., or in special American equipment or in the Indian trade became impossible, though small crises, like the Argentinian one, [have been] possible for the last three years. But all this goes to show that a gigantic crisis is preparing itself.

This hitherto unpublished passage is from an early draft of Engels's introduction to the new edition of his *Conditions of the Working Class*. The earlier notion of permanent depression had now been dropped, together with any explicit statement that England's economic circumstances were unique. Both ideas reappeared in the published version, in which Engels described how a five-year cycle (between 1825 and 1842) gave way to a ten-year cycle (between 1842 and 1868) and then to a less easily categorised period, before chronic depression set in after 1885. The latter state, however, was specific to England and resulted from the loss of her industrial monopoly. There is no suggestion in this text of global capitalist stagnation.²¹

III The Third Volume of Capital

When he wrote his preface to volume II of *Capital*, Engels was confident that the third volume would shortly follow. Indeed his challenge to the

followers of Rodbertus, which inaugurated the famous ‘Prize Essay Competition’ in the theory of value (see Chapter 2 below), promised publication within months.²² Privately, though, he was already expressing doubts, and the Engels correspondence from 1884 onwards is peppered with complaints about the condition of the manuscript and half-promises that the work would soon be completed. In August 1884, for example, he wrote to Bernstein that volume III would appear in the following year unless his health gave way, while in June 1885 he informed Sorge that only half of the transcription was finished and that the real work of editing could not begin for another four months. But by 1887 only preliminary work had been done on three sections, and in the following year failing eyesight was allowing him to spend only two hours a day at his desk. Nor did matters improve thereafter. ‘As soon as the summer vacation is over’ he told Conrad Schmidt, ‘volume III will be absolutely finished.’²³ But the summer in question was that of 1891, and it was to be another three years before the final work could be delivered to the printers. *Capital*, volume III, was eventually published in November 1894, just nine months before Engels’s death.

How was it that he spent barely a year in the preparation of volume II, yet a full decade was required to publish volume III? Engels’s health did eventually deteriorate, and there were always ‘the accursed minor tasks and the endless correspondence with all the people abroad’ to divert him from his editorial duties. He had also to attend to the republication of Marx’s other writings, and his own *Origins of the Family* and *Ludwig Feuerbach* to complete. Some of this work was extremely valuable, some less so. He spent three whole months in 1890–1 on a pamphlet comprising thirty-nine printed pages of text and fifty-two pages of documents, with annotations and translations – all to defend Marx from Lujo Bretano’s charge that he had invented one sentence in his account of Gladstone’s 1863 budget speech.²⁴ Engels seems, in fact, to have lost his initial enthusiasm for the *Capital* project. The many distractions of which he complained so vociferously were probably – if only subconsciously – welcomed.

In volume III Marx deals first with the conversion of surplus value into profit, and traces the relationship between the rate of profit and the rate of surplus value. He then poses the so-called ‘transformation problem’: if different capitals have varying organic compositions of capital but identical rates of exploitation, they yield different rates of profit, which is inconsistent with free competition. Marx argues that equilibrium prices (which he terms ‘prices of production’) diverge systematically from the labour values of commodities, but that in aggregate the law of value continues to operate. Since total surplus value is equal to total profit, and the sum of all values is equal to the sum of all prices, the general rate of profit is determined, before the establishment of prices and profits, as a ratio of quantities of embodied labour. He then formulates as a fundamental law the tendency for the rate

of profit to decline over time: constant capital grows more rapidly than variable capital, and since only living labour produces surplus value, it is probable that total profits will grow more slowly than total capital. (Marx also considers a number of 'counteracting tendencies'.) In a very important chapter entitled 'Internal Contradictions of the Law', he interprets it as a major source of economic crises.²⁵ The remainder of volume III is concerned with the distribution of surplus value between industrial and commercial profit, interest and rent. It includes a chapter with some significant, if fragmentary, remarks on the influence of credit and the growth of joint-stock companies.²⁶

The third volume had proved more difficult to edit than Engels had originally anticipated. Although the manuscripts for volume II had been numerous, overlapping and disorganised, they demanded little by way of correction or elaboration. 'The passages which I have remodelled or interpolated', Engels wrote in his Preface, 'cover barely ten pages in print and concern only matters of form.'²⁷ It was otherwise with volume III. The section on credit caused him particular problems, as it assumed familiarity with the work of Tooke and Fullarton and thus required a large number of explanatory notes.²⁸ Engels had to supply an entire chapter on the relationship between the rate of turnover of capital and the rate of profit, a technical question on which Marx himself had provided no adequate discussion. He was forced also to correct Marx's numerical analysis of land rent.²⁹ Engels added two long passages of his own on the transformation of labour values into prices of production, surveying the academic literature which had appeared since Marx's death.³⁰ Most important of all, he felt obliged to write a series of footnotes and insertions, and a significant Supplement, updating and extending Marx's brief and fragmentary treatment of protection, monopoly, crises and finance capital.³¹ Altogether about eighty pages of the 886-page Moscow edition of volume III are the work of Engels, not Marx. With the relevant parts of his journalism and correspondence, they exerted a major influence upon the subsequent development of Marxian political economy.

Engels's writings on the transformation problem will be dealt with in chapters 2 and 3. On the more general question of the instability of the capitalist system, Engels did not follow Marx in identifying the falling rate of profit as a major source of economic crises. In a long footnote to volume III he did, however, connect the changed nature of crises with the new forms that were being assumed by the concentration and centralisation of capital:

As I have already stated elsewhere, a change has taken place here since the last major general crisis. The acute form of the periodic process, with its former ten-year cycle, appears to have given way to a more chronic, long drawn-out, alternation between a relatively short and slight business

improvement and a relatively long, indecisive depression – taking place in the various industrial countries at different times. But perhaps it is only a matter of a prolongation of the duration of the cycle. In the early years of world commerce, 1815–47, it can be shown that crises occurred about every five years; from 1847 to 1867 the cycle is clearly ten years; is it possible that we are now in the preparatory stage of a new world crash of unparalleled vehemence? Many things seem to point in this direction. Since the last general crisis of 1867 many profound changes have taken place. The colossal expansion of the means of transportation and communication – ocean liners, railways, electrical telegraphy, the Suez Canal – has made a real world-market a fact. The former monopoly of England in industry has been challenged by a number of competing industrial countries; infinitely greater and varied fields have opened in all parts of the world for the investment of surplus European capital, so that it is far more widely distributed and local over-speculation may be more easily overcome. By means of all this, most of the old breeding-grounds of crises and opportunities for their development have been eliminated or strongly reduced. At the same time, competition in the domestic market recedes before the cartels and trusts, while in the foreign market it is restricted by protective tariffs, with which all major industrial countries, England excepted, surround themselves. But these protective tariffs are nothing but preparations for the ultimate general industrial war, which shall decide who has supremacy on the world market. Thus every factor, which works against a repetition of the old crises, carries within itself the germ of a far more powerful future crisis.³²

In this very suggestive passage Engels links the growth of monopoly, the re-emergence of protection and the imminence of a major crisis. He points to the establishment of cartels in several important industries, sometimes on an international scale. But they were inherently unstable because of the conflict of interest between their members. To prevent the fierce competition which would ensue if they collapsed, capitalists were increasingly resorting to mergers, of which the best example was the formation of the United Alkali Trust.³³

One result of these developments, Engels argued, was the rise of financial as against industrial capital. This was accompanied by a striking increase in the role of the stock exchange, 'which as it develops, tends to concentrate all production, industrial as well as agricultural, and all commerce, the means of communication as well as the functions of exchange, in the hands of stock exchange operators'. The land comes into the hands of financiers, all foreign investments take the form of shares, and colonisation

is purely a subsidiary of the stock exchange, in whose interests the European powers divided Africa a few years ago, and the French

conquered Tunis and Tonkin. Africa [was] leased directly to companies (Niger, South Africa, German South-West and German East Africa), and Mashonaland and Natal [were] seized by Rhodes for the stock exchange.

Financial manipulation had become a surer source of profit than productive activity, the operations of financial trusts being especially noteworthy. These new forms of enterprise represented 'the second and third degree of stock companies'. They were able to expand production much more rapidly than the growth of the market, thereby increasing the instability of the capitalist system. To protect themselves from foreign (especially English) competition capitalists insisted upon protective tariffs, but this 'artificially increases domestic production capacity' and so makes matters worse.³⁴

There are few references to protection in *Capital* by either Engels or Marx, but Engels wrote at length on the subject twice in 1880 and again in 1888. In the earlier article he argued that the introduction of tariffs, which had followed the 1873 crisis, would prove to be a disastrous error: by forcing up labour and raw material costs it would destroy export markets for the 'cheap and nasty' goods on which German industry depended. He later yielded a little to the 'infant industry' argument for protection. England had forced free trade onto the rest of the world to make it her 'dependent agricultural territory'. Although no 'great nation' could stay purely agrarian, and tariffs offered a faster route to industrialisation than did free trade, Marx was right to conclude that free trade is 'the normal condition of modern capitalist production'. Once fledgling industries had established themselves, protection should be removed. In Germany, France and the USA, where this had been blocked by powerful vested interests, tariffs were now a serious barrier to industrial progress. Proof of this could be found in the emergence of cartels, 'the surest sign that protective tariffs have outlived their usefulness and have changed their character; that they protect the manufacturer no longer against foreign imports, but rather against the domestic consumer'.³⁵

There is an apparent inconsistency, in Engels's writings on protection, between his 1888 endorsement of free trade on the orthodox Marxian grounds that it would develop the contradictions of capitalism as rapidly as was possible; and his claim in *Capital* that this was best achieved by monopolies sheltering behind tariff barriers. Nor is it clear precisely what he meant, in volume III, by 'the ultimate general industrial war'. Unlike Bukharin and Lenin a generation later, Engels did not see military conflict as the inescapable outcome of economic rivalry. He seems not to have taken any great interest in colonial expansion, and his writings on militarism concentrated on the fiscal and political, rather than the economic, implications of growing expenditure on arms. Engels saw the prospect of war as a disaster for European social democracy, not an opportunity. It would

strengthen the forces of chauvinism and weaken the revolutionary movement, whose surest ally was peace.³⁶ In his pamphlet *Can Europe Disarm?* Engels warned that:

the continued growth of standing armies in Europe has now reached a point where the choice lies between bankruptcy caused by excessive military expenditure or a world war of devastating destructiveness. One of these catastrophes will occur unless standing armies are replaced by popular militias while there is still time. My purpose is to show that such a change is possible at this moment. It can be done by existing governments in the present political situation.'

Popular militias would be as effective for the national defence as standing armies, Engels argued; peace could be preserved by international treaties; and Russia was not a serious military threat to Western Europe. There was nothing here to which a Cobdenite liberal could object. Indeed, it was just such a liberal, J. A. Hobson, who would shortly identify the connections between militarism and economic contradictions which Engels had failed to uncover.³⁷

IV Engels's Contribution: An Assessment

In his capacity as editor Engels has sometimes been criticised for presenting volumes II and III as the finished products of Marx's intellectual genius, when they were really constructions by Engels himself from a mass of disorganised manuscripts. This seems rather harsh. Engels was quite explicit about the nature and extent of his editorial work, and the general tendency to place volumes II and III of *Capital* on a par with volume I reflects more on the reader than the editor. Up to now only Maximilien Rubel has attempted a re-edition of the second and third volumes from the original manuscripts, and he gives little indication – in his recently translated work – that any fundamental reassessment of Marx's political economy is called for in consequence.³⁸

The excessive delay in publishing volume III is more culpable. In effect it froze the development of Marxian political economy for a full decade, not merely with respect to the theory of value (the consequences for which will be considered in Chapter 2 below) but also more generally. Thus Engels actively (and in the event successfully) discouraged Conrad Schmidt from pursuing his interest in the credit system and the money market, and from writing on the economics of transition to communism, until Marx's views became available;³⁹ there is no way of knowing how many other young socialists were deterred from economic research by similar considerations. Engels's refusal to enlist outside assistance in preparing volume III for the

printers is more than a little puzzling. He had a wide circle of educated and politically literate friends in London, and the resources of German social democracy were at his disposal. As it was, his one attempt at editorial collaboration proved disastrous: when entrusted with the transcription and publication of *Theories of Surplus Value* Karl Kautsky proved even more adept at procrastination than Engels himself, and it was not until 1905–10 that a (rather unsatisfactory) edition appeared.⁴⁰ But it is difficult to believe that no one other than Engels could have mastered Marx's handwriting, or that the burden of routine transcribing of the manuscripts could not have been lifted from Engels's shoulders.

No less important than the tardy appearance of volume III was the non-appearance of so much else of Marx's work. Engels seems to have taken no interest whatever in the early writings or the *Grundrisse*. Controversy still rages as to whether his own later thought constitutes a distinct 'Engelsism' which, with its determinism and its application of natural scientific reasoning to the study of human history, is separate from and antagonistic towards Marx's own philosophy and methods of analysis.⁴¹ Certainly the Marxism of the Second International, and much of the Third, was oblivious to the importance of the concepts of alienation and fetishism to an extent which would have been impossible had the Paris manuscripts or the *Grundrisse* been available at the time.⁴² It is conceivable that Engels took a conscious decision to suppress those of Marx's writings with whose humanist orientation he had (by the 1880s) very little sympathy. At all events the consequences of their non-availability were substantial.

The significance of Engels's work on political economy after 1883 is thus twofold. First, he conditioned the way in which successive generations of socialists viewed Marx's economics, both in his editions of Marx's writings and in what he left unpublished. Second, Engels's own writings on the nature of mature capitalism and its fate, on the development of immature capitalism, and on the theory of value, were themselves very influential. Apart from his editorial work, he inaugurated the 'Prize Essay Competition' in the theory of value (see Chapter 2 below), extended the analysis of transformation as a historical phenomenon (see Chapter 3 below), and generally interpreted Marx's ideas in his own distinctive manner. Finally, he made a number of influential statements – 'assertions' would be a little unkind – concerning contemporary changes in the structure and performance of capitalist economies, the full significance of which will become apparent in Chapters 4 to 6 below.

With the benefit of hindsight, however, the deficiencies of Engels's economic work are also apparent. His discussion of wages was timid in the extreme, and he came no closer than Marx to providing a coherent theory of economic crises. Indeed, by neglecting the tendency for the rate of profit to decline he renounced a major strand in Marx's crisis theory, though he was followed in this by almost all Marxian economists before 1929 (see

Chapter 16 below). Engels supplied no formal treatment of the effects of monopoly on prices and the rate of profit, and no serious analysis (as opposed to description) of finance capital. He offered nothing approaching a theory of imperialism, and his writings on militarism show a surprising lack of foresight. Finally, we shall see in Chapters 2 and 3 that his account of the transformation problem did nothing to rectify the defects of Marx's solution in volume III, and in some ways added to the confusion. For all that, Engels's influence was a very significant one. He grappled with many of the awkward problems which Marx had been able to avoid, and in so doing drew up the agenda for the debates in German Marxism which occupied the two decades after his death.

Notes

1. E. J. Hobsbawm, 'The Fortunes of Marx's and Engels's Writings', in Hobsbawm (ed.) *The History of Marxism, Volume I: Marxism in Marx's Day* (Hassocks: Harvester, 1982) pp. 327–44; M. Rubel, *Bibliographie des Oeuvres de Karl Marx avec un Appendice un Répertoire des Oeuvres de Friedrich Engels* (Paris: Rivière, 1956); A. Rexis, 'Das Kapital Comes to Russia', *Slavic Review*, 29, 1970, pp. 219–37.
2. J. Braunthal, *In Search of the Millenium* (London: Gollancz, 1945) pp. 80–1; G. Deville, *Résumés du Capital de Karl Marx, Accompagné d'un Aperçu sur le Socialisme Scientifique* (Paris: Priol, 1883); K. Kautsky, *The Economic Doctrines of Karl Marx* (London: Black, 1925; first German edition 1887); E. Aveling, *The Student's Marx: an Introduction to the Study of Karl Marx's Capital* (London: Swan Sonnenschein, 1892).
3. K. Willis, 'The Introduction and Critical Reception of Marxist Thought in Britain, 1850–1900', *Historical Journal*, 20, 1977, pp. 417–59.
4. K. Marx and F. Engels, *Selected Works* (Moscow: Foreign Languages Publishing House, 1962) vol. I, pp. 39–40, 47–8.
5. E. Mandel, *The Formation of the Economic Thought of Karl Marx* (London: New Left Books, 1971) pp. 140–53; R. Rowthorn, 'Marx's Theory of Wages' in Rowthorn, *Capitalism, Conflict and Inflation* (London: Lawrence & Wishart, 1980) pp. 182–230.
6. See A. Brewer, *A Guide to Marx's Capital* (Cambridge: Cambridge University Press, 1984) for an excellent chapter-by-chapter summary of the contents of the three volumes of *Capital*.
7. On Marx's various plans for *Capital* and their relation to the structure of the work as published, see M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 54–9; A. Oakley, *The Making of Marx's Critical Theory: a Bibliographical Analysis* (London: Routledge & Kegan Paul, 1983) ch. 5; R. Rosdolsky, *The Making of Marx's 'Capital'* (London: Pluto, 1977); and M. Rubel, 'A History of Marx's "Economics"' and 'The Plan and Method of the "Economics"', in J. O'Malley and K. Algozin (eds) *Rubel on Karl Marx* (Cambridge: Cambridge University Press, 1981) pp. 82–229.
8. W. O. Henderson, *The Life of Friedrich Engels* (London: Cass, 1976) vol. II, p. 657; E. Bernstein, *My Years of Exile* (London: Parsons, 1921) pp. 153–6; M.

- Kliem, H. Merbach and R. Sperr (eds) *Marx Engels Verzeichnis: Werke, Schriften, Artikel* (Berlin: Dietz, 1966) pp. 174–201.
9. Rubel, 'A History', in O'Malley and Algozin, *Rubel on Karl Marx*, p. 177; Rubel, *Bibliographie*, pp. 24–5; Henderson, *Life of Engels*, p. 659. Bismarck's Anti-Socialist Laws, introduced in 1878, remained in force until 1890.
 10. See especially *Capital*, Vol. II, Chapter 20, section 4.
 11. Engels to F. A. Sorge, 3 June 1885, in K. Marx and F. Engels, *Letters on 'Capital'* (London: New Park Publications, 1983) pp. 232–3.
 12. Hobsbawm, 'The Fortunes of Marx's and Engels's Writings', pp. 329–30; Rexas, 'Das Kapital Comes to Russia'; Willis, 'Introduction and Critical Reception of Marxist Thought', pp. 420–1.
 13. G. Claeys, 'Engels's "Outlines of a Critique of Political Economy" (1843) and the Origins of the Marxist Critique of Capitalism', *History of Political Economy*, 16, 1984, pp. 207–32; Mandel, *Formation of the Economic Thought*, ch. 1–3; T. Carver, *Marx and Engels. the Intellectual Relationship* (Brighton: Wheatsheaf, 1983) p. 48; D. McLellan, *Engels* (Hassocks: Harvester, 1977) pp. 22–4.
 14. G. Stedman Jones, 'Engels and the History of Marxism' in Hobsbawm (ed.) *History of Marxism*, vol. I, p. 293.
 15. F. Engels, 'England 1845 und 1885' in K. Marx and F. Engels, *Werke* (Berlin: Dietz, 1962) vol. 21, pp. 194–5; see however the less dogmatic statement in Engels, 'Die Lohntheorie der Anti-Korngesetz Liga' in Marx and Engels, *Werke* (Berlin: Dietz, 1962) vol. 19 pp. 273–6.
 16. F. Engels, 'In Sachen Bretano Contra Marx Wegen Angeblicher Zitatsfalschung' in K. Marx and F. Engels, *Werke* (Berlin: Dietz, 1963) vol. 22, pp. 95–6; K. Marx and F. Engels, *Selected Works* (Moscow: Foreign Languages Publishing House, 1962) vol. II, pp. 406–19.
 17. T. Brassey, *Work and Wages Practically Illustrated* (London: Bell & Daldy, 1872); K. Marx, *Capital* (Moscow: Foreign Languages Publishing House, 1961) vol. I, p. 171 (ch. VI: since the pagination differs widely among the various editions, we have given the chapter and where applicable the section details, in addition to page numbers, for all references to *Capital*); Engels to Oppenheim, 24 March 1891, in *Letters on 'Capital'*, pp. 255–6.
 18. F. Engels, 'Zur Kritik des Sozialdemokratischen Programmentwurfs 1891' in *Werke*, vol. 21, p. 231 (original stress); H. Heimann, 'Die Aktualität Eduard Bernsteins', in E. Bernstein, *Texte Zum Revisionismus* (Bonn–Bad Godesberg: Verlag Neue Gesellschaft, 1977) pp. 10, 18.
 19. Engels to A. Bebel, 18 January 1884, in K. Marx and F. Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1965) p. 367; Engels, 'England 1845 und 1885', in Marx and Engels *Werke*, p. 195; Engels, 'Preface' to the English edition of *Capital*, vol. I, p. 6; Engels to N. F. Danielson, 13 November 1885, in *Selected Correspondence*, pp. 388–9.
 20. Engels, 'England 1845 und 1885', pp. 195–6; 'Preface' to *Capital*, vol. I, p. 6.
 21. F. Engels, 'Über Einige Besonderheiten der Okonomischen and Politischen Entwicklungen Englands', in *Werke*, vol. 22, pp. 331; *Selected Works*, vol. II, pp. 406–19.
 22. F. Engels, 'Preface' to K. Marx, *Capital* (Moscow: Foreign Languages Publishing House, 1961) vol. II, p. 18.
 23. Engels to E. Bernstein, (?) August 1884; to F. A. Sorge, 3 June 1885; to A. Bebel, 22 June 1885; to N. F. Danielson, 19 February 1887, 5 January, 15 October 1888; to C. Schmidt, 1 July 1891, in *Letters on 'Capital'*, pp. 228, 232–3, 237, 239–42, 256. As with *Werke*, we have occasionally preferred our own translation of letters in this volume; the original German edition is K. Marx, F. Engels, *Briefe Über Das Kapital* (Berlin: Dietz, 1954).

24. Engels to Oppenheim, 24 March 1891, in *Letters on 'Capital'*, p. 256; Engels, 'In Sachen Brentano'.
25. K. Marx, *Capital* (Moscow: Foreign Languages Publishing House, 1962) vol. III, ch. 15.
26. *Ibid.*, ch. 27.
27. *Capital*, vol. II, p. 1; for details, see *ibid.*, pp. 2–5.
28. Engels to N. F. Danielson, 4 July 1889, in *Letters on 'Capital'*, pp. 245–6; see *Capital*, vol. III, pp. 398–400, 418–20, 445–6, 515–6, 534–7, 541–3, 550–1, 561–2, 571–2 (chs 25, 26, 28, 33, 34, 35, s. 2).
29. On turnover, see *ibid.*, pp. 70–6; 150, n. 21 (chs 4, 8); on rent, pp. 685, n., 695–710 (chs 42–3).
30. *Ibid.*, pp. 8–21 (Engels's preface) and 868–83 (a supplement written after publication of the first edition of vol. III).
31. *Ibid.*, pp. 118, n. 16 (ch. 6 s. 2); 428–9; 445–6 (both ch. 27); 884–6 (the latter a supplement).
32. *Capital*, vol. III, pp. 447–8, n. (ch. 30).
33. *Ibid.*, pp. 428–9 (ch. 27); cf. *ibid.*, p. 118, n. 16 (ch. 6, s. 2), and *Selected Works*, vol. II, p. 147 (from Engels's *Socialism: Scientific and Utopian*, an extract – presumably revised – from his *Anti-Dühring*).
34. *Ibid.*, pp. 884–6 (supplement); 460, n. (ch. 29); 428 (ch. 27).
35. F. Engels, 'Der Sozialismus des Herrn Bismarck', in *Werke*, vol. 19, pp. 167–72; Engels, 'Schutzzoll und Freihandel' (1888), in *Werke*, vol. 21, pp. 362, 365, 373.
36. *Capital*, vol. III, pp. 477–8, n. (cited above, pp. 13–14); N. Levine, *The Tragic Deception: Marx Contra Engels* (Oxford: Clio Books, 1975) pp. 206–7.
37. *Can Europe Disarm?* was written in 1893 and published (in German) in 1895; an English translation is in Henderson, *op. cit.*, vol. II, pp. 810–32, the cited passage coming from p. 810. On Hobson see J. Allett, *New Liberalism: the Political Economy of J. A. Hobson* (Toronto: University of Toronto Press, 1981) ch. 5.
38. Oakley, *Making of Marx's Critical Theory*, ch. 6.
39. Engels to C. Schmidt, 1 July 1891, *Letters on 'Capital'*, p. 256.
40. Rubel, *Bibliographie*, pp. 25–8; editors' introduction to K. Marx, *Theories of Surplus Value* (London: Lawrence & Wishart, 1963) vol. I, pp. 20–4; cf. Oakley, *Making*, pp. 124–5.
41. This view is defended by Carver, *Marx and Engels*, and especially by Levine, *Tragic Deception*; for an opposing view see Stedman Jones, 'Engels and the History of Marxism'.
42. See for example Kautsky, *Economic Doctrines*, which contains a brief and rather unenlightening discussion of fetishism and nothing on alienation; cf. G. Haupt, 'Marx and Marxism', in Hobsbawm, *History of Marxism*, especially pp. 272–82.

2

*Engels and the ‘Prize Essay Competition’ in the Theory of Value**

I Introduction

In his preface to the second volume of *Capital*, Friedrich Engels vigorously defended Marx against the accusation that he had stolen his theory of surplus value from J. K. Rodbertus. This charge of plagiarism dated from the 1870s and had been made by both Rodbertus himself and by his disciple Rudolf Meyer.¹ Its rebuttal was a matter of some urgency. In the early 1880s the dominance of Marxist ideas within German Social Democracy (which had never been especially secure) was under attack from a powerful ‘Rodbertus movement’ led by Meyer, which exercised a considerable attraction for socialist-inclined intellectuals and threatened to seduce the party into a policy of compromise with the Bismarckian state, just as Lassalle had done earlier.² Engels’s disciple Karl Kautsky savaged Prussian state socialism in the course of his polemic with C. A. Schramm in *Die Neue Zeit*, and the Engels–Kautsky correspondence is full of references to Rodbertian intrigues.³

Engels’s published defence of Marx had three components. First, Marx had not read Rodbertus before about 1859, when his own ideas were already fully formed.⁴ Second, both men had been anticipated in their ideas on surplus value by the writings of the early British socialists, whom Marx had rescued from obscurity but whose existence was unknown to Rodbertus.⁵ Finally, and most important, Marx’s analysis was logically superior to that of Rodbertus:

*Readers who are relatively unfamiliar with the transformation problem are advised to read Chapter 3 first, and then return to this chapter.

According to the Ricardian law of value, two capitals employing equal quantities of equally paid living labour, all other conditions being equal, produce commodities of equal value and likewise surplus-value, or profit, of equal quantity in equal periods of time. But if they employ unequal quantities of living labour, they cannot produce equal surplus-values, or, as the Ricardians say, equal profits. Now in reality the opposite takes place. In actual fact, equal capitals, regardless of how much or how little living labour is employed by them, produce equal average profits in equal times. Here there is therefore a contradiction of the law of value which had been noticed by Ricardo himself, but which his school also was unable to reconcile. Rodbertus likewise could not but note this contradiction. But instead of resolving it, he made it one of the starting-points of his Utopia (*Zur Erkenntniss*, p. 131). Marx had resolved this contradiction already in the manuscript of his *Zur Kritik*. According to the plan of *Capital*, this solution will be provided in Book III. Months will pass before that will be published. Hence those economists who claim to have discovered in Rodbertus the secret source and a superior predecessor of Marx have now an opportunity to demonstrate what the economics of a Rodbertus can accomplish. If they can show in which way an equal average rate of profit can and must come about, not only without a violation of the law of value, but on the very basis of it, I am willing to discuss the matter further with them. In the meantime they had better make haste. The brilliant investigations of the present Book II and their entirely new results in fields hitherto almost untrod are merely introductory to the contents of Book III, which develops the final conclusions of Marx's analysis of the process of social reproduction on a capitalist basis. When this Book III appears, little mention will be made of the economist called Rodbertus.⁶

With this challenge Engels launched his famous 'Prize Essay Competition' in the theory of value. As promised, he reported on the entries in his preface to the third volume of *Capital*.⁷ Its publication, however, was delayed for almost a decade, instead of the anticipated 'months' (see Chapter I, section II, above). Thus the competition lasted until 1894, and involved a number of contestants from several schools. Although Ronald Meek was working on them shortly before his death in 1978,⁸ the original entries have been little studied.

II The Nature of the Competition

The first point which must be made is that the competitors had very little to go on. In volume III it would be revealed that the establishment of an equal rate of profit entailed systematic divergences between the surplus value

produced by individual capitals and the profits which accrued to them, and hence also between labour values of commodities and their long-run equilibrium prices (or 'prices of production'). Marx would also claim that aggregate profits were nevertheless equal to and determined by aggregate surplus value; that the sum of all prices would also equal the sum of labour values; and that there was an unambiguous increasing relation between the size of an industry's organic composition of capital and the difference (negative, zero or positive) between its price of production and its labour value, and between its capitalists' profits and their surplus value (see Chapter 3 below).⁹ We know now that Marx had posed the problem of the general rate of profit in the *Grundrisse* in 1857–8, and had identified the need for a transfer of surplus value from one capitalist to another in accordance with the size of their capitals. We know, too, that the first comprehensive exposition of his solution, invoking the concept of 'price of production' and its deviation from labour values, came in 1862 in correspondence with Engels and in the manuscript later published as volume II of *Theories of Surplus Value*.¹⁰ But none of this was published before the turn of the century, the Marx–Engels correspondence appearing in 1913, *Theories* in 1905–10 and the *Grundrisse* not until 1939 (and not widely available until 1953).¹¹

Of Marx's major theoretical works on economics, only the *Critique of Political Economy* and the first two volumes of *Capital* were available to entrants in the Prize Essay Competition. The former, published in 1859 and by then long out of print, contains one brief reference to the differences between value, exchange value and market price:

In accordance with the changing conditions of demand and supply, the market-price of commodities falls below or rises above their exchange-value. The exchange-value of commodities is, *consequently*, determined not by the labour-time contained in them, but by the relation of demand and supply. In fact, this strange conclusion only raises the question of how on the basis of exchange-value a market-price comes into being, or rather, how the law of exchange-value asserts itself only in its antithesis. This problem is solved in the theory of competition.¹²

In the third volume of *Capital* Marx shows how prices of production differ both from labour values, because of the formation of a general rate of profit, and from the short-run market price due to temporary excess supply or excess demand. But in the *Critique* these two distinctions are apparently conflated, suggesting that Marx himself had not yet clearly formulated the transformation problem, still less achieved a solution.

He offered little more guidance in the first volume of *Capital*. There is a footnote in Chapter 5, on 'Contradictions in the Formula of Capital', in which Marx notes that the theory of value assumes the exchange of

equivalents, and hence ‘that prices are regulated by the average price, i.e. ultimately by the value of the commodities. I say “ultimately”, because average prices do not directly coincide with the values of commodities, as Adam Smith, Ricardo and others believe.’¹³ In chapter 11, where under the title ‘Rate and Mass of Surplus Value’ Marx tidies up a number of loose ends, he shows how the mass of surplus value is given by the product of the rate of exploitation and the quantity of variable capital employed:

This law clearly contradicts all experience based on appearance. Everyone knows that a cotton spinner, who, reckoning the percentage on the whole of his applied capital, employs much constant and little variable capital, does not, on account of this, pocket less profit or surplus value than a baker, who relatively sets in motion much variable and little constant capital. For the solution of this apparent contradiction, many intermediate terms are as yet wanted, as from the standpoint of elementary algebra many intermediate terms are wanted to understand that 0/0 may represent an actual magnitude. Classical economy, although not formulating the law, holds instinctively to it, because it is a necessary consequence of the general law of value. It tries to rescue the law from collision with contradictory phenomena by a violent abstraction. It will be seen later how the school of Ricardo has come to grief over this stumbling-block. Vulgar economy which, indeed, ‘has really learnt nothing’, here as everywhere sticks to appearances in opposition to the law which regulates and explains them. In opposition to Spinoza, it believes that ‘ignorance is a sufficient reason’.

In a footnote Marx refers the reader to the ‘further particulars’ which would be provided in ‘Book IV’ (that is, in *Theories of Surplus Value*).¹⁴

These three passages represent the sum total of Marx’s writings on the transformation problem which were available to the public before 1894. The manuscripts which Engels published as volume II of *Capital* were silent on the question, and he steadfastly refused to release details of Marx’s analysis in advance of the complete volume III, either to Conrad Schmidt who requested them directly, or to N. F. Danielson who could clearly have profited from them. Schmidt had written to Engels to inform him of the growing interest in the problem both inside and outside the socialist movement, and to suggest the prior publication in *Die Neue Zeit* of the relevant chapters of volume III: ‘It would, I think, have a very good effect on the (socialist) beginners and would close the mouths of the ever more impudent professors.’¹⁵ Engels’s reply was brusque: ‘To reprint [*sic*] the section on the rate of profit, particularly in advance, is absolutely impossible; you know that, with Marx, everything is so connected that nothing can be taken outside its context.’¹⁶ This was nothing short of evasion. Had this argument been applied consistently, none of Marx’s writings could ever

have been published except as part of a definitive edition of his collected works, and Engels's own frequent pronouncements upon individual aspects of capitalist reality would have been impermissible.

His treatment of Danielson (the populist economist who wrote under the pseudonym of Nikolai-on), a respected Russian socialist and regular correspondent, is equally evasive: 'The disquisitions in your first letter on the relation between rate of surplus value and rate of profit are highly interesting and no doubt of great value for grouping statistics', Engels informed him;

but it is not in this way that our author [Marx] attacks the problem. You suppose in your formula that every manufacturer keeps all the surplus value which he, in the first hand, appropriates. Now upon that supposition, merchants' capital and bankers' capital would be impossible, because they would not make any profit. The profit of a manufacturer therefore cannot represent *all* the surplus value he has extracted from his workmen.

On the other hand, your formula *may* serve to calculate approximately the composition of different capitals in different industries. I say *may*, because I have not at this moment materials at hand from which to verify the theoretical formula established by you.¹⁷

We have not been able to trace Danielson's letter, which is not in the Amsterdam or East Berlin archives. He seems to have submitted his own entry for Engels's competition, and to have received no help whatever from him. Was Engels being deliberately obstructive, and if so, why? Or had he genuinely forgotten the essentials of Marx's solution, which had been communicated to him in a letter a quarter of a century previously? Perhaps Engels had not, by 1888, dealt with that part of the text of volume III dealing with the transformation problem; and as far as we are aware he never mastered the manuscripts of the *Grundrisse* and *Theories of Surplus Value*. One conclusion may safely be drawn: none of the competitors (not even trusted comrades) received from Engels any substantive aid in solving the problem.

III Round 1: Lexis, Schmidt and Stiebeling

The first entry came in 1885 from the distinguished German statistician and academic economist, W. Lexis,¹⁸ in the course of a review of volume II of *Capital*.¹⁹ Lexis recalled that he had already criticised Rodbertus for failing to solve the contradiction between the 'Ricardo-Marx law of value and actual price formation' in an economy with equal profit rates. Whatever volume III might bring, the only possible solution was one in which prices

and labour values were allowed to diverge, in a manner that permitted the transfer of surplus value from capitalists using relatively large quantities of labour power to those using proportionally less:

For us the decisive point is that, when two producers exchange a given quantity of different commodities, the one always gains as a result of the equalisation of profits [i.e. of the rate of profit] on capital as many labour units from the exchange as the other one loses . . . But since the losses and gains in surplus value within the capitalist class offset each other (*sich gegenseitig aufheben*), the total magnitude of surplus value is the same as if all prices were proportional to the true values (*Idealwerten*) of the commodities.²⁰

Thus Lexis had specified both the existence of a systematic discrepancy between prices and values and its relation to the organic composition of capital in each industry; and the equality of aggregate surplus value and aggregate profit. If only by implication, the foundations of Marx's solution are present in Lexis's brief and early discussion of the transformation problem.²¹

Next into the fray was Conrad Schmidt, an active Social Democrat who forsook his early enthusiasm for Rodbertus to join the radical faction of the party (the *Jungen*) and eventually (in the late 1890s) became a Kantian supporter of Eduard Bernstein; between 1908 and 1930 he was the social sciences editor of the revisionist *Sozialistische Monatshefte*.²² In the late 1880s, however, Schmidt was an orthodox Marxist. His entry for the Prize Essay Competition, which was published in 1889, doubled as his doctoral dissertation.²³ It was written (under some parental pressure) in an effort to obtain a University teaching position which, after politically-motivated rebuffs in Bern, Halle and Leipzig, he finally secured at Zurich.²⁴ From their correspondence it was clear that Engels gave Schmidt absolutely no assistance with either the thesis or the book, and he was indeed later to deny indignantly that he had secretly informed Schmidt of Marx's solution.²⁵ Both the defects in content and the dreadfully tortuous style lend weight to this denial.

Schmidt begins by dividing gross output into two parts: that needed for production and represented by constant and variable capital, and the surplus product. The crucial problem is to determine the price at which the surplus product is sold. The establishment of an equal rate of profit entails that the price of the surplus product of each capitalist must be proportional to the capital advanced, and must therefore differ from the quantity of labour embodied in it. This, Schmidt maintains, does not contradict the Marxian theory of value. Only socially necessary labour creates value; the labour embodied in the surplus product is not socially necessary; thus it cannot determine its value.²⁶ This is evidently a false start, resting as it does

both on a misunderstanding of Marx's concept of socially necessary labour and on a confusion of value and price: there is no indication that Marx regarded the production of luxuries and goods destined for accumulation as an unproductive activity, but he most definitely did insist on distinguishing the labour value from the price of production of the surplus product. Schmidt was duly censured by both Engels and by non-Marxist critics, who included Julius Wolf, the head of his department at the University of Zurich.²⁷

Unlike Engels, Wolf seems to have given up at this point. There is no indication in his critique that he had managed to read much beyond the first twenty pages of Schmidt's book. After a series of lengthy digressions, however, Schmidt does return to the question and presents his argument in a more defensible way. First he defines the average rate of profit as

$$\frac{\sum m}{\sum(c + v)}$$

where $\sum m$ is total surplus value and $\sum(c + v)$ represents the aggregate constant and variable capital employed. Schmidt then shows that the profits received by an individual capitalist are given by the product of the general rate of profit and the amount of capital which he employs; they can be written as

$$\frac{\sum m}{\sum(c + v)}(c + v)$$

This establishes the exchange value of the surplus product and hence also its price, which is the exchange value expressed in terms of money. The price of the constant and variable capital is determined differently, since Schmidt sets it equal to the quantity of labour embodied in them.²⁸

Schmidt illustrates his argument with a numerical example. Of the 100 units of a commodity which are produced, 50 represent the capitalist's outlay on constant and variable capital and the remaining 50 constitute the surplus product. The value of the first part (expressed in gold) is £500, or £10 per unit. Schmidt further assumes the value of the capital employed to be £400, (implying an average turnover period of rather less than one year), and an average rate of profit of 20 per cent. The capitalist's profit is thus 20 per cent of £400, or £80. This is also the price of those 50 units of commodity which represent the surplus product; the price per unit of the surplus product is thus £1.60. The entire product is sold for £(500 + 80) = £580, which is less than its value (100 × £10 = £1000), in the same way as the price per unit (£5.80) is less than the unit value (£10).²⁹ This divergence however 'disappears, as soon as one considers the annual

national output, the sum of all the individual commodities'. Schmidt asserts that price and value are identical for the first component of output, which represents capitalists' outlays on constant and variable capital. Total profits and total surplus value are also equal. Hence, in aggregate, Schmidt maintains, the sum of the prices of all commodities is equal to the sum of their values.³⁰ He concludes by dismissing two objections to his argument. It is immaterial that the individual capitalist is unaware of the general rate of profit and thus cannot use it in his pricing decisions; competition establishes an equal rate of profit 'in a purely mechanical and unintended way'. Nor is it legitimate, Schmidt asserts, to object that his solution is faulty because inputs of constant and variable capital are sold at their equilibrium prices and not at their labour values. In aggregate these magnitudes are equal: 'Thus the price of the total capital advanced must necessarily be equal to its value. The objection raised above proves to be unsound, since the level of the profit rate

$$\frac{\sum m}{\sum(c + v)}$$

remains unchanged, whether total capital advanced is considered in its form as money- or commodity-capital.³¹

This is a fascinating mixture of confusion and insight. Schmidt's argument is obviously unsatisfactory, both in assigning different prices to physically identical units of the same commodity and (in his numerical example) dealing with a single industry in isolation and plucking a general rate of profit out of thin air. By 1892, indeed, he had repudiated the fundamental principles of his book.³² But his solution is independent of his earlier erroneous claim (which he does not explicitly abandon) that the labour-time embodied in the surplus product is not socially necessary. And it does contain three of the central elements of Marx's volume III analysis. First, Schmidt specifies the profits of the individual capitalist as a multiple of capital employed and the general rate of profit. Second, he argues for the equality of aggregate prices and aggregate values, and of total profits and total surplus value. Finally, he appears to assert (albeit unclearly) the logical priority of value magnitudes in calculating the general rate of profit. His chief failing is his inability to transform input as well as output values into prices, and this he shares with Marx himself.³³

The most prolific of Schmidt's critics was George C. Stiebeling, a New York physician, who, between 1890 and 1894, published three pamphlets on the transformation problem.³⁴ Stiebeling was a regular contributor to the socialist press in his native Germany,³⁵ and his writings display a genuine if somewhat quirky originality. He argues that equal capitals which differ in their organic composition nevertheless produce equal amounts of

value and surplus value. The higher the organic composition, the greater the productivity of labour and hence the higher the rate of exploitation. Thus an equal rate of profit can be sustained in the face of different organic compositions through inequality in the rates of exploitation.³⁶ Stiebeling proceeds to seek empirical support for this position. In what was almost certainly the first systematic use of statistical sources in Marxian value theory, he cites data from the US 1880 Census of Production to show that industries with high organic compositions tend to have high rates of exploitation, and vice versa. He quotes the example of two industries with an equal rate of profit (approximately 9 per cent): crude salt, with an organic composition of 6.53 and a rate of exploitation of 0.58; and shipbuilding, where the figures are 1.56 and 0.14 respectively. Next Stiebeling ranks all twenty-nine industries in order of their organic composition (defined as the ratio of total capital to variable capital employed), and divides them into two groups. The top fourteen industries have an average organic composition of 5.50, an average rate of exploitation of 1.38, and an average rate of profit of 25.1 per cent. For the bottom fifteen industries the figures are 2.58, 0.57 and 22.1 per cent.³⁷ The problem is, of course, that these are price rather than value magnitudes. Stiebeling's implicit assumption that individual prices and values are equal reveals a basic misunderstanding of the entire problem. His calculations for an equilibrium situation are true by definition: Stiebeling does not solve the transformation problem, he abolishes it.

IV Round 2: Wolf, Loria, Fireman and Lehr

Although seemingly unaware of Stiebeling's work, Julius Wolf used very similar arguments.³⁸ Wolf was professor of economics at the University of Zurich, where he expounded the marginal utility theory of Carl Menger. In 1891 his opposition to the appointment of Conrad Schmidt was overruled by a full meeting of the faculty, but Wolf had his revenge three years later when he secured Schmidt's dismissal. 'You've probably heard of this fellow already', Schmidt told Engels. 'Among other things he's discovered the benefits of crises for the workers – they push prices down. He's not yet 30, an Austrian Jew, and affects in his demeanour the aplomb of a Prussian reserve officer.'³⁹

Wolf began by noting that for Marx an increase in the productivity of labour and growth in the organic composition of capital went hand in hand. The value of commodities (including labour power) is inversely related to labour productivity, and surplus value is directly related to productivity. Hence the problem

is, on the basis of Marx's own theory, and even in Marx's own words,

already solved: a plus in constant capital presupposes a plus in the productivity of labour. The direct connection between growing surplus value and a growing share of constant capital in total capital arises because this plus in productivity gives rise (via a cheapening of the workers' means of life) to a plus in surplus value.⁴⁰

Wolf's numerical example is set out in Table 2.1. Here the second capitalist has a higher organic composition, greater labour productivity, more surplus value and a higher rate of exploitation, and thus receives the same profit rate as the first capitalist, for whom the reverse is true. Commodity values continue to depend on the quantity of labour embodied in them, and 'the law of value is in no way damaged'. Marx has not contradicted himself. 'On the contrary it [the solution] is a new proof of the sharpness and farsightedness of his critical system of the capitalist economy.'⁴¹ Wolf concludes by claiming that the entire problem is spurious, resulting from a confusion on the part of Engels which has vitiated all previous attempts at a solution and (Wolf hints darkly) has delayed publication of volume III.⁴² Like Stiebeling, however, Wolf avoided the problem rather than solving it.

The competition entry submitted by the Italian academic, Achille Loria,⁴³ is so insubstantial as to merit attention only because of Engels's vitriolic reaction to it.⁴⁴ In 1884 Loria had cited the apparently insoluble contradiction between the equalisation of profit rates and inequality in organic compositions as a major theoretical weakness in the whole Marxian system.⁴⁵ In 1890 he tagged onto the end of his review of Schmidt's book a 'solution' of his own which one must assume to have been intended seriously. It is summarised in Table 2.2. Three industrial capitalists (*A*, *B* and *C*) have varying organic compositions and an equal rate of exploitation; without the intervention of non-industrial capital, they would receive unequal rates of profit. Out of their surplus value they must however make interest payments to the money-lending capitalist *D*. Their remaining industrial profits are proportional to the amounts of capital that they employ, thereby establishing a uniform rate of industrial profit which is also equal to the rate of profit of the money-capitalist *D*.⁴⁶ Loria offers no justification for his bizarre assumption that interest payments are inversely proportional to the quantity of capital employed by capitalists *A*, *B* and *C*. As Engels hints in his criticism, something could be salvaged from the example by making *D* a landlord who demands Ricardian differential rent instead of interest.⁴⁷ But this is not Loria's argument, nor would it provide a *general* solution, for it would not apply to the case in which no rent is paid.

A much more significant contribution came from P. Fireman, described by Schmidt as a 'splendid chap, a Russian Jew but naturalised American, a chemist by profession'.⁴⁸ Like many of his Russian contemporaries, Fireman was strongly influenced by Ricardian theory. He distinguishes two

Table 2.1 *Wolf's numerical example*

	Constant capital (<i>c</i>)	Variable capital (<i>v</i>)	Surplus value (<i>s</i>)	Total value (<i>c</i> + <i>v</i> + <i>s</i>)	Rate of exploitation (<i>s/v</i>) as %	Rate of profit (<i>s/c</i> + <i>v</i>) as %
Capital I	5	5	1	11	20	10
Capital II	10	5	1.5	16.5	30	10

Source: Adapted from Wolf, 'Das Rätsel der Durchschnittsprofitrate bei Marx', *Jahrbücher für Nationalökonomie und Statistik*, 57, 1891, p. 358.

Table 2.2 Loria's numerical example

	Constant capital (c)	Variable capital (v)	Surplus value (s)	Total capital (c + v)	% s/c + v	Interest payments	Industrial profits	Industrial profit rate %	Money-capitalist's profit rate %
Capitalist A	0	50	50	50	100	40	10	20	
Capitalist B	100	50	50	150	33½	20	30	20	
Capitalist C	200	50	50	250	20	0	50	20	
Total	300	150	150	450		60	90		
Capitalist D				300		60			20

Source: Adapted from Loria, Review of Schmidt, *Die Durchschnittsprofitrate*, in *Conrads Jahrbücher*, 20, 1890, p. 274.

elements in the price of a commodity: its value, the 'constitutive factor' determined by the quantity of labour embodied in it; and the 'distributive factor' representing the claims of the capitalist and the landlord to a share in the product. In aggregate, values must equal prices, Fireman maintains, because society's wealth consists of the mass of human labour contained in the commodities it has produced: 'of two exchange commodities, the price of the one must rise above the magnitude of its value by as much as that of the other falls below it, and vice versa'.⁴⁹ These divergences arise only because of the distributive factor. Fireman rejects Schmidt's solution, which is un-Marxian in its denial that the law of value applies to the surplus product. He also opposes Wolf's conclusions, which contradict Marx by asserting that the quantity of value increases with the rising productivity of labour. Fireman himself states very clearly the relationship between price, value and the organic composition of capital in each sector:

But if profit is the form of appearance of surplus value, how is it possible that the mass of profits appears to be independent of the number of workers, while the mass of surplus value does depend on it? Simply because commodities are sold above their value in all branches of industry where the relation between the capital invested in means of production and the capital invested in wages (or as Marx put it, the relation between constant and variable capital $c:v$) is greatest; which means that commodities are sold below their values in those branches of industry where the relation between constant capital and variable capital is smallest, and that commodities are exchanged at their true value only where the relation $c:v$ represents a definite average level.

This is not a contradiction of the law of value, since aggregate prices remain equal to aggregate values. The difference between individual prices and values is simply a disturbance caused by competition. 'But in the exact sciences one is careful never to interpret a precisely calculable disturbance as a contradiction of a law.'⁵⁰

Initially Conrad Schmidt was unimpressed by Fireman's contribution, which weakened the law of value more than was necessary: '*le roi règne, mais il ne gouverne pas*'. After corresponding with Engels, who took a more favourable view of Fireman's work, Schmidt moderated his criticism but still denied that the Russian had added anything to Lexis's pioneering article.⁵¹ There is much to be said for this assessment. Fireman complemented Lexis in stressing the equality in aggregate of prices and values (where the latter had emphasised the identity of total profits and total surplus value), but his analysis of the relation between the organic composition and the divergence of prices and values was only a little more tightly-argued. Unlike Lexis, Fireman did supply a rudimentary numerical example of transformation, and also suggested a generalisation of his

solution to cover the payment of rent as well as profits,⁵² but neither point is at all well developed, and Fireman says even less about the relation between profitability and capital employed than does Schmidt himself.

The final two entrants in the Prize Essay Competition escaped the attention of both Engels and the normally vigilant Schmidt. One of them, Wolfgang Mühlport of Königsberg, will be considered in the following chapter, since the final version of his contribution appeared in 1895, after the appearance of volume III of Marx's *Capital*. The other was Professor Dr J. Lehr of Munich, who had written a long critique of volume I of Marx's *Capital* in 1886.⁵³ Six years later he turned to the prospects for volume III.⁵⁴ Lehr dismissed Schmidt's analysis as contradictory and confusing, and rejected Wolf's claim that, for Marx, labour of unequal productivity creates unequal values. The most significant part of Lehr's article, however, is his algebraic formulation of the problem, which anticipates the later mathematical analyses of Dmitriev and (especially) Bortkiewicz (see Chapter 3 below). He denotes the values of the constant and variable capital used in industries 1, 2 . . . as $k_1, k_2 \dots$ and $v_1, v_2 \dots$, with $m_1, m_2 \dots$ as the surplus values. The corresponding aggregates for the entire economy are K, V , and M , and he adopts Marx's position that the average rate of profit is $M/K + V = r$. 'The exchange-values of the respective units' are denoted t_1, t_2, \dots (these are in fact equivalent to Bortkiewicz's price-value ratios, which express the *ratio* of prices of production to labour values).

Lehr then writes the following equations:

$$m_1 + m_2 + m_3 + \dots = M \quad (2.1)$$

$$t_1 m_1 + t_2 m_2 + t_3 m_3 \dots = M \quad (2.2)$$

$$k_1 + v_1 + k_2 + v_2 + k_3 + v_3 \dots = K + V \quad (2.3)$$

$$(k_1 + v_1)r = t_1 m_1 \quad (2.4)$$

$$(k_2 + v_2)r = t_2 m_2, \text{ etc.}$$

$$(k_1 + v_1 + m_1) = (k_1 + v_1)(1 + r) \quad (2.5)$$

$$(k_2 + v_2 + m_2) = (k_2 + v_2)(1 + r), \text{ etc.}$$

Equations (2.1) and (2.2) together express the equality, in aggregate, of profits and surplus value. Equation (2.3) is purely definitional, while equations (2.4) and (2.5) are unsuccessful attempts to relate surplus value to profit, and value to price of production, in each department. Since they assume the equality of value and price magnitudes in each individual case

they are seriously flawed. However, although Lehr does not state it explicitly, he has in fact specified – via equations (2.2) and (2.5) – a model with $n + 1$ equations and $n + 1$ unknowns (t_1, t_2, t_3, \dots and r), so that there is an equality of constraints and endogenous variables. The parallels with Bortkiewicz are striking.⁵⁵ In fact Lehr's only direct conclusion was that

$$t_1 = t_2 = t_3 = \dots = t_n = 1$$

only if the organic composition of capital is the same in all industries. Again Lehr does not state the Marxian principle that t_i will be greater or less than unity as the industry's organic composition is above or below the social average, but he does offer an arithmetic example in which this is implicit.⁵⁶

It is surprising that Lehr takes his analysis no further. Had he tried to solve for t_i and r it would have become clear that his equations misspecified the relations between value data and price–profit variables, thus alerting him to the fact that a more radical transformation was required. He would then have been in a position to approach Bortkiewicz's solution even more closely. Of course, he may well have lacked the necessary mathematical ability. More important, we suspect, was a certain lack of motivation. Lehr, as a self-proclaimed 'vulgar economist', was profoundly out of sympathy with the Marxian theory of value, and can have felt no enthusiasm for developing a solution (however partial) for one of its major analytical problems.⁵⁷ His article is interspersed with criticisms of the labour theory of value, some of which have a very modern ring. Lehr objects that historically embodied labour and actually necessary labour are the same quantities only in the absence of technical progress, which lowers labour input requirements over time; that the existence of alternative methods of production (for example the use of lands of differing fertility) leaves the definition of 'necessary labour' ambiguous; and that almost all human activity is needed, directly or indirectly, to maintain the existing system, so that from the viewpoint of capitalist society as a whole virtually all labour is necessary and very little is surplus.⁵⁸ None of these points is directly relevant to the transformation problem, but they go well beyond the standard contemporary neoclassical *Marxkritik*,⁵⁹ and anticipate considerations that were only to make their appearance after Sraffa's *Production of Commodities*.⁶⁰ Clearly Lehr was a lively and original critic of Marxian theory whose neglect at the hands of Engels and subsequent writers is difficult to understand.

V Engels's Adjudication

Engels devoted most of the preface to volume III of *Capital* to an assessment of the entries in his competition. He awarded no prizes, but

commended Lexis, Schmidt and Fireman. Lexis was ‘a Marxist disguised as a vulgar economist’. ‘It is evident’, Engels wrote of Lexis’s article, ‘that the problem has not in any way been solved here, but has, though somewhat loosely and shallowly been on the whole correctly *formulated*’. This was the most that could be expected from someone of Lexis’s background. Fireman ‘has indeed placed his finger on the salient point’, Engels concluded. ‘But the undeservedly cool reception of his article show how many interconnecting links would still be needed . . . to enable Fireman to work out a full and comprehensive solution.’ As for Schmidt, he was the first to attempt seriously to solve (as opposed to stating) the problem. But he had not succeeded; by determining the price of the surplus product differently from that of constant and variable capital he had repudiated the theory of value. Schmidt’s article in *Die Neue Zeit* was equally misguided. His real achievements, for Engels, came in those parts of his book dealing with the tendency for the rate of profit to fall and with commercial profit, interest and rent.⁶¹

The other three contestants were much more harshly treated. In Engels’s eyes Wolf had simply made a fool of himself. Marx had contradicted the basis of Wolf’s ‘solution’ a hundred times in volume I: ‘the assertion that, according to Marx, when variable capital shrinks, relative surplus-value increases in proportion to the increase in constant capital, is so astounding that it puts to shame all parliamentary declamation’. Wolf had also had the audacity to claim that Schmidt’s work was directly inspired by Engels himself, who had thereby given him an unfair advantage in the Prize Essay Competition; this was indeed far from the truth, as we have already noted. Achille Loria’s analysis was no better, ascribing to commercial capital ‘the magic power to absorb all surplus-value in excess of the general rate of profit even before this general rate has taken shape, and to convert it into ground-rent for itself without, moreover, even having need to do with any real estate’. Engels reserves his strongest invective for Loria, ‘a literary adventurer who in his heart sneezes at political economy . . . a sophist, paralogist, humbug and mountebank’. By contrast, Stiebeling’s intentions were honourable. He was simply incompetent, his solution begging the question and (in attributing to Marx a theory of a stable profit rate) positively misleading.⁶²

Engels concluded the preface with his verdict on the contest as a whole: ‘The outcome of the entire investigation shows again with reference to this question as well that it is the Marxian school alone which has accomplished something. If Fireman and Conrad Schmidt read this third book [i.e. volume III of *Capital*], each one, for his part may well be satisfied with his own work.’⁶³ In this judgement Engels was rather too harsh on Lexis and too generous to Schmidt, in both cases (it may plausibly be assumed) on political grounds. One wonders how he might have reacted to Lehr, who combined analytical insight into the deficiencies of Marx’s value theory with outspoken hostility to socialism. In all probability, Engels would have

remained unimpressed. The theory of ideology, initially developed by himself and Marx in the 1840s, allowed no role for 'vulgar economists' to contribute to the development of political economy as a science. Not until Paul Sweezy's rehabilitation of Bortkiewicz in 1942 did Marxists permit bourgeois academics to interfere with their debates on the transformation problem.⁶⁴

This strange affair of the 'Prize Essay Competition' prompts a number of final observations. First, it is remarkable how much of Marx's volume III analysis was actually anticipated by Lexis, Schmidt and Fireman, in the face of the cryptic nature of Marx's own comments and the almost deliberately unhelpful attitude of Engels. This makes it all the more regrettable that – although Lexis and Schmidt both wrote long and favourable reviews of volume III⁶⁵ – none of the three returned to the problem after 1895 to resolve the difficulties that remained in Marx's own solution. Second, these flaws were part and parcel of the criterion which Engels employed in judging the various contributions. Engels accepted Marx's defective solution to the transformation problem uncritically. He did not, indeed, follow up or even comment upon the uncertainties expressed by Marx himself concerning the volume III solution. He initiated the 'competition' less as a genuine analytic problem than as an endeavour to assess how far other socialists could emulate Marx. A relatively insignificant aspect of an important problem thus tended to cloud the whole contest.

Third, the contestants themselves adopted two different types of solution procedure, and it was the less productive that proved dominant. The 'contradiction in the law of value' could be considered, following Marx, in terms of 'invariance postulates': by providing an analysis of how specific value magnitudes were equal to certain price–profit magnitudes so that the rate of profit itself could be represented as the ratio of surplus value to capital value. It could also be conceptualised, again in conformity with Marx, as a problem of deriving endogenous price–profit variables from exogenously given value data. And this is the superior way of stating the problem. Once solved in this form, the solution to the problem in the first specification is a relatively trivial matter. Moreover, it highlights the question of in what sense values can legitimately be classified as exogenous, and the related issue concerning the 'logical priority of values'.⁶⁶ Lehr alone approached the task in this way; the others kept to the confines of the first procedure. However, it was Lehr's work which received the least exposure, so that his methodology, as well as his own specific conclusions, did not immediately command the influence it deserved.

Fourth, as noted in Section I, Marx's published writings on the transformation problem prior to 1894 were meagre and of little aid to the participants. But there was the work of Ricardo, and it actually provided more guidance to the solution of the transformation problem in one crucial respect. Ricardo had correctly indicated that the deviation of price from

value hinged on the divergence of 'constitution of capital' from the social average. However Marx's own critical comments upon Ricardo, which were unjustifiably harsh, probably led most authors, Fireman perhaps being the main exception, to minimise the significance of the *Principles* in this regard.

Finally, as we saw in Chapter I, Engels's behaviour as literary executor, editor and theoretical court of last appeal for the international socialist movement left much to be desired. This is why the Prize Essay Competition lasted a full decade rather than the 'few months' which Engels had originally intended, and critical scrutiny of Marx's solution to the transformation problem began in 1895, no less than thirty-three years after it had been formulated.

Notes

1. F. Engels, Preface to K. Marx, *Capital*, vol. II (Moscow: Foreign Languages Publishing House, 1966) pp. 5–6.
2. V. L. Lidtke, *The Outlawed Party: Social Democracy in Germany 1878–1890* (Princeton: Princeton University Press, 1966) p. 171. Evidently there was no personal animosity between Engels and Meyer, who was his frequent guest in London in the 1880s. See E. Bernstein, *My Years of Exile* (London: Leonard Parsons, 1921) p. 196.
3. K. Kautsky, 'Das "Kapital" von Rodbertus', 'Eine Replik', 'Schlusswort', *Die Neue Zeit*, 2, 1884, pp. 337–50, 385–402, 494–505, and 3, 1885, pp. 224–32; C. A. Schramm, 'Karl Kautsky und Rodbertus', 'Antwort an Herrn. Karl Kautsky', *ibid.*, 2, 1884, pp. 481–94, and 3, 1885, pp. 218–23; B. Kautsky (ed.) *Friedrich Engels' Briefwechsel mit Karl Kautsky* (Vienna: Danubia-Verlag, 1955) pp. 98–163.
4. Engels, Preface to Marx, *Capital*, p. 7. As regards the transformation problem, the second part of this claim is not entirely correct; see section II below.
5. *Ibid.* pp. 11–17; J. E. King, 'Utopian or Scientific: A Reconsideration of the Ricardian Socialists', *History of Political Economy*, 15, 1983, pp. 345–78.
6. Engels, Preface to Marx, *Capital*, p. 18. Engels refers here to J. K. Rodbertus, *Zur Erkenntnis Unserer Staatswirtschaftlichen Zustände* (Berlin: Neubrandenburg & Friedland, 1842). 'Zur Kritik' is presumably the *Grundrisse*; see K. Marx, *Grundrisse* (Harmondsworth: Penguin, 1973) pp. 435–6.
7. Engels, Preface to Marx, *Capital*, volume III (Moscow: Foreign Languages Publishing House, 1966) pp. 8–21; see below, section IV.
8. Personal communication from Robert Dixon.
9. Marx, *Capital*, vol. III, chs VIII–XII, pp. 152–95.
10. *Grundrisse*, pp. 435–6; K. Marx, *Theories of Surplus Value* (London: Lawrence & Wishart, 1971) vol. II, pp. 66–71; cf. Marx to Engels, 2 August 1862, in K. Marx and F. Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1965) pp. 128–33, and A. Oakley, *Marx's Critique of Political Economy: Sources and Evolution* (London: Routledge & Kegan Paul, 1984) vol. I, pp. 185–8, vol. II, pp. 81–8.
11. E. J. Hobsbawm, 'The Fortunes of Marx's and Engels's Writings', in Hobsbawm (ed.) *The History of Marxism: Volume I: Marxism in Marx's Day* (Hassocks: Harvester, 1982) pp. 327–32.

12. K. Marx, *Critique of Political Economy* (London: Lawrence & Wishart, 1971) p. 62.
13. K. Marx, *Capital*, vol. I (Moscow: Foreign Languages Publishing House, 1966) p. 166, n.1.
14. *Ibid.*, p. 306.
15. Conrad Schmidt to Engels, 13 (?) July 1892. (We are grateful to Dr G. Langkau of the International Institute of Social History for making available copies of Schmidt's letters to Engels, and to Jan Ireland for transcribing them.)
16. Engels to Schmidt, 12 September 1892, in K. Marx and F. Engels, *Letters on 'Capital'* (London: New Park Publications, 1983) p. 271.
17. *Ibid.*, Engels to Danielson, 15 October 1888, pp. 241–2.
18. On Lexis see M. Blaug (ed.) *Who's Who in Economics* (Brighton: Wheatsheaf, 1983) p. 233.
19. W. Lexis, 'Die Marx'sche Kapitaltheorie', *Conrads Jahrbücher* 11, 1885, pp. 452–65.
20. *Ibid.*, p. 464.
21. Nevertheless, there does appear to be an error implicit in Lexis that is not found in Marx, namely, that in any exchange the redistributed surplus value arises solely from the conditions of production of those party to the transaction. However, this can perhaps be interpreted as an expository simplification, or as reflecting an implicit assumption that there are only two departments of production.
22. P. Angel, *Eduard Bernstein et l'Evolution du Socialisme Allemand* (Paris: Marcel Didier, 1961) pp. 154–5, 192–3, 207; R. Fletcher, *Revisionism and Empire: Socialist Imperialism in Germany 1897–1914* (London: Allen & Unwin, 1984) pp. 51; 74; 80, n.8; 112.
23. C. Schmidt, *Die Durchschnittsprofitrate auf Grundlage des Marx'schen Werthgesetzes* (Stuttgart: Dietz, 1889).
24. Schmidt to Engels, 19 February 1888, date indistinct, 18 June 1891, 25 October 1891.
25. Engels, Preface to *Capital*, volume III, p. 16; cf. Schmidt, *Die Durchschnittsprofitrate* pp. 2–3.
26. Schmidt, *Die Durchschnittsprofitrate*, pp. 11–12, 16.
27. Engels, Preface to *Capital*, vol. III, pp. 12–13; A. Loria, Review of Schmidt, *Die Durchschnittsprofitrate*, in *Conrads Jahrbücher*, 20, 1890, pp. 272–4; Schmidt to Engels, 25 October 1891.
28. Schmidt, *Die Durchschnittsprofitrate*, pp. 47–8.
29. *Ibid.*, pp. 49–50.
30. *Ibid.*, p. 51.
31. *Ibid.*, pp. 52–3.
32. Schmidt to Engels, 13 (?) July 1892, date indistinct (1892?); C. Schmidt, 'Die Durchschnittsprofitrate und das Marx'sche Wertgesetz', *Die Neue Zeit*, 11, 1892–3, pp. 68–75, 112–24.
33. See L. von Bortkiewicz, 'On the Correction of Marx's Fundamental Theoretical Construction in the Third Volume of *Capital*' in P. M. Sweezy (ed.) *Karl Marx and the Close of His System* (New York: Kelley, 1966) pp. 197–221 (first published 1907).
34. G. C. Stiebeling, *Das Werthgesetz und die Profitrate* (New York: Heinrichs, 1890); *Das Problem der Durchschnittsprofitrate: Kritik einer Kritik mit Meinem Nachtrag* (New York: Labor News Co., 1893); *Untersuchungen Ueber die Raten des Mehrwerths und Profits mit Bezug auf die Lösung des Problems der Durchschnitts-Profitrate* (New York: New York Labor News Co., 1894).
35. He had exchanged views with German socialists in the columns of the Berlin

- Vorwärts* as early as 1878 (J. Lehr, 'K. Marx, Das Kapital, Kritik der Politischen Oekonomie', *Vierteljahrsschrift für Volkswirtschaft und Kulturgeschichte*, 23, 1886, pp. 1–38, 97–123).
36. *Untersuchungen*, p. 23.
 37. *Ibid.*, p. 3, where the rates of profit are erroneously given as 26.2 per cent and 21.7 per cent respectively.
 38. J. Wolf, 'Das Rätsel der Durchschnittsprofitrate bei Marx', *Jahrbücher für Nationalökonomie und Statistik*, 57, 1891, pp. 352–67.
 39. Schmidt to Engels, 18 June 1891.
 40. Wolf, 'Das Rätsel', p. 358.
 41. *Ibid.*, pp. 360–1.
 42. *Ibid.*, pp. 365–7.
 43. On Loria see Blaug, *Who's Who in Economics*, p. 241. and S. B. Clough, 'Loria Achille', in D. L. Sills (ed.) *International Encyclopedia of the Social Sciences* (London: Macmillan and New York: Free Press, 1968) pp. 474–5.
 44. Engels, Preface to *Capital*, volume III, pp. 16–19.
 45. A. Loria, 'La Théorie de la Valeur de Karl Marx', *Journal des Economistes*, 1884, pp. 137–9.
 46. *Ibid.*, p. 274.
 47. Engels, Preface to *Capital*, volume III, p. 18.
 48. P. Fireman, 'Kritik der Marx'schen Werttheorie', *Jahrbücher für Nationalökonomie und Statistik*, 58, 1892, pp. 793–808; Schmidt to Engels, 13 (?) July 1892.
 49. Fireman, 'Kritik', p. 798.
 50. *Ibid.*, pp. 805–6, 808.
 51. Schmidt in *Die Neue Zeit*, 1892–3, p. 69, n; Schmidt to Engels, 1 March 1895.
 52. Fireman, 'Kritik', pp. 805–7. This had already been discussed at length by Schmidt, *Die Durchschnittsprofitrate*, pp. 89–95.
 53. See note 35.
 54. J. Lehr, 'Die Durchschnittsprofitrate auf Grundlage des Marx'schen Wertgesetzes', *Vierteljahrsschrift für Volkswirtschaft und Kulturgeschichte*, 29 (1) 1892, pp. 145–74 and 29 (2) 1892, pp. 68–92.
 55. *Ibid.*, pp. 170–1; cf. Bortkiewicz, 'On the Correction', pp. 201–4. In Lehr's article r is written as $0,0p$ and $(1 + r)$ as $1,0p$.
 56. Lehr, 'Die Durchschnittsprofitrate', pp. 172–3. If $k_1 = v_1/4$ and $k_2 = 4v_2$, Lehr argues that $t_2 = 4t_1$. (This is incorrect: the correct solution is $t_2 = 16t_1$).
 57. *Ibid.*, p. 92; cf. also p. 154.
 58. *Ibid.*, pp. 70–3.
 59. Of which by far the best is E. Böhm-Bawerk, *Kapital and Kapitalzins* (Innsbruck: Verlag der Wagner'schen Universitäts/Buchhandlung, 1884) pp. 418–47. See Chapter 3 below.
 60. P. Sraffa, *The Production of Commodities by Means of Commodities* (Cambridge: Cambridge University Press, 1960). See M. C. Howard and J. E. King, *A History of Marxian Economics, vol. II, 1929–1988* (London): Macmillan, forthcoming).
 61. Engels, preface to *Capital*, volume III, pp. 8–15; the reference is to Schmidt, *Durchschnittsprofitrate*, pp. 54–104.
 62. Stiebeling, *Das Werthgesetz*, pp. 15–21.
 63. *Ibid.*, p. 21.
 64. P. M. Sweezy, *Theory of Capitalist Development* (New York: Monthly Review Press 1970; first published 1942) pp. 115–25.
 65. W. Lexis, 'The Concluding Volume of Marx's Capital', *Quarterly Journal of Economics*, 10, October 1895, pp. 1–33; C. Schmidt, 'Der Dritte Band des Kapital', *Sozialpolitisches Centralblatt*, 22, 1895, pp. 255–8.

66. For a technical exposition of these arguments see F. Seton, 'The "Transformation Problem"', *Review of Economic Studies*, 24, June 1957, pp. 149–60; M. Morishima, *Marx's Economics: a Dual Theory of Value and Growth* (Cambridge: Cambridge University Press, 1973) chs 7–8; and J. E. Roemer, *Analytical Foundations of Marxian Economic Theory* (Cambridge: Cambridge University Press, 1981) ch. 7. A more simple discussion is given by M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 134–78.

3

First Debates in Value Theory, 1895–1914

I Volume III of ‘Capital’

As we saw in the previous chapter, Marx had alluded briefly in volume I of *Capital* to the complications posed for his theory of value by the existence of free competition. In part II of the third volume he described the problem in considerable detail and set out his own solution to it. Competition in the market for labour power equalises the rate of exploitation in all industries, since in equilibrium both the working day and the real wage will be uniform, and so too will be the amount of surplus value that capitalists can extract from each worker employed. If the organic composition of capital is not the same in every sector – and there is no economic mechanism ensuring that it will be – rates of profit will differ across industries. The rate of profit in industry i is defined as the ratio of surplus value to the total capital (constant plus variable) employed: $r_i = s_i/(c_i + v_i)$. Dividing the top and bottom of this fraction by v_i , this can be written as $r_i = (s_i/v_i)/(c_i/v_i + v_i/v_i) = e/(k_i + 1)$, where $e (= s_i/v_i = s_j/v_j)$ is the common rate of exploitation and $k_i (= c_i/v_i)$ is the organic composition. Hence the rate of profit will be higher, the lower the organic composition of capital. But this is inconsistent with competition in commodity markets, which, underpinned by the free mobility of capital from one industry to another, tends to equalise the rate of profit in all branches of production. There is thus an apparent contradiction between the law of value and the operation of free competition.¹

The resolution of the contradiction, Marx argues in volume III, requires an explicit recognition that labour values diverge systematically from long-run equilibrium prices. The latter, which he terms *prices of production*, must be at such a level as to cover both the capitalists’ costs and profits on the capital employed, reckoned at the prevailing average rate of profit. It follows that, for individual capitalists, surplus values and profits will also diverge, since surplus value depends exclusively on the quantity of living

labour which is set to work, while profits depend on the total capital (dead plus living labour) which is employed.

So far as profits are concerned, the various capitalists are just so many stockholders in a stock company in which the shares of profit are uniformly divided per 100, so that profits differ in the case of the individual capitalists only in accordance with the amount of capital invested by each in the aggregate enterprise, i.e. according to the number of his shares.²

The transformation of values into prices is therefore simultaneously a transformation of surplus values into profits.

Marx uses the numerical example of Table 3.1 to show precisely what this involves.³ A capital of 100 is invested in each of five spheres of production. Every one has a different organic composition of capital, but the same rate of exploitation ($e = 100$ per cent). Both the amount of surplus value produced and the rate of profit vary inversely with the organic composition, being greatest in industry III (where $k = 1.50$) and least in industry V (where $k = 19.00$). The ratio of s to $(c + v)$ also varies accordingly, from 5 per cent to 40 per cent. There are differences, too, in the durability of constant capital in the five sectors: 51 of the 60 units employed in industry III are used up in the course of a year's production, while only 10 of the 95 invested in industry V pass into the annual output. (Either V uses more machines and relatively fewer raw materials than III, or its machines have a longer life-span, or both). The total costs of production in each sector, which Marx terms the *cost-price*, are given by the sum of the constant capital used up and the total variable capital, which is assumed by Marx to turn over exactly once a year. Profits are derived in the following manner. Marx adds up the total capital employed in the entire economy, which equals $390c + 110v = 500$. He then takes the aggregate surplus value, which is 110, and divides this by the aggregate capital to find the average rate of profit: $r = 110/500 = 22$ per cent. Capitalists in each sector receive profits equal to 22 per cent of their total capital, which amounts to 22 in each case. Prices of production are then calculated by adding these profits to the cost-prices in each branch of production. Prices exceed values in the three sectors (I, IV and V) where the organic composition of capital is above the social average, and are below labour values in industries II and III, which have low organic compositions. Profits and surplus values in individual industries diverge in an exactly similar manner.

In aggregate, however, prices and values are equal (at 422), as are total profits and total surplus value (which equal 110). The significance of these two 'invariance conditions'⁴ is that they allow the average profit rate to be defined as the ratio of two quantities of value (aggregate surplus value divided by total capital employed). The general rate of profit, Marx

Table 3.1 *The transformation of values into prices of production*

Industry	Capital c	v	Surplus value s	Total capital $c + v$	Individual profit rates $s/(c + v)$	Used-up constant capital αc	Value of commodities $\alpha c + v + s$	Cost- price $\alpha c + v$	Profits at 22%	Price of production	Deviation of price from value	Deviation of profit from surplus value
I	80	20	20	100	20%	50	90	70	22	92	+2	+2
II	70	30	30	100	30%	51	111	81	22	103	-8	-8
III	60	40	40	100	40%	51	131	91	22	113	-18	-18
IV	85	15	15	100	15%	40	70	55	22	72	+7	+7
V	95	5	5	100	5%	10	20	15	22	37	+17	+17
Total	390	110	110	500		202	422	312	110	422	0	0
Average	78	22	22	100	22%	40.4	84.4	62.4	22	84.4	0	0

concludes, must 'be deduced out of the values of the commodities. Without such deduction the general rate of profit (and consequently the price of production of commodities) remains a vague and senseless conception'.⁵ He also claims that there is a historical dimension to the transformation process. In pre-capitalist commodity production, where the producers own the means of production and exchange their commodities with each other, labour values govern the terms of exchange. Hence 'the exchange of commodities at their values, or approximately at their values . . . requires a much lower stage than their exchange at their prices of production, which requires a definite level of capitalist development . . . it is quite appropriate to regard the values of commodities as not only theoretically but also historically *prius* to the prices of production'.⁶ Marx seems here to envisage a process in which profit rates are equalised through competition between capitalists, first within individual spheres of production and finally between them, with a general rate of profit emerging only in the latter stages of capitalist history.⁷

Marx did not take the argument very far, and we shall see later in this chapter that he was wise not to do so. He also left another aspect of his analysis unfinished:

We had originally assumed that the cost-price of a commodity equalled the *value* of the commodities consumed in its production. But for the buyer the price of production of a specific commodity is its cost-price, and may thus pass as cost-price into the prices of other commodities. Since the price of production may differ from the value of a commodity, it follows that the cost-price of a commodity containing this price of production of another commodity may also stand above or below that portion of its total value derived from the value of the means of production consumed by it. It is necessary to remember this modified significance of the cost-price, and to bear in mind the possibility of an error if the cost-price of a commodity in any particular sphere is identified with the value of the means of production consumed by it. Our present analysis does not necessitate a closer examination of this point.⁸

In Table 3.1, for example, the cost-price of each of the five commodities is calculated as the sum of the *values* of the commodities (constant and variable capital) used to produce that commodity. But these products themselves will sell at their prices of production, which will (in all except very special cases) differ from their labour values. Marx's 'cost-prices' are thus not *prices* at all, and it follows that the prices of production that he calculates are incorrect. As the passage just quoted indicates, Marx saw the difficulty but offered no means of overcoming it.

II Early Reactions to Volume III

Marx's treatment of the transformation problem thus raised two important problems. Had the law of value ever applied *directly*, and if not what did this imply for its scientific status? And what might be done about the technical defect in Marx's solution which he himself had recognised but had failed to rectify? Engels appears not to have realised the significance of the second problem (see Chapter 2 above). He was however deeply concerned by the first question. In the last months of his life he corresponded with Werner Sombart and Conrad Schmidt on the historical dimension to the transformation of values into prices, and wrote a long article (which was later published as a supplement to the second edition of volume III) replying to Marx's critics. Engels's last major writings, in fact, were devoted to the theory of value, and constitute his most original and most contentious contribution to this branch of Marxian theory. His concern testified to the central role of value theory for all schools of economics, and particularly for Marxian political economy in its continuing confrontation with the neoclassical school.

The issues were clearly stated by Werner Sombart in his review of the third volume of *Capital*. It was not clear from volume III, Sombart had written, whether Marx had in fact intended to assert that the theory of value had a concrete historical as well as a purely analytical relevance. If this had been his intention, it involved both a logical and an empirical error. Value was a purely theoretical concept, Sombart argued, and it was neither necessary nor possible for it to correspond to any observable historical situation. Any attempt to apply it in this way would contradict the historical record. The earliest industrial capitalists were merchants who had been induced by the prospect of higher profit rates to employ some of their commercial capital in manufacturing activities. If, in these early stages of capitalist development, commodities had sold at their labour values, the highest rates of profit would have been paid in industries with the lowest organic compositions of capital. But, Sombart pointed out, the reverse had occurred: capitalist relations of production had emerged first of all in industries which (like mining) used the highest proportions of dead to living labour. It would be equally false to claim that the rate of profit in contemporary capitalist economies varied inversely with the organic composition. Again the opposite was true, the highest profit rates being found in such industries as chemicals, brewing and mining where the organic composition was relatively high. The extent of competition rather than the ratio of constant to variable capital determined the rate of profit in capitalist industry. Thus any attempt to fashion, from the transformation of values into prices, a theory of the history of price formation would be totally wrong, for transformation was a mental operation, not an event in real life. Unless Engels assured him of the contrary, Sombart concluded, he

would interpret Marx himself as having taken a similar position. In all probability, he suggested, Marx would have cleared up the uncertainties if he had lived to prepare volume III for publication.⁹

In his review of volume III Lexis was much more critical of Marx, whose historical account of the formation of a general rate of profit

is quite untenable. The equality in the rate of profits (apart from accidental irregularities) is of the essence of capitalist production. There never has been a social condition in which capitalist methods of production and yet inequality in the rate of profit caused by the different compositions of capital have existed side by side. The equality of profits appears *pari passu* with capitalistic methods of production and in inseparable connection with them; much as, in the embryo, the circulation of the blood develops *pari passu* with the development of shape and form.

Marx's 'imaginary and unreal conception of value' thus adds nothing to our knowledge of actual economic experience, though it can be reconciled with that experience.¹⁰

Lexis's review was published, in English, in the *Quarterly Journal of Economics*, and may well have escaped the attention of German students. Conrad Schmidt must however have been aware of Sombart's critique. Schmidt's own review of volume III was unreservedly enthusiastic, but in private correspondence with Engels he revealed serious doubts. He was worried that Marx had not established the necessity for aggregate labour values to equal the sum of prices of production. In that case, he told Engels, 'the law of value (if one regards it as a law regulating exchange and not as a mere *definition* of value) seems to me to be a *fiction*, albeit naturally not false. On the contrary, it is a *necessary* fiction, i.e. a hypothesis which we must necessarily make in order to reach otherwise unattainable results'. Similar necessary fictions were used in mathematics, as Engels himself had shown in his *Anti-Dühring*. Without the fiction that total values equalled total prices it would be impossible to deduce the fundamental law that the general rate of profit was determined by the relationship between aggregate surplus value and total capital advanced.¹¹

Engels received Schmidt's letter about two weeks after a brief note from Sombart enclosing his review of volume III. He replied to the two men on successive days in March 1895. Sombart was correct, Engels wrote, in his belief that individual capitalists were wholly unconscious of the transformation process in which they were participating. Precisely how the equalisation of the rate of profit had come about in reality was another question, which (Engels confessed) Marx had left unanswered. It would make a valuable research project for Sombart:

When commodity exchange began, when products gradually turned into commodities, they were exchanged approximately *according* to their value . . . Thus value had a *direct and real existence* at that time. We know that this direct realisation of value in exchange ceased and that it now no longer happens. And I believe that it won't be particularly difficult for you to trace the intermediate links . . . A genuinely historical exposition of these processes, which does indeed require thorough research but in return promises amply rewarding results, would be a very valuable supplement to *Capital*.¹²

In the event, of course, it was Engels himself who wrote the supplement to which he referred.

With Conrad Schmidt he was considerably less diplomatic than he had been with Sombart. Schmidt had been misled by his defective philosophical training, and above all by the 'rather aimless and fruitless speculation' into which his study of Kant had led him. All the concepts of the natural sciences are approximations to reality, Engels wrote, as indeed are their counterparts in historical science. Did feudalism ever correspond exactly to its concept? Was it a fiction because it did not? The formation of a general rate of profit presupposed the elimination of all pre-capitalist economic relations. This condition was fulfilled nowhere in the world, not even in England, 'and never will exist – we shall not let it get that far'. Hence, Engels argued, total surplus value and total profits will never be exactly equal. But this did not make the law of value a fiction:

The objections you raise to the law of value apply to *all* concepts, regarded from the standpoint of reality . . . Because a concept has the essential nature of that concept and cannot therefore *prima facie* directly coincide with reality, from which it must first be abstracted, it is something more than a fiction, unless you are going to declare all the results of thought fictions because reality corresponds to them only very circuitously, and even then only with asymptotic approximation.

All this was intended as friendly criticism: Engels concluded his letter by asking Schmidt to arrange for an Italian translation of his review of volume III as ammunition against Achille Loria's sweeping criticism of Marx.¹³

In the spring of 1895 Engels wrote his supplement, which bore the title 'Law of Value and Rate of Profit'.¹⁴ After a sideswipe at Loria, Engels summarised the conclusions of Sombart and Schmidt concerning the logical status of the concept of value. Both had failed to 'make sufficient allowance for the fact that we are dealing here not only with a purely logical process, but with a historical process and its explanatory reflection in thought, the logical pursuance of its inner connections'.¹⁵ Marx's own treatment of this question was admittedly only a sketchy outline, which

(Engels suggested) he would doubtless have extended considerably had he been given the opportunity. Engels devoted the remainder of the supplement to a brave but ultimately unconvincing attempt to fill the gap. Pre-capitalist producers, he argued, obtained relatively little by exchange. They bought, or bartered, only the objects of handicraft production. The

peasant of the Middle Ages knew fairly accurately the labour-time required for the manufacture of the articles obtained by him in barter. The smith and cartwright of the village worked under his eyes . . . Not only was the labour-time spent on these products the only suitable measure for the quantitative determination of the values to be exchanged; no other was at all possible . . . the people of that time were certainly clever enough – both the cattle-breeders and their customers – not to give away the labour-time expended by them without an equivalent in barter.

Hence labour values held good ‘for the whole period of simple commodity-production . . . for a time before written history’ right until (in Germany, at least) the beginning of the nineteenth century. And ‘thus the law of value has prevailed for a period of from five to seven thousand years’.¹⁶

With the intrusion of merchant capital all this changed. ‘The merchant was the revolutionary element in this society where everything else was stable.’¹⁷ Originally making their profits exclusively out of overseas trade, commercial capitalists eventually moved into production in the role of contractor, organising (for example) the manufacture of cloth under the outwork system, and receiving surplus value over and above their commercial profit. Competition between merchants equalised the rate of profit within each industry. Subsequently, with the advent of factory production, the different rates of profit in each sector were also equalised. This was achieved by ‘eliminating most of the obstacles formerly hindering the transfer of capital from one branch to another. Thereby the conversion of values into production prices is accomplished for all exchange as a whole.’ The process was facilitated by the fact that ‘the spheres of production with excessive surplus-value, with high variable and low constant capital, i.e. with low capital composition, are by their very nature the ones that are last and least subjected to capitalist production, especially agriculture’.¹⁸

This was a remarkably ambitious attempt to rewrite the economic history of several millenia from the viewpoint of the labour theory of value, and it is perhaps not surprising that it failed. Modern critics have pointed to some of the problems with Engels’s analysis, notably in connection with the supposed ‘value epoch’ in pre-capitalist modes of production. In such societies, they argue, commodity production was never sufficiently developed for commodities to exchange at their labour value ratios. Important areas remained outside commodity production altogether; few if any

traders devoted their entire economically active time to the production of commodities; powerful institutional and cultural barriers to labour mobility prevented the equalisation of per capita incomes; and the exploitative relations of feudalism and merchant capital were never completely absent. Hence simple commodity production may never have existed, except possibly for a brief time in the North American and Australasian colonies.¹⁹

There are also difficulties with Engels's account of the transition from labour values to a regime of equal profit rates in which commodities sell at their prices of production. There were, he suggests, strong competitive forces tending to equalise the rate of profit on merchant capital, whatever the specific nature of the trade concerned.²⁰ For there to be a genuine historical dimension to the transformation process, however, unequal profit rates must later have emerged in different branches of capitalist industry. Why competition should have been stronger before the merchants moved into industrial production than it was afterwards is unexplained.

III Böhmer-Bawerk and Hilferding

The first (and for a long time the only) serious attempt to grapple with these problems was made almost a decade later by Rudolf Hilferding. It came in his reply to the influential neoclassical attack on the labour theory of value published in 1896 by the Austrian theorist Eugen von Böhm-Bawerk. Better known internationally than either Menger or Wieser, Böhm-Bawerk was by the turn of the century more prominent than any of his contemporaries, excepting only Alfred Marshall. He was a leading exponent of the subjectivist theory of value, but was better known for the original and distinctive theory of interest which he offered as an alternative to the Marxian explanation of capitalist profit. The use of capital extended the time-structure of production, Böhm-Bawerk argued, allowing the use of more 'roundabout' techniques. The resulting increase in the interval between the employment of inputs and the appearance of the finished output both permitted the payment of interest (by raising the productivity of labour) and required it (since the capitalists' preference for present rather than future consumption would inhibit them from saving without reward).²¹

While in no sense a crude apologist for capitalism, Böhm-Bawerk did enjoy a respected position in the academic and official establishment of the Austro-Hungarian Empire. His perspective on 'roundaboutness' later influenced the work of Tugan-Baranovsky and Bukharin (see Chapters 10 and 15 below). But there is no doubt that his own interest in Marxism was strengthened by a desire to combat the growing influence of Austrian Social Democracy. As early as 1884 he had savaged volume I of *Capital* in what was one of the very first – and remains among the most cogent – of all the

orthodox critiques of the Marxian analysis of value.²² Neither the deductive nor the empirical proof of the labour theory of value could be sustained, he argued. It was true, as Marx had claimed, that two goods must have some common property in order for them to be exchanged for each other. But Marx had been wrong to deny this role to utility on the grounds that one abstracts from the use-value of commodities when one considers the conditions of their exchange. This is ‘a logical error of the crudest sort’, which confuses abstraction from a general property with abstraction from the particular modalities of it. Even disregarding use-value, Böhm-Bawerk continued, there were many other common properties which were relevant, such as being scarce, being the objects of supply and demand, being privately appropriated and being the products of nature.²³

For Böhm-Bawerk the empirical case for the labour theory of value was no stronger. It did not apply to goods (including land) which could not be freely reproduced, nor to those produced by skilled labour, the treatment of which in *Capital* was entirely inadequate. Commodities manufactured by abnormally poorly paid workers would have an abnormally low value. Moreover labour values applied (if at all) only in the long run, as a centre of gravitation; in the short run supply and demand prevailed. Finally – and here, in 1884, Böhm-Bawerk alludes to what was later to become known as the transformation problem – two goods embodying equal quantities of ‘social average labour’ would have different prices because of differences in the durability of the capital employed to produce them. Thus the theory of value applies to ‘a considerable part of all goods not at all, to the rest not always, and never exactly’. It stands to a general theory of price as the law ‘West winds bring rain’ stands to a general theory of precipitation.²⁴ Böhm-Bawerk makes it clear that the principal defect of Marx’s analysis, like that of Rodbertus, is the ‘contradiction with reality’ which results from ‘the law of equal profits’ in conjunction with a theory identifying variable capital as the sole source of surplus value. Unlike Rodbertus, Marx does recognise the contradiction. ‘But he remains guilty of it; it could not be otherwise.’²⁵

Twelve years later Böhm-Bawerk searched the third volume of *Capital* for a resolution of the problem, but in vain. ‘I cannot help myself; I see here no explanation and reconciliation of a contradiction, but the bare contradiction itself. Marx’s third volume contradicts the first.’²⁶ Marx had advanced four arguments in defence of the labour theory of value, and none was satisfactory. The first (the equality of total prices and total value) was irrelevant, since a theory of value deals with relative rather than absolute prices. The second claim, that the theory of value governs the movement (as opposed to the level) of prices, was fallacious: Marx had demonstrated only that changes in labour content represented one cause of price movements, not that embodied labour was the *only* determinant. Nor was Böhm-Bawerk attracted by the assertion that, since the general rate of profit had been established as a ratio of labour values, prices of production were

themselves determined by values. This (Marx's fourth argument) collapsed once it was realised that changes in wages altered equilibrium prices with embodied labour contents held constant.²⁷ Böhm-Bawerk made rather heavy weather of this latter point: for Marx the real wage, which is equal to the value of labour power, is itself determined by the quantities of labour embodied in the wage-goods consumed by workers. To justify his criticisms on this score Böhm-Bawerk would have needed to mount a frontal assault on Marx's theory of wages, and this he did not attempt.

His rebuttal of the third Marxian argument, concerning the alleged historical relevance of labour values, was much more cogent. He suggested that Marx had begged the question, showing how exchange would operate if the labour theory of value applied, but failing to explain why it should. In fact, Böhm-Bawerk maintains, there is no reason to suppose that it would. It was inherently implausible that 'it should be a matter of complete indifference to the producers at what time they receive the reward of their activity'. On the contrary, the length of time which elapsed between the commencement of work and the completion of the finished product was an important factor in price determination, even in pre-capitalist societies. Marx's claims were also refuted by historical experience, which proved that the incomes of peasants and artisans really were affected by the quantities of capital that they employed. Böhm-Bawerk cited Sombart in arguing that capitalist production had emerged first in industries with a high (not low) organic composition, with a correspondingly low (not high) rate of profit. And there was not the slightest evidence that capital was now flowing out of such industries in search of higher profits. They were actually growing faster than average.

Sombart had defended the labour theory of value by describing value as a logical rather than an empirical category. This, Böhm-Bawerk maintained, would not have satisfied Marx, for whom value did have 'an existence in the real world and not merely in thought'. The inescapable conclusion, however, was that the labour theory of value had never applied, even in primitive societies. This meant that the whole Marxian system was, like that of Hegel before him, 'a house of cards'.²⁸

In 1904, eight years after the publication of these words, Rudolf Hilferding responded with what was the only systematic Marxian reply to Böhm-Bawerk's critique.²⁹ Hilferding's counter-attack had two parts, one methodological, the other historical. Neither dealt with the specific and detailed criticisms that Böhm-Bawerk had raised against the labour theory of value. Here, as in many later controversies in Marxian political economy, the participants failed to engage each others' arguments, and there was little real dialogue. At the more general philosophical level, Hilferding accused Böhm-Bawerk of a continuous confusion of natural and social phenomena.

**Biography of
Rudolf Hilferding**

Hilferding was born in Vienna in 1877 into a middle-class Jewish family. He studied medicine at the University of Vienna, qualifying as a doctor in 1901 but practising only briefly thereafter. At the same time he was studying economics, and published many articles on economic questions in the Austrian and German socialist press. In 1906–7 Hilferding worked for the SPD in Berlin before being expelled by the police. Although opposed to the First World War he did not resist mobilisation, and served as a doctor on the Italian front between 1915 and 1918. After the war he moved to Germany, working as a journalist for the Independent Socialists (USPD) before rejoining the SPD after its reunification in 1922. Hilferding was a member of the Reichstag from 1924 to 1933 and served as Finance Minister in the governments of Stresemann (in 1923) and Müller (in 1928–9). After 1933 he went into exile in Denmark, Switzerland and finally in France, where, it appears, he was murdered by the Gestapo in 1941.

Every theory of value which starts from use value, that is to say from the natural qualities of the thing . . . starts from the individual relationship between a thing and a human being instead of starting from the social relationships of human beings one with another . . . Such an outlook is unhistorical and unsocial. Its categories are natural and eternal categories.

The labour theory of value was not simply, or even primarily, an analysis of price determination. 'It is therefore because labour is the social bond uniting an atomized society, and not because labour is the matter most technically relevant, that labour is the principle of value and that the law of value is endowed with reality.'³⁰ This fundamental difference between Marxian and subjective value theory amounted to very much more than two (conceivably complementary) methods, as Böhm-Bawerk supposed. It was rather a question of 'contrasted and mutually exclusive outlooks upon the whole of social life'. The individualism of bourgeois economics entailed nothing less than its suicide as political economy.³¹ Ten years later Bukharin eloquently restated these methodological criticisms of neoclassical theory and sought to show that its perspective reflected that of a new 'leisure class', which had emerged with the rise of finance capital (see Chapter 13 below).³²

For Hilferding, however, the difference in world view was bound up with

the historical dimension of the transformation problem. In Marx's work 'conceptual evolution runs parallel throughout with historical evolution, inasmuch as the development of the social power of production appears, in the Marxist system, on the one side as a historical reality, and on the other as a conceptual reflex. Moreover, this parallelism furnishes the strictest empirical proof of the accuracy of the theory.'³³ Böhm-Bawerk's objections to the applicability of labour values in simple commodity production were unfounded. Since peasants and artisans could not move freely between industries, differences in profit rates were not relevant to them. In any case, the big divergences in organic compositions of capital on which Böhm-Bawerk's case relied pointed to a capitalist rather than a pre-capitalist economy, rendering his argument doubly invalid. As for those sectors with a high organic composition where capitalist industry did make an early appearance, these were attractive to merchants moving into industrial production because of the 'legalised or virtual monopoly' power which enabled them to sell their commodities at prices higher than their labour values.³⁴ The sequence of events, Hilferding suggested (turning his attention to Sombart) was as follows. Commercial capitalists began to employ their 'extra capital' in manufacturing, while remaining predominantly merchants. They gained from the increasing quantity and regularity of output, and from their ability to appropriate part of the surplus value produced by the artisans. 'Even if the profit rate he could secure on the capital invested in industry was lower than that obtainable on his commercial capital, nevertheless the total rate of profit was henceforth greater.' Eventually the capitalists gained further from the introduction of superior methods of production, especially because of special legal privileges which gave them unique control over the new technology. 'Not until the days of monopoly were over . . . was the equalisation of the varying rates of profit, originally so divergent, rendered possible.' Competition first equalised profit rates within individual spheres of production, and only then did the free mobility of capital from sphere to sphere establish a uniform rate of profit across the whole economy.³⁵

Böhm-Bawerk was completely unmoved by Hilferding's reply.³⁶ Strangely, neither man discussed the technical difficulties in Marx's solution to the transformation problem, which presumably escaped their notice. Hilferding's few references to the question do not inspire great confidence in his ability to deal with it. He stressed the significance of the equality between aggregate values and aggregate prices, which shows 'that all profit originates from production, not from any addition to the finished product subsequently effected by the capitalist', and proceeded to assert a bold *non sequitur*. 'Since the total price is equal to the total value, the total profit cannot be anything else than the total surplus value.'³⁷ This had been stated by Marx, but it was yet to be demonstrated. Hilferding moved from unwarranted assertion into outright error by announcing that, as Marx's

main concern was with the ratio between wages and profits, 'it is therefore [*sic*] utterly false to say that Marx revokes the law of value as far as individual commodities are concerned, and maintains it in force solely for the aggregate of these commodities'.³⁸ Hilferding seems here to be hinting at an equality of the rate of exploitation and the ratio of profits to wages. This is a chimera. As will be seen in the next section, it is generally the case that only one of Marx's two 'invariance conditions' can prevail. A third, such as that implied by Hilferding, can apply only at the expense of one (or more likely both) of the others.

Neither side comes out well in these exchanges. Böhm-Bawerk's critique of volume III is distinctly inferior to his attack on the first volume of *Capital*. In particular he fails to confront Marx's assertion of logical priority for labour values, which would have required a refutation of the Marxian claim that the general rate of profit could be established (and could *only* be established) as a ratio of values. This, in turn, would have demanded a much more searching appraisal of Marx's technical analysis than Böhm-Bawerk felt called upon to provide. As we have seen, Hilferding's reply was also weak on this aspect of the problem. And his restatement of Marx's historical and social method would have been substantially strengthened if Hilferding had been able to illustrate it with a coherent account of the historical transformation of values into prices of production. In fact he added little to Engels's treatment of the question, which was itself unconvincing. Thus no satisfactory model of the transition from values to prices had yet been formulated.

IV Mühlfort and Dmitriev

Immediately after the publication of volume III there appeared in the *Jahrbücher für Nationalökonomie* a short article by Wolfgang Mühlfort, of Königsberg in East Prussia, drawing upon his dissertation, 'Price and Income in Capitalist Society', which had been submitted two years earlier.³⁹ Mühlfort's socialism was Bismarckian rather than Marxian, and his thesis had been harshly reviewed by the SPD's theoretical journal *Die Neue Zeit*;⁴⁰ his article seems to have gone completely unnoticed, both at the time and subsequently. Yet Mühlfort's dissertation and article contained two slightly different versions of an algebraic formulation of the transformation problem pointing very clearly towards the mathematical literature on the question in the 1950s and 1960s. His starting-point was the failure of Marx to transform inputs of constant and variable capital into prices of production. This could be accomplished, he suggests, in the following way. Write a_1 as the labour value of commodity 1, and $x_1 a_1$ as its price of production; x_1 is thus the ratio of price to value, implying that prices are being measured in units of labour value. Where p is the general rate of profit, and x_0 is defined

as $1, 1 + p$, the Marxian ‘cost-price’ of commodity 1 (which Mühlport terms the ‘price of the capital’ in firm 1) is given by $x_0 x_1 a_1$.⁴¹

For n enterprises, each producing a different commodity, he writes $a_{11}, a_{12} \dots a_{1n}$ as the quantities of commodities 1, 2 ... n used to produce a unit of commodity 1; $a_{21}, a_{22} \dots a_{2n}$ represents the amount of those commodities used per unit of output by firm 2; and so on. In modern terminology these are the Leontief input coefficients for each industry;⁴² Mühlport states explicitly that they are given by ‘the technology of the respective firms’.⁴³ He then writes the equations:

$$\begin{aligned}
 x_0 a_1 x_1 &= a_{11} a_1 x_1 + a_{12} a_2 x_2 + \dots & (3.1) \\
 x_0 a_2 x_2 &= a_{21} a_1 x_1 + a_{22} a_2 x_2 + \dots \\
 \dots & \dots \dots \dots \\
 x_0 a_n x_n &= a_{n1} a_1 x_1 + a_{n2} a_2 x_2 + \dots
 \end{aligned}$$

Here the left-hand side gives the cost-price of a unit of each commodity, and the right-hand side is the sum of the prices of each of the unit inputs needed to produce it. (Multiplying each side by $1/x_0 = 1 + p$ would give the more familiar expression equating price of production with the sum of all the inputs, calculated in price terms and multiplied by one plus the general rate of profit.) Mühlport parts company with Marx by ignoring the distinction between constant and variable capital and treating the commodities consumed by workers as material inputs on a par with raw materials and machines. This is a frequent practice in modern mathematical discussion of the transformation problem, and is easily modified to permit a more orthodox Marxian formulation.

Mühlport now has n equations, but $n + 1$ unknowns (the n price-value ratios $x_1 \dots x_n$, and the rate of profit, represented by x_0). At this point he runs out of steam. He could have obtained the necessary $n + 1^{\text{th}}$ equation either by setting the sum of all values equal to the sum of all prices, or by equating total surplus value and total profits. In either case he would have needed to specify the quantities of the n commodity outputs. He fails to do so, and also confuses the two Marxian invariance conditions, writing $\sum a = \sum \pi$. (where $\sum \pi$ represents the sum of prices of production) as:

$$\begin{aligned}
 (a_1 - a_{11} a_1 - \dots - a_{1n} a_n) + \dots + (a_n - a_{n1} a_1 - \dots - a_{nn} a_n) = \\
 (a_1 x_1 - a_{11} a_1 x_1 - \dots) + \dots + (a_n x_n - a_{n1} a_n x_n - \dots) & (3.2)
 \end{aligned}$$

This is neither fish nor fowl. The left-hand side represents the quantity of surplus labour embodied in a unit of each commodity, and the right-hand side denotes the corresponding profits per unit of output. Equation (3.2) is a closer approximation to the second invariance condition (total surplus

value equals total profits) than to the first,⁴⁴ but for this Mühlport would have had to multiply the surplus values and profits per unit by the number of units produced. If the outputs of commodities 1, 2 . . . n are denoted by $X_1, X_2 \dots X_n$, we could write:

$$\begin{aligned} (a_1 - a_{11}a_1 - \dots - a_{1n}a_n)X_1 + \dots + (a_n - a_{n1}a_1 - \dots - a_{nn}a_n)X_n = \\ (a_1x_1 - a_{11}a_1x_1 - \dots)X_1 + \dots + (a_nx_n - a_{n1}a_nx_n - \dots)X_n \end{aligned} \quad (3.3)$$

as the (genuine) condition that aggregate surplus value and aggregate profits are equal.

If, in the last resort, Mühlport's algebra failed him, the originality and fruitfulness of his contribution is undeniable. He saw himself as facilitating a synthesis of the classical theory of value, which explained 'natural' (that is, long-run equilibrium) prices, and Austrian marginal utility analysis, which accounted for the influence of scarcity on short-run price determination in terms of psychological laws. Within its limits, he argued, Austrian theory was the best available. 'Its error, on the other hand, was to try to apply this kind of explanation to the natural price of freely reproducible commodities under free competition. I am of the opinion that there is no irreconcilable contradiction between the classical and Austrian schools, and that both systems can be united in the way that I have explained.' He concluded with the modest hope (which was to be sadly disappointed, at least in his own lifetime) that 'the profession' would confirm the validity or otherwise of his analysis. 'In particular I hope to discover the opinion of the acknowledged interpreters of Marx, like Bernstein, Engels, Kautsky, etc., in an objective form.'⁴⁵ This too failed to occur.

Meanwhile a penniless excise official from Smolensk was also approaching the problem in a novel way. V. K. Dmitriev (1868–1913) was the most important Russian mathematical economist of his generation.⁴⁶ Following in the footsteps of his compatriots Peter Struve and Michael Tugan-Baranovsky (see Chapters 9 and 10 below), Dmitriev too hoped to synthesise the classical and neoclassical theories of value. Although he never mentions Marx, and the bulk of his own work owes more to Walras than to Ricardo, Dmitriev supplied an analytic framework which proved to be of immense value for later work on the labour theory of value and the transformation problem. His first essay on the subject, published in 1898 but apparently written some years before, allowed the calculation of labour values directly from technical data on physical inputs and outputs. (Marx, who always expressed values in terms of other values – c , v and s – never explicitly considered this question.) For commodity A , where N_A is its value (that is, the sum of the labour inputs directly and indirectly required to produce it); $1/m_i$ is the quantity of the i^{th} commodity used up in its production or, where the i^{th} commodity is a machine, the annual depreciation coefficient; and n_A is the direct labour input into A , Dmitriev writes:

$$N_A = n_A + 1/m_1 \cdot N_1 + \dots + 1/m_M \cdot N_M \quad (3.4)$$

where labour value is given by the sum of direct labour (n_A) and indirect labour ($1/m_1 \cdot N_1 + \dots$).

Dmitriev also considered the determination of prices of production. His approach, however, is Ricardian rather than Marxian. Instead of the distinction between constant and variable capital, he uses a ‘dated labour’ model. Here, instead of viewing a commodity as produced by direct labour plus means of production, its technology is ‘reduced’ to a set of labour inputs distinguished by the period in which they were contributed. Cotton yarn is treated as the product of the spinner’s labour (performed this year), plus that of the cotton growers (last year) and the makers of the necessary machinery (dating back two or more years).⁴⁷ Ignoring machinery, and assuming cotton to be grown by unaided labour, we can write the ‘dated labour’ price equations for raw cotton and cotton yarn as:

$$P_A = W \cdot L_A(1 + r) \quad (3.5)$$

$$P_B = W \cdot L_B(1 + r) + W \cdot \frac{1}{m_A} \cdot L_A(1 + r)^2 \quad (3.6)$$

where P_A and P_B are the prices of cotton and yarn; L_A and L_B the amounts of labour employed per unit of output in the two activities; $1/m_A$ is (again) the quantity of cotton required to produce a unit of yarn; and r is the annual rate of profit. The terms L_A , L_B and $(1/m_A)L_A$ are dated labours, each weighted by one plus the rate of profit raised to the power representing the number of periods for which they have been ‘locked up’ in production.⁴⁸ Long-run equilibrium prices are defined as those which enable the capitalist to recover all past expenditures on wages, together with profits at the prevailing average rate compounded over all relevant periods. Assuming for simplicity that workers consume only corn, the capitalists’ outlays in a given period can be written as $n_A a P_A$, where a is the quantity of corn consumed by a worker in each period, P_A is the price of corn, and n_A represents – as before – the direct labour input required (this time in period A). For commodity A (corn), natural price (price of production) is defined as:

$$P_A = n_A a P_A(1 + r)^{t_{A1}} + \dots + n_M a P_A(1 + r)^{t_{AM}} \quad (3.7)$$

where r is the average rate of profit, and labour inputs $n_A \dots n_M$ are required $t_{A1} \dots t_{AM}$ periods before the finished product becomes available. Given the real wage a , the system of equations represented by (3.7) can be solved for the prices of production $P_A \dots P_M$ and r in terms of the technical coefficients $n_A \dots n_M$ and $t_{A1} \dots t_{AM}$ once the unit of price measurement has been defined.

Even more than Mühlfort, Dmitriev had thus anticipated the mathematical economics of the mid-twentieth century in the final decade of nineteenth.⁴⁹

V Von Bortkiewicz's Solution

None of this made the slightest impression on Western socialism, nor on any of the orthodox Russian Marxists. Dmitriev's work was however followed closely by a Berlin statistician of Russian origins, Ladislaus von Bortkiewicz. Bortkiewicz was a Ricardian with a strong interest in Marx, and in 1907 published two major articles on the transformation problem which, though also largely neglected at the time, have had a substantial influence on more recent analysis.⁵⁰ In the first paper Bortkiewicz applied Dmitriev's 'remarkable work,' which 'bears evidence of an exceptional theoretical talent and presents something really new',⁵¹ to the Marxian transformation problem. There were striking similarities between the two analyses. 'Just like Marx, Dmitriev's model shows as ultimate and exclusive determinants of prices the technical conditions of production of commodities, including the technical conditions of production of the commodity labour, the latter finding their expression in a given real wage.'⁵² Bortkiewicz used Dmitriev's algebraic framework, summarised by equations (3.4) and (3.7), to derive expressions for the rate of profit as a function of quantities of dated labour and the Marxian rate of exploitation. He also demonstrated the precise nature of the relation between the organic composition of the commodity used as money; labour value; and price of production in the industry concerned.⁵³

There were however important differences between Marx and Dmitriev. The latter rejected the Marxian distinction between constant and variable capital, Bortkiewicz noted, and also used algebra instead of numerical examples. This was more significant than it appeared, implying a major methodological cleavage: Dmitriev argued in terms of simultaneous determination, while Marx reasoned in a cause-effect chain which Bortkiewicz criticised as the fallacy of 'successivism'. Dmitriev had vindicated Ricardo against Marx's criticisms, showing that Ricardo did not confuse price and value, had no need of the Marxian distinction between constant and variable capital, and was correct in his claim (denied by Marx) that the rate of profit would be unaffected by changes in conditions of production in those industries which produced neither wage-goods nor the means of production used (directly or indirectly) in wage-goods industries.⁵⁴ Bortkiewicz's conclusion was severely critical of Marx. 'The relations of value-calculation and price-calculation have, after all, a completely mathematical character, and the inadequacy of Marx's treatment of this problem reflects the meagreness of his mathematical abilities.' Marx was also wrong to

assert the logical priority of value calculations over the determination of prices: ‘not only can the reciprocal relationships of prices, wages and the rate of profit be reduced to their correct mathematical expression without the need to start with magnitudes of value and surplus value, but the latter magnitudes do not even appear in the calculation, if one employs the exact formulas.’⁵⁵

Bortkiewicz seems to have been fascinated by Marx, and his second article deals more directly with the volume III discussion of the transformation problem. Conceptually it is much less sophisticated than the first, involving three sectors instead of an n -commodity economy (and, moreover, one in which the organic composition of capital in the industries producing constant capital is the same for all three departments). Department I produces means of production, department II’s output consists of wage-goods, and department III produces luxuries (gold) which are consumed by the capitalists. Bortkiewicz further abstracts from the problems of fixed capital by requiring all capital to turn over exactly once each year, and assumes conditions of simple reproduction to prevail. This entails that

$$c_1 + v_1 + s_1 = c_2 + c_2 + c_3 = C \quad (3.8)$$

$$c_1 + v_2 = s_2 = v_1 + v_2 + v_3 = V$$

$$c_3 + v_3 + s_3 = s_1 + s_2 + s_3 = S$$

where the output of constant capital is exactly equal to that used up in each industry; the output of wage-goods is exactly sufficient to feed the workers employed in the three departments; and the output of luxuries corresponds exactly to the total amount of surplus value produced. Like Mühlfort, Bortkiewicz denotes the average rate of profit as p . He writes the ratio of price of production to value in the three departments as x , y and z ; these correspond to Mühlfort’s $x_1 \dots x_n$. Marx’s solution to the transformation problem requires

$$(c_1x + v_1y)(1 + p) = (c_1 + c_2 + c_3)x \quad (3.9)$$

$$(c_2x + v_2y)(1 + p) = (v_1 + v_2 + v_3)y$$

$$(c_3x + v_3y)(1 + p) = (s_1 + s_2 + s_3)z.$$

Equation (3.9) is the three-sector equivalent of Mühlfort’s equation (3.1). The left-hand side represents the cost-price in each department (in price terms), multiplied by one plus the average rate of profit, indicating that prices of production must cover both costs and profits. The right-hand side

expresses the output of each of the three commodities, in terms not of labour values but of prices of production. Capitalists must obtain sufficient proceeds from the sale of their commodities (the right-hand side) to meet their outlays plus profits at the average rate p (the left-hand side).

Bortkiewicz now has the three equations given by (3.9), but four unknowns: x , y , z , and p . The missing equation, he observes, can be supplied by introducing either (but *not* both) of Marx's invariance conditions. Equality of total values and total prices entails that

$$Cx + Vy + Sz = C + V + S \quad (3.10)$$

where C , V , and S stand for aggregate magnitudes for all three departments, while setting aggregate surplus value equal to total profits would be equivalent to specifying that

$$z = 1 \quad (3.11)$$

Equations (3.10) and (3.11) embody Marx's two invariance conditions. In general it is impossible to satisfy them both, as Bortkiewicz demonstrates in several numerical examples. Adopting equation (3.11), for example, in a model in which the organic composition of capital in department III is below the social average, entails that the sum of prices exceeds the sum of values,⁵⁶ and vice versa. Marx was wrong to suppose that $p = S/C + V$. Only those industries which (directly or indirectly) produce wage goods – in effect, departments I and II, but not III – determine the rate of profit. Ricardo was correct on this point, and Marx was wrong.⁵⁷ But this conclusion, Bortkiewicz cautions, must not be taken too far. It does not mean that the organic composition of capital in department III can be indefinitely large for, if it were, the equalisation of the rate of profit would become impossible.⁵⁸ Marx was right in spirit, if not in the letter of his analysis.

Bortkiewicz's writings had no obvious immediate influence. His English translator, Paul Sweezy, reported in 1949 that 'I have seen no evidence that it has been read by more than a handful of specialists.'⁵⁹ Sweezy gives no indication of their identity, and we know of only two serious analytical discussions of the transformation problem before the appearance in 1942 of Sweezy's own *Theory of Capitalist Development* which summarised Bortkiewicz's second article and sparked off an important (and continuing) debate.⁶⁰ None of the prominent theoreticians of the Second International paid any attention to the issue. The 35-year gap is a sad reflection of the level of scientific research in Marxian political economy during this period. In the interim there were some significant developments in the philosophical dimension of value theory,⁶¹ but apparently nothing on the technical

aspects of the problem. Not until the apparatus of linear economics emerged through the work (in the 1930s and 1940s) of von Neumann and Leontief did discussion of the ‘quantitative’ value problem resume.⁶²

Notes

1. K. Marx, *Capital*, vol. III (Moscow: Foreign Languages Publishing House, 1962) pp. 140–51 (ch. 8).
2. *Ibid.*, p. 156 (ch. 9).
3. Adapted from Marx, *Capital*, pp. 154–5.
4. F. Seton, ‘The “Transformation Problem”’, *Review of Economic Studies* 24, 1957, pp. 154–5.
5. Marx, *Capital*, p. 155 (ch. 9).
6. *Ibid.*, p. 174 (ch. 10).
7. *Ibid.*, pp. 177, 192–3 (ch. 10); cf. R. L. Meek, *Studies in the Labour Theory of Value* (London: Lawrence & Wishart, 1973) 2nd edn, pp. xvi–xlv.
8. Marx, *Capital*, vol. III, p. 162 (ch. 9).
9. W. Sombart, ‘Zur Kritik des Ökonomischen System von Karl Marx’, *Archiv für Socialgesetzgebung und Statistik*, 7, 1894, pp. 584–6.
10. W. Lexis, ‘The Concluding Volume of Marx’s Capital’, *Quarterly Journal of Economics*, 10, 1895, pp. 11–13.
11. C. Schmidt to F. Engels, 1 March 1895; original stress (International Institute of Social History, Amsterdam: L5588).
12. Engels to W. Sombart, 11 March 1895, in K. Marx and F. Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1965) pp. 480–1; original stress.
13. *Ibid.*, Engels to C. Schmidt, 12 1895, pp. 481–5.
14. *Capital*, vol. III, pp. 868–83 (Engels’s supplement, part 1).
15. *Ibid.*, p. 872.
16. *Ibid.*, pp. 874–6.
17. *Ibid.*, p. 877.
18. *Ibid.*, p. 883.
19. M. Morishima and G. Catephores, ‘Is there an “Historical Transformation Problem”?’ *Economic Journal* 85, 1975, pp. 309–28; R. L. Meek, ‘Is there an “Historical Transformation Problem”? A Comment’, *Economic Journal*, 86, 1976, pp. 342–7; Morishima and Catephores, ‘The “Historical Transformation Problem”: a Reply’, *Economic Journal*, 86, pp. 348–52.
20. *Capital*, vol. III, pp. 878–9 (Engels’s supplement, part 1).
21. P. M. Sweezy, ‘Editor’s Introduction’ to Sweezy (ed.) *Karl Marx and the Close of His System* (New York: Kelley, 1966, first published 1949) pp. vii–xiv.
22. E. von Böhm-Bawerk, *Kapital und Kapitalzins* (Innsbruck: Verlag der Wagner’schen Universitäts Buchhandlung, 1884) pp. 418–47.
23. *Ibid.*, pp. 434–6.
24. *Ibid.*, pp. 439–42.
25. *Ibid.*, p. 445.
26. E. von Böhm-Bawerk, ‘Karl Marx and the Close of His System’, in Sweezy (ed.) *Karl Marx and the Close of His System*, p. 30.
27. *Ibid.*, pp. 34–40, 51–63.
28. *Ibid.*, pp. 40–51, 104, 118.
29. R. Hilferding, ‘Böhm-Bawerk’s Criticism of Marx’, in Sweezy (ed.) *Karl Marx and the Close of his System*, pp. 121–96; Sweezy, ‘Editor’s Introduction’, in Sweezy (ed.) *Karl Marx and the Close of his System*, p. xix.

30. Hilferding, 'Böhm-Bawerk's Criticism', pp. 132–4.
31. Ibid, pp. 187, 196.
32. N. I. Bukharin, *The Economic Theory of the Leisure Class* (New York: Monthly Review Press, 1972).
33. Hilferding, 'Böhm-Bawerk's Criticism', p. 135.
34. Ibid, pp. 166–8.
35. Ibid, pp. 169–70.
36. Sweezy, (ed.) *Karl Marx and the Close of his System*, p. xxi, n.1.
37. Hilferding, 'Böhm-Bawerk's Criticism', p. 159.
38. Ibid, pp. 160–1.
39. Dr Mühlport, 'Karl Marx und die Durchschnittsprofitrate', *Jahrbücher für Nationalökonomie*, 65, 1895, pp. 92–9; Mühlport, *Preis und Einkommen in der Privatkapitalistischen Gesellschaft* (Königsberg: Hartung'sche Buchdruckerei, 1893).
40. Compare Mühlport, *Preis und Einkommen*, pp. 42–5 with W. Mühlport, *Die Handwerkerfrage und das Neue Handwerksgesetz* (Königsberg: Verlag von Wilhelm Koch, 1899) pp. 7–8, 42–6. His complaint about the review in *Die Neue Zeit* is in 'Karl Marx', p. 98, n.1.
41. That is, $(1/(1+p))(\text{Price}/\text{Value})(\text{Value}) = (1/(1+p))(\text{Price}) = \text{Cost-Price}$, since $\text{Price} = (\text{Cost-Price})(1+p)$.
42. L. L. Pasinetti, *Lectures on the Theory of Production* (London: Macmillan, 1977).
43. Mühlport, 'Karl Marx', p. 98.
44. In his dissertation Mühlport had written

$$(3.2a) a_1X_1 + a_2X_2 + \dots + a_nX_n = a_1 + a_2 + \dots + a_n$$

which is Marx's first invariance condition equating the sum of prices to the sum of labour values, and it is superior to equation (3.2) above (*Preis und Einkommen*, p. 26).

45. Mühlport, 'Karl Marx', pp. 98–9.
46. D. M. Nuti, 'V. K. Dmitriev: a Biographical Note' in Nuti (ed.) *V. K. Dmitriev: Economic Essays on Value, Competition and Utility* (Cambridge: Cambridge University Press, 1974) pp. 29–32.
47. This is also the perspective of Austrian economics. Subsequently, Piero Sraffa showed that the 'reduction to dated labour' runs into difficulties when there are joint production processes; see M. C. Howard, 'Austrian Capital Theory: An Evaluation in Terms of Piero Sraffa's "Production of Commodities by Means of Commodities"', *Metroeconomica*, 32, 1980, pp. 1–23.
48. V. K. Dmitriev, 'First Essay: the Theory of Value of David Ricardo', in Nuti, 'V. K. Dmitriev', pp. 39–45; cf. Nuti, 'Introduction', in 'V. K. Dmitriev', pp. 7–12; and P. Sraffa, *The Production of Commodities By Means of Commodities* (Cambridge: Cambridge University Press, 1960) pp. 34–40, 56–9, 67–8.
49. Dmitriev, 'First Essay', pp. 45–80; Nuti, 'V. K. Dmitriev', pp. 12–18. Note that Dmitriev's ' X_A ', etc., have been replaced by P_A , etc., to avoid confusion with our equations (3.3), and that his $n_A \dots n_M$ should properly have been written $n_{A1} \dots n_{AM}$, the first subscript representing the a^{th} commodity (corn) and the second subscript denoting the period (1, 2, ... M) concerned.
50. L. von Bortkiewicz, 'Value and Price in the Marxian System', *International Economic Papers*, 2, 1952, pp. 5–60; von Bortkiewicz, 'On the Correction of Marx's Fundamental Theoretical Construction in the Third Volume of *Capital*', in Sweezy (ed.) *Karl Marx and the Close of his System*, pp. 197–221. On von Bortkiewicz see J. A. Schumpeter, 'Ladislaus von Bortkiewicz, 1868–1931',

64 *The German Contribution, 1883–1914*

Economic Journal, 42, 1932, pp. 338–40, and W. S. Woytinsky, *Stormy Passage* (New York: Vanguard Press, 1961) pp. 452–4.

51. Bortkiewicz, 'Value and Price', p. 20, n.31.
52. *Ibid.*, p. 22; as explained in the text, this is over-generous to Marx.
53. *Ibid.*, pp. 5–27.
54. *Ibid.*, pp. 27–53.
55. *Ibid.*, pp. 56, 54.
56. Bortkiewicz, 'Correction', pp. 204–6.
57. *Ibid.*, pp. 214–15.
58. *Ibid.*, pp. 214–15.
59. Sweezy (ed.) *Karl Marx and the Close of his System*, p.v.
60. K. Shibata, 'On the General Profit Rate', *Kyoto University Economic Review*, January 1939, pp. 40–66; O. Kuhne, *Untersuchungen Über die Wert- und Preisrechnung des Marx'schen Systems* (Greifswald: L. Bamberg, 1922: Greifswalder Staatswissenschaftliche Abhandlungen, no. 14); P. M. Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1970; first published 1942) pp. 112–25.
61. F. Petry, *Der Soziale Gehalt der Marxschen Werttheorie* (Jena: Fischer, 1916); I. I. Rubin, *Essays on Marx's Theory of Value* (Montreal: Black Rose Books, 1973; first published 1928).
62. See M. C. Howard and J. E. King, *A History of Marxian Economics*, vol. II, 1929–88 (London: Macmillan, forthcoming).

4

Bernstein, Kautsky and the Revisionist Controversy

I The Rise of German Socialism

In the second half of the nineteenth century Germany experienced extremely rapid economic development, which transformed the Empire (itself completed as a political unit only in 1871) from a relatively backward and largely agricultural area into one of the world's major industrial powers. The population grew from 35 million in 1849 to 65 million in 1910, and while the numbers in rural communities remained almost constant at 25 million the urban population quadrupled. There was a massive expansion in the output of coal, metal products, heavy engineering, the shipbuilding industry, chemicals and electrical goods, pig iron alone increasing from barely half a million tons in 1860 to almost 15 million by 1910. Germany's late start brought with it the most modern technology, and its large plants yielded all the benefits of economies of scale. But the triumph of the factory system must not be exaggerated. Outworkers, artisans and 'peasant industries' also displayed a remarkable resilience, and as late as 1907 more than one-third of the occupied population was still to be found in agriculture and forestry. In the north and east especially, the power of the semi-feudal landlords (*Junkers*) remained largely intact.

By contrast with Britain, German industry was financed to a very significant degree by the banks, which acquired a considerable stake in and control over manufacturing capacity. The German banking industry was also highly concentrated, the five largest groups controlling three-quarters of all bank capital by 1914. In turn the banks encouraged the formation of price-fixing cartels, which operated in the majority of industries by the turn of the century and also promoted the trend towards increased concentration in industry. They extended their activities overseas to such effect that Germany became a net exporter of capital in the 1880s; thirty years later the foreign assets of the Empire amounted to 30 billion marks, or three times

the nation's annual export receipts. During the early decades of German industrialisation trade barriers were progressively lowered until, in the severe depression which began in 1873, competition from North American grain and British pig iron brought big business and the *Junkers* together to demand government intervention. After 1880 German markets were again protected by tariffs. This was only one aspect of a pervasive and growing state involvement in the economy which also included government or municipal ownership of railways, mines, factories and public utilities, together with the Bismarckian social legislation providing for compulsory sickness, accident and old age insurance, and controls on working hours for women and children. By 1914 Germany had a mixed economy with strong elements of corporatism.

The social structure of the Empire closely reflected its economic base. In addition to big business and the factory proletariat there was the powerful quasi-feudal interest represented by the landowners; an important but only semi-proletarian and deeply oppressed agricultural working-class; a large and often prosperous peasantry, particularly prominent in the south and west of the country; and a huge amorphous lower middle-class of urban shopkeepers, craftsmen and petty employers of all descriptions. Politically and culturally the German Empire occupied an intermediate position between a fully-formed bourgeois society like that of the contemporary USA, and the *ancien régimes* (exemplified by the Romanov autocracy). In Prussia, above all, pre-capitalist institutions, values and patterns of behaviour remained dominant, even in the most advanced capitalist circles. Landed wealth, the military and the court retained an influence far exceeding that ascribed to them by Marxian theoreticians.¹

The German political system was essentially autocratic, with minor but significant concessions to democratic forms and a bureaucracy dominated at the top by the nobility. The impact of universal male suffrage in national elections was diluted both by more restrictive franchises in many of the states (especially Prussia) and by the absence of any notion of popular sovereignty. The government was answerable to the Emperor rather than to Parliament, and throughout the period severe constraints were placed on civil liberties and freedom of expression, most notably during the operation of the 'anti-Socialist law' between 1878 and 1890.

Middle- and upper-class opinion was overwhelmingly conservative and fiercely nationalistic, with neither the anti-clerical republican radicalism found in contemporary France nor the cosmopolitan liberalism of Gladstonian Britain. The upper echelons of the bourgeoisie had allied themselves with the aristocracy. As in many other parts of Europe, it was the latter's *Weltanschauung* that prevailed. Employer hostility to trade unions was almost universal, based more on fears of subversion than on any dogmatic commitment to free trade in labour power; collective bargaining and industrial conciliation on the British pattern were very slow to develop. At

the extreme left of the spectrum of respectable German politics, in fact, stood the 'professorial socialists' (*Kathedersozialisten*). Influenced by Röd-bertus rather than by Marx, men like Gustav von Schmoller and Adolph Wagner managed to combine suspicion of unbridled capitalist competition, support for the welfare legislation, and unquestioning loyalty to the German state and its burgeoning military apparatus.²

German socialism took firm root in this apparently infertile soil. The 1875 unification conference at Gotha founded the SPD – the abbreviation by which the Social Democratic Party of Germany is invariably known – on the basis of the somewhat confused and eclectic programme which Marx criticised so sharply. The party grew fast both in membership and in influence. The repressive legislation three years later did not affect its purely electoral activities, and complicated rather than prevented the dissemination of its propaganda. It established close relations with the rapidly expanding 'free' (non-confessional, independent of the employers) trade unions, and built up a sizeable army of paid employees as organisers, lecturers and journalists for the party press. By 1914 the SPD had over a million members, and its affiliated trade unions over two and a half million. In the 1912 elections it had won very nearly half the votes in towns with a population of 10 000 or more, and had every reason to expect still greater success. The party attracted militants from Austro-Hungary and Russia as well as from within Germany itself. Its debates were followed, its programme studied, its intellectuals respected, throughout Europe and beyond.³

In short, the SPD was the jewel in the crown of international socialism, by far the largest and most important Marxist party in the world. It dominated the Second International, practically and ideologically. The orthodox Marxist position, on economic as on all other issues, was that laid down in its programme and by its theoreticians, most notably by Karl Kautsky. In the following section we summarise that orthodoxy, as expressed in the Erfurt Programme of 1891 and Kautsky's elaboration of it. In subsequent sections we consider the challenge to the established doctrine mounted by Eduard Bernstein in the second half of the decade, the response of Kautsky and Rosa Luxemburg to Bernstein's 'heresy' and the outcome of the 'revisionist controversy' which he provoked. Note however that questions of colonial policy and imperialism, which played only a small part in the debate, are dealt with in Chapters 5 and 6 below. The Russian dimension to revisionism is discussed in Chapter 10.

II Orthodox Marxism and the Erfurt Programme

From its beginning the SPD was subject to a number of diverse intellectual influences, among them the ideas of Lassalle and Engels's notorious

**Biography of
Eduard Bernstein**

Born in 1850 in Berlin, the son of a Jewish locomotive driver, Bernstein left school at 16 to work in a bank. He joined the Eisenacher socialists in 1872, was a delegate to the Gotha Congress three years later, and was active in the Berlin SPD until 1878. The Anti-Socialist Laws forced him into exile, first in Switzerland and then (from 1888 to 1901) in London, where he was both a close friend of Engels and an associate of the Fabians. Returning to Germany in 1901, Bernstein was elected as a deputy to the Reichstag in the following year and served until his retirement in 1928. He was also a journalist and lecturer at the party school. In the First World War Bernstein initially voted with the German government, but reversed his stand in 1915 and joined the Independent Socialists (USPD) in 1917. He was Assistant Secretary to the Treasury in the coalition SPD/USPD government in 1919. Bernstein subsequently rejoined the SPD, but had little political influence in the 1920s. He died in 1932.

**Biography of
Karl Kautsky**

Born in Prague in 1854 of a Czech father and German mother, Kautsky became an active socialist while still a student in Vienna in the mid-1870s. He founded *Die Neue Zeit* in 1883 and edited it until 1917, establishing it as the major theoretical organ of German-speaking Marxism. Kautsky lived in London from 1885 to 1890, collaborating with Engels and Bernstein. On his return to Germany he wrote prolifically on a wide range of subjects and confirmed his position as the SPD's principal theoretician, the so-called 'Pope of Marxism'. From the late 1890s to 1914 he led the intellectual battle against revisionism, and also opposed the revolutionary ideas of the party's left-wing. Originally a supporter of the German war effort, Kautsky turned against the First World War and joined the Independent Socialists (USPD) in 1917. After 1918 he continued to write on Marxist theory and (from a very critical viewpoint) on Soviet Communism. Kautsky returned to Austria in 1924, fleeing to Czechoslovakia after the Dolfuss *coup* ten years later. He emigrated to Holland just before the Nazi invasion of Czechoslovakia, and died there in 1938.

adversary, Eugen Dühring. For a time in the 1880s the conservative state socialism of Rodbertus had a substantial following and the eventual victory of Marxian theory was by no means automatic.⁴ It had to be fought for, and its three most important protagonists were Engels and his protégés, Eduard Bernstein and Karl Kautsky. Engels's economic writings from this period have been discussed in Chapter 1. Bernstein was first and foremost a journalist and by comparison with Kautsky he was a most reluctant theoretician. The latter edited the party's weighty monthly journal, *Die Neue Zeit* (*The New Age*), and wrote the extremely influential *Economic Doctrines of Karl Marx*, in effect a summary of volume I of *Capital*, which was translated into five languages within four years of its publication in 1887, and into thirteen more languages subsequently.⁵

It was Kautsky, perhaps more than Engels himself, who was responsible for the elaboration and propagation of the corpus of accepted socialist theory which came to be seen as 'orthodox' Marxism. This involved two subtle but fundamental changes from Marx's own thinking. First, the Hegelian and humanistic qualities which had characterised Marx's early writings and remained a theme in some of his mature work was replaced, to a considerable degree, by the more familiar positivistic method already widely accepted by bourgeois critics of contemporary capitalist society. Strict causal logic, predictive tendencies and determinism edged out the Marxian categories of dialectical transcendence. Second, evolutionary scientific naturalism was infused into Marx's thought, bringing with it an optimistic belief in international peace, socioeconomic progress and the gradual advance of scientific understanding. Karl Kautsky in particular had been a Darwinian before he became a Marxist, and his philosophy owed much more to *Anti-Dühring* than to the early Marx. Kautsky saw Marxism as the science of history and his version of Marxian political economy rested firmly on this foundation.⁶

The 1891 Erfurt congress of the SPD marked an important turning-point. With the repeal of the anti-Socialist law normal political life was resumed, and the party could contemplate a new statement of principles to replace the unsatisfactory Gotha programme. The practical sections of the new manifesto were the responsibility of the SPD Parliamentary leader August Bebel and of Bernstein, while under Engels's tutelage Kautsky drew up the theoretical section. The resulting Erfurt Programme states that capitalism necessarily leads to the dispossession of the producers from the means of production, the displacement of small-scale enterprises by big business, and the eventual disappearance of the middle layers of peasants and small masters. All the advantages of technical progress are monopolised by the capitalists and landlords, while the workers suffer growing misery and insecurity. Class antagonisms become increasingly intense. They are exacerbated by economic crises, which are rooted in the essence of capitalist production and grow ever more far-reaching and more devastat-

ing. Only the abolition of private property through the concerted political action of the proletariat will make possible the full development of humanity's productive powers.⁷

None of this goes much beyond the equally bald statements of the *Communist Manifesto*. A systematic defence of the programme was however provided by Kautsky in 1892 in his book *The Class Struggle*, which contains particularly detailed accounts of the concentration of capital and the causes of economic crises. The two phenomena are closely related, Kautsky argues. Credit is not merely an instrument for centralising capital, for dispossessing non-capitalist elements of the population and for promoting rapid economic development. It is also 'a means to render modern industry more and more complicated and liable to disturbance, to carry the feeling of uncertainty into the ranks of capitalists themselves and to make the ground upon which they move ever more uncertain'. Crises result from over-production, which is itself due to the planlessness of capitalism. The faster the economy expands, the more difficult it becomes to estimate demand, the greater the uncertainty of market conditions, the more frantic is speculation. Trusts and syndicates offer no answer to crises. They are unable to suppress international competition, and simply engender a 'war to the knife' between hostile groups of capitalists.⁸

If the anarchy of capitalist production was one limb of Kautsky's explanation of economic crises, the other was a growing deficiency of demand. The tendency for the rate of profit to fall impinged upon crises only in an indirect manner. The rate of profit was indeed decreasing, Kautsky suggested, due to the much faster growth of constant than variable capital. But this trend will not cause the system to collapse, although it is 'one of the most remarkable contradictions of the capitalist system of production' and is accompanied by a rising share of rent and taxation at the expense of industrial profit. Capital accumulation is proceeding so rapidly that total surplus value will continue to rise. Pressure will however mount on small capitalists, whose survival becomes increasingly precarious. Thus 'the decline of profit and interest does not bring on the downfall, but rather the narrowing of the capitalist class'. This in turn is a significant factor in crises of over-production, for the centralisation of capital which it facilitates involves a redistribution of surplus value away from small proprietors, with consumption needs which are large in relation to their incomes, towards big capitalists who consume proportionally much less. The growth of working-class consumption is also restricted by the rise in unemployment.⁹

The outcome, Kautsky argued, will be chronic over-production, resulting in ever more frequent and more violent crises. The inadequacy of domestic demand could not for long be offset by the expansion of export markets. Already the most lucrative markets had been fully exploited, and from the remainder 'little is to be fetched beside fever and blows'. Moreover

capitalist production was beginning to emerge in hitherto undeveloped areas of the world, so that 'capitalist large production digs its own grave' by creating its own competitors. Eventually markets will no longer be able to expand, and 'this would mean the bankruptcy of the whole capitalist system', which already 'begins to suffocate in its own surplus'. Capitalism has outlived its historical mission, Kautsky concludes, and is ripe for replacement by the socialist commonwealth of the future (which forms the subject of the second half of his book).¹⁰

Written in simple but graphic language, and holding out the prospect of imminent social transformation, *The Class Struggle* was an enormously influential work. Apart from Engels's occasional speculations (many of the most important of which did not appear until volume III of *Capital* was published three years later), it represented the only serious attempt to accommodate Marx's political economy to the circumstances of the 1890s. Its inadequacies were hidden, for the moment at least, by Kautsky's own considerable prestige, buttressed by the authoritative support of Engels and the buoyant self-confidence of the SPD on whose behalf he spoke. But the defects were real enough. Neither empirically nor in theoretical terms is *The Class Struggle* a convincing work. Kautsky's claims concerning the centralisation of capital, the increasing misery of the proletariat, the decreasing rate of profit and the growing inequality of income and wealth, are not supported by any serious statistical investigation; detailed historical research of the type carried out by Marx is conspicuously absent. And Kautsky's account of cartels, credit, crises and collapse rests upon assertion instead of rigorous analysis. The role of uncertainty in economic fluctuations is a complex question which remains extremely contentious today, and it would be unfair to expect too much of him in terms of formal argument on this issue. Kautsky, however, was writing some eight years after the publication of the second volume of *Capital*, but makes no attempt to use Marx's reproduction models to demonstrate the inevitability of overproduction. Certainly the book lacks any reasoned defence of its apocalyptic tone. There is little in the Erfurt Programme to justify the charge that it put forward 'a purely mechanistic conception of breakdown',¹¹ but such a reading of *The Class Struggle* is sometimes difficult to avoid. When Kautsky wrote that 'irresistible economic forces lead with the certainty of doom to the shipwreck of capitalist production'¹² he was inviting a severe critical reaction. Before long it came, and from a most unexpected source.

III Bernstein's Challenge to Orthodoxy

It is important at this point to remember that the SPD's theoreticians were almost without exception journalists or political activists rather than academics, and that even their most abstract writings were oriented

towards concrete questions of strategy and tactics. At the time everyone involved believed there to be a very close connection between questions of abstract theory and the concrete issues of everyday politics. Errors of theory, it was thought, inevitably gave rise to political miscalculation; conversely, a faulty position on protective tariffs, colonial expansion or the mass strike was invariably attributed to a misunderstanding or tacit repudiation of the materialist conception of history. In fact, however, the link between theory and practice was much weaker than the participants themselves supposed. Few of the SPD's members had any great interest in theoretical niceties, and their leaders tended to respond pragmatically to events rather than to apply consistently the basic principles of Marxist analysis.¹³ But this was not clearly perceived by the participants themselves. In consequence, the revisionist controversy has the flavour of a political schism as much as an intellectual debate.

Orthodox Marxism was less than entirely clear as to the manner in which socialism would be achieved. The Erfurt Programme committed the party to the conquest of political power, but left open the question of how this was to be done. At the 1891 congress Bebel almost denied the need for any action whatsoever, on the grounds that 'bourgeois society is working so vigorously towards its own destruction that we need only wait for the moment when we can pick up the power which has already dropped from its hands'. Kautsky never went quite that far but the ambiguity remained when, in 1893, he defined the SPD as 'a revolutionary but not a revolution-making party' and denied that it was within the proletariat's power to engineer a social revolution any more than within that of the bourgeoisie to prevent it.¹⁴ The class struggle was intensifying: the party must take part in it as the independent organ of the working class; but how was it all going to end?

Eduard Bernstein denied the truth of these two assumptions, and with it the relevance of the question. If class antagonisms were actually declining in intensity, an alliance between social democracy and middle-class liberalism became possible. Indeed, it offered a more certain route to socialism than the nebulous revolutionary phraseology of the party leadership. Bernstein claimed that the SPD was a reformist party with a predominantly electoral orientation; neither it nor its trade-union allies were revolutionary in anything other than a verbal sense. This actually corresponded with the realities of German economic, social and political development, from which the party programme was increasingly remote. It was high time, Bernstein concluded, to acknowledge the true nature of the movement's practice, and to revise its theory – and with it Marxism as a whole – accordingly.

It is significant that Bernstein had spent so much of his adult life outside Germany, first in Zurich and then crucially (between 1888 and 1901) in London. There was no revolutionary socialist party to speak of in Britain, its place being occupied by a stable and successful trade-union movement

and a powerful radical lobby which was accomplishing important social reforms through parliamentary legislation. Bernstein was profoundly influenced by the British Fabians and the closely related 'New Liberalism' which expressed the left wing of middle-class opinion.¹⁵ As early as 1890 he was describing Social Democracy as 'necessarily an extension of democratic liberalism'.¹⁶ This both summarises his own political philosophy and encapsulates the evolving views of reformers such as J. A. Hobson.

Bernstein was of course also on intimate terms with Friedrich Engels, but even his great authority could be invoked in opposition to the revolutionary rhetoric of the SPD and in defence of the achievement of socialism through peaceful reform. Indeed Engels's introduction to Marx's *Class Struggles in France*, which was written in the year of his death, is still open to interpretation (as it was read by Bernstein himself) as the first major revisionist text.¹⁷ An outright assault on orthodox Marxism would however have wounded Engels deeply, and to avoid this Bernstein delayed an explicit statement of his views until 1896.

By this time the orthodox position was already under attack by writers like von Vollmar and David, who argued that SPD should accept the reality of its role as a non-revolutionary, reformist party committed to peaceful and political order. Only thus, they argued, could the support of the peasantry be secured. Such support was essential to the party's electoral success. Furthermore, and contrary to the expectations of Engels and Kautsky, they maintained, the peasants were not disappearing in the face of a triumphant capitalist agriculture, but were hanging on to a precarious existence in their millions. At least in agriculture, the polarisation of society was proceeding much less rapidly than Marx and his followers had anticipated.¹⁸ The broader implications of these arguments were traced by Bernstein between 1896 and 1898 in articles in *Die Neue Zeit* which were later published, with a number of postscripts and a reply to Kautsky's criticisms, under the title *On the History and Theory of Socialism*. They were followed in 1899 by a more systematic book-length version of the case for revisionism, *The Assumptions of Socialism and the Tasks of Social Democracy*, which was translated into English as *Evolutionary Socialism*.

The *Assumptions* began with a methodological manifesto. 'The further development and elaboration of the Marxist doctrine must begin with criticism of it', Bernstein claimed. Not only were there a number of contradictions in the orthodox theory, so that 'today . . . one can prove everything out of Marx and Engels'.¹⁹ It was also the case that Marx's excessively rigid materialism had devalued human consciousness and human will in favour of an almost Calvinist determinism which operated as a barrier against the formulation of an effective political strategy for social democracy. In fact society was increasingly freeing itself from the tyranny of economic laws, as Engels had acknowledged in many of his later writings. Orthodox Marxism had failed to take account of this, Bernstein

maintained, and had largely ignored the many fundamental changes in the nature of capitalist society which had occurred since 1867. He believed that a credible materialist conception of history could be defended against the excesses of the 'ultra-Marxists' (*Übermarxten*), but only on the basis of Kantian rather than Hegelian philosophy. Indeed, he concluded the book by putting himself forward as the Kant of social democracy.²⁰

The implications of this declamation were probably more far-reaching than Bernstein himself realised. In the final decades of the nineteenth century the growing intellectual revolt against positivism and empiricism led to a revival of academic interest, not in the long-discredited Hegelian dialectic, but rather in the Kantian theory of knowledge. Kant had rejected the positivist view of science as the mere establishment of regularities between empirically observable entities, stressing instead the prior role of the knowing subject in the structuring of knowledge. Although often criticised by Marxists for its supposedly ahistorical character, Kantian philosophy is not necessarily inconsistent with the Marx of the Paris manuscripts or the *Theses on Feuerbach*, and later influenced both the Austro-Marxists and the Frankfurt School. Neo-Kantianism was, however, difficult to reconcile with the positivistic materialism of Engels and Kautsky, and indeed posed a serious philosophical challenge to the prevailing Marxist orthodoxy, in particular to its assimilation of natural and social science. Bernstein made much less of it than he might have done. He was no philosopher, and was as much an eclectic empiricist as a consistent neo-Kantian.²¹

This is evident in his critique of Marxian value theory, for example, which drew upon Böhm-Bawerk's objections (which were outlined in Chapter 3 above) and showed considerable sympathy with marginal utility analysis, without any claim to have abandoned the labour theory of value altogether. Bernstein rejected Marx's treatment of differences in the skill, speed and efficiency of labour, agreeing with the Russian writer Leo von Buch that the quantity of labour performed by individual workers could be measured only by reference to the wages that they received. Unless defined in this way, value was a 'mere hypothesis, a mental construct without any reality'.²² Bernstein denied that Marx's theory of fetishism marked any significant advance over the classical theory of value, whose advocates were well aware that individual workers were part of a wider social division of labour. He was disappointed by Marx's treatment of value theory in the long-awaited third volume of *Capital*, and particularly by his discussion of the transformation problem. Bernstein was also unconvinced by Engels's historical defence of the labour theory of value (see Chapter 3 above), agreeing with Conrad Schmidt that, if labour values prevailed only in pre-capitalist economies, the concept of labour value when applied to capitalism represented 'a pure formula', 'an abstraction', 'a pure abstract concept'.²³ If the same could be said of marginal utility, the conclusion to be

drawn was that the neoclassical and Marxian theories shared the same ontological basis, so that there was no *a priori* reason for rejecting one in favour of the other. Both had their uses. Kautsky 'holds a pistol at my head: either-or'. But no-one (not even Kautsky) denied that both utility and a positive labour content were required to give an object value. Why not recognise this explicitly, Bernstein asked, instead of confusing the issue by conflating the two elements of value as Marx had done with his concept of 'socially necessary' labour?²⁴

On the theory of exploitation Bernstein again attempted to reconcile Marxist and neoclassical approaches. He pointed out that surplus labour is 'an empiric fact, demonstrable by experience, which needs no deductive proof', and that the labour theory of value is irrelevant to it except as 'a means of analysis and illustration'.²⁵ Marx himself had explained the origins of surplus value in terms of his model of primitive accumulation, without invoking the theory of value. There was no significant difference, Bernstein believed, between the Marxian theory of exploitation and those advanced by socialist economists of different persuasions. The same conclusions had been reached from the Rodbertian theory of 'rent' espoused by (among others) Eugen Dühring and by the English 'Jevonian Socialists', who had derived a theory of profit from the relation between labour value and demand price.²⁶ Moreover, Bernstein argued, the Marxian rate of surplus value was a misleading index of the degree of exploitation. Commodities were sold at their prices of production and not at their labour values, so that individual rates of surplus value were irrelevant. Some of the most wretched workers would be found to have the lowest rates of surplus value, and vice versa. Marx also exaggerated the overall rate of exploitation by treating mercantile and banking activities as unproductive, whereas they were 'from their nature indispensable to the social life of modern times'.²⁷ At this point Bernstein's discussion petered out. He had proved more effective as a critic of Marx's theory of value and exploitation than in setting out a substantive contribution of his own. British writers like Webb and Hobson were more forthcoming, even if they drew more heavily on Henry George and Alfred Marshall than on Marx or even on Jevons.²⁸

The third target of Bernstein's criticism was the Marxian theory of wages. Already in 1893 he had dismissed the Lassallean 'iron law of wages' as valid only in the era of 'manufacturing' preceding the 'modern industry' stage which began with the Industrial Revolution. It applied only in conditions of small industry and unconstrained competition in the labour market, and had no bearing on contemporary capitalism with its state intervention, trade union pressure and continuously increasing productivity. Real wages were growing, Bernstein claimed, in absolute if not in relative terms. If the position of the working class was indeed becoming increasingly intolerable, it was due to the uncertainty of its existence in a highly volatile economic environment and not to any persistent onslaught

on its physical standard of life.²⁹ Bernstein never repudiated this position, and added little to it in the *Assumptions*; nor did he deny the existence of relative immiseration, reflected in the faster growth of profits than of wages.³⁰ In 1901, however, he did point to the progressive segmentation of the working class by region and (especially) occupation. Like trade unions, modern technology gave rise to both levelling and differentiating tendencies within the working class, and it could not be said with any certainty which would predominate. But wage differentials were both large and expanding. These developments were rendering increasingly irrelevant the traditional Marxist treatment of the proletariat as a single homogeneous force, Bernstein suggested, and making the reserve army of the unemployed more of an abstraction than a reality. Such arguments, which had always formed part of the bourgeois critique of Marxian theory, were rediscovered in the 1970s by US Marxists. Bernstein concluded that they carried ominous political implications for social democracy, which required a unified and militant working class if it were ever to attain a monopoly of political power.³¹

His fourth objection was directed against the Marxian view of the capitalist class, and in particular against the notion that the means of production were rapidly becoming concentrated in the hands of a tiny minority. The SPD had already confronted this issue in its discussion of the 'agrarian question' in 1895–6, and in his book of that title Kautsky had been forced to concede that the centralisation of agricultural capital in Germany was proving both a slower and a more complicated affair than had hitherto been suspected.³² Bernstein cited evidence from several countries to support his contention that this was true outside agriculture, in fact for capitalist society as a whole. Data on tax liability and the distribution of shareholdings demonstrated a wide and probably increasing dispersion of property ownership rather than the growing concentration predicted by the orthodox Marxists. Something of the kind was needed, in fact, in order to explain how the expanding output of the consumer goods industries did, by and large, find profitable outlets in the home market.³³ While Bernstein admitted that large-scale industry was growing more rapidly, he pointed to the impressive survival of small workshops which, even in England, accounted for over half of all manufacturing employment. Economies of scale were evidently less important than was commonly believed, and small enterprises continued to dominate localised markets in such industries as baking and retail distribution. The Erfurt Programme had seriously overestimated the speed at which economic, and hence social and political, polarisation was taking place.³⁴

These conclusions led Bernstein directly to the final and most important part of his critique, in which he attacked the orthodox contention that economic crises would inevitably become more and more severe. Engels's rather ambivalent position in volume III could be read either as foreshadowing the end of regular cyclical crises of the old type or as predicting

continuous depression. Views on the cartelised 'new capitalism' of the late 1890s were equally conflicting. For some it was an increasingly regulated and controlled mode of production in which crises had largely been done away with, while for others it was simply in a state of permanent crisis.³⁵ Bernstein was convinced that the experience of the prosperous 1890s disproved the latter interpretation, which also rested upon faulty theoretical foundations. No more than Kautsky did he regard the falling rate of profit as pertinent to the question of crises. The most popular socialist theory of crises, he suggested in the *Assumptions*, was in terms of underconsumptionism. But this had been repudiated by Engels in *Anti-Dühring* and (after initial hesitation) by Marx himself, and was not defensible in an economy where the purchasing power of both the proletariat and the middle classes was steadily expanding.³⁶

In his later writings Marx had suggested two further causes of crises, Bernstein argued. One – the 'echo effect' induced by the bunching together of replacement investment expenditures – was implausible in principle and unsupported by any evidence. The other required disproportions in the reproduction process, brought about by the anarchic character of capitalist production and supposedly intensified by the growth of the world market and the great expansion of wealth and credit. Bernstein claimed, on the contrary, that these developments offered enhanced opportunities for orderly adjustment. It was more and more possible for over-production in specific industries to be avoided or eliminated without sparking off a general crisis. Improved communications were permitting information to be transmitted faster and with greater certainty. Cartels and trusts were able to regulate production and introduce greater stability of prices and output. Crises were still possible because of unforeseen external events, but they were no longer the necessary outcome of inexorable economic laws. The common expectation that capitalism would break down under the strain of its own contradictions was unfounded.³⁷

IV Luxemburg and Kautsky Reply

Much of Bernstein's critique was simply asserted rather than being the product of a closely reasoned argument. In part this reflected his own inadequacy as a theorist; in part it was inherent in the nature of the debate. There were no accepted indices of concentration, centralisation, social polarisation or the growth of proletarian consciousness, and no agreed criteria for assessing the degree to which trends in these phenomena lent support to one side or the other in the controversies they provoked. Defects similar to those in the revisionist case could also be found in *The Class Struggle*, and Bernstein did, it could be argued, have economic reality on his side. He would eventually be attacked on theoretical grounds, both

through the elaboration of formal models of crisis and breakdown and by less rigorous attempts to analyse the links between monopoly, finance capital, imperialism and war (see Chapters 5, 6, 13, 14 and 16 below). The initial reaction of Marxist orthodoxy was however polemical rather than scholarly. It was spearheaded, inevitably, by Karl Kautsky, but he was anticipated by the young, aggressive and very ambitious Rosa Luxemburg.

Biography of Rosa Luxemburg

Born in 1871 in Zamosc (part of Russian Poland) to middle-class Jewish parents, Luxemburg grew up in Warsaw but was forced into exile in Zurich in 1890. Here she studied at the University and helped to establish the anti-nationalist Polish Social Democratic Party (SDKP). Luxemburg moved to Germany in 1898, working as a journalist and teacher for the SPD, whose Central School in Berlin employed her as a lecturer from 1908 to 1914. Always linked to the SPD's left wing, she became a leader (with Karl Liebknecht) of the small minority of German socialists who from the outset urged revolutionary opposition to the First World War. Luxemburg was one of the founders of the *Spartakusbund* and, on her release from prison in 1918, of the German Communist Party (KPD). A passionate but critical supporter of the Bolshevik Revolution, she was murdered in 1919 with Liebknecht by right-wing para-militaries, with the connivance of the new SPD government.

Because Kautsky held back for a long time out of personal friendship for Bernstein, Luxemburg was first into the fray.³⁸ Her attack, in a series of newspaper articles in 1898, started from the same political assessment of revisionism as the liberal British economist James Bonar was to make in his review of the *Assumptions*: 'The principles of Mr Bernstein, in fact, seem to give us not Social Democracy, but Democracy without Socialism, without what has hitherto passed for Socialism in Germany or even (Protean as it has been) in our own country. "We are all Socialists", Mr Bernstein not less than most of us, and not much more.'³⁹ Luxemburg declared her intention to be the defence of 'socialist theory up to now', which 'declared that the point of departure for a transformation to socialism would be a general and catastrophic crisis . . . the affirmation that capitalism, as a result of its own inner contradictions, moves towards a point when it will be unbalanced, when it will simply be impossible.' This was one reading of established

Marxist doctrine, which Luxemburg shared with lesser figures like Heinrich Cunow and the English socialist, E. Belfort Bax, but not – or so he was later to claim – with Kautsky.

Three propositions formed the pillars of scientific socialism, she continued. The first was ‘growing anarchy of the capitalist economy’, leading eventually to its ruin; the second was the increasing socialisation of production within capitalism, which contained the germ of the future socialist order; and the third was the swelling organisation and consciousness of the proletariat. Bernstein denied the first proposition but refused to answer the obvious question: ‘Why and how, in that case, shall we attain the final goal?’ He regarded the second and third propositions as factors which suppressed crises and promoted peaceful progress, thereby rendering socialist revolution superfluous. Against this Luxemburg argued that the growth of credit and cartels exacerbated the contradictions between production and consumption, and increased the severity of crises. The extension of credit led to expanded production, often through inherently unstable speculative activity. Then, when confidence faltered, it rapidly reduced consumption since ‘at the first symptom of a crisis, credit melts away’. Far from serving as a means of adaptation, cartels appeared to Luxemburg as another ‘instrument of greater anarchy’. They permitted profits in some branches of industry to rise at the expense of others, but could not hold back ‘the fatal fall of the rate of profit’ in the economy as a whole.⁴⁰

It is significant that Luxemburg (here following Kautsky) should see the falling rate of profit as a means of the centralisation of capital rather than as a major cause of crises. This passing reference seems to have been the only occasion on which she took the tendency at all seriously. Later in the pamphlet she described militarism as ‘indispensable’ for the capitalists ‘as a method of placement for financial and industrial capital’. If this contained in embryo the future Hilferding–Lenin theory of imperialism impelled by capital exports which resulted from declining profit rates at home, it was in Luxemburg’s case stillborn. Her own analysis of imperialism, which had a gestation period of fully fifteen years, took on quite a different form (see Chapter 6 below).⁴¹ There is nothing in this early polemic that would qualify as a *theory* of crisis, for which slogans about the anarchy of capitalist production or the contradiction between production and consumption were a poor substitute. Bernstein had little difficulty in countering Luxemburg’s assertions about the role of credit and cartels, while his reaction to her question concerning the attainment of the SPD’s ‘final goal’ was the famous revisionist maxim:

I have remarkably little interest in or understanding of what is commonly meant by “the final goal of socialism”. *This goal, whatever it may be, is nothing to me; the movement is everything.* And by the movement I

understand the general movement of society, i.e. social progress, just as much as political and economic agitation and organisation for bringing about this progress.⁴²

Karl Kautsky's *Antikritik*⁴³ was an altogether more substantial effort. Like Luxemburg's diatribe it was political to its core. The cornerstone of Kautsky's politics was his belief that the interests of capitalists and workers were totally irreconcilable. The proletariat must therefore remain isolated from other classes, and social democracy must be completely independent of all other parties. This perspective conditioned Kautsky's reaction to both the philosophical and the economic foundations of revisionism. He rejected the neo-Kantian element in Bernstein's thought because it derived socialism from universal ethical principles which deprived it of its proletarian class basis. And he insisted upon the growing centralisation of capital and increasing severity of economic crises, since without these tendencies there was the prospect of precisely the class conciliation and political coalitions which he so vehemently repudiated.⁴⁴

Characteristically the *Antikritik* begins with methodological issues. Bernstein criticises Marx's method, Kautsky maintains, but fails to put anything in its place and (inconsistently) continues to use it. Revisionist objections to the materialist conception of history are misplaced, since Marxism emphasises the class struggle rather than mechanical necessity.⁴⁵ There follows a brief and unsatisfactory chapter on the theory of value. Kautsky's only concession to Bernstein on this question concerns the 'reduction' of skilled to unskilled labour, on which – he admits – Marx could have been more explicit. But value is theoretically prior to wages, and the latter cannot legitimately be used to determine the former. Value is not a purely theoretical concept, as Bernstein supposes, but is in principle observable as the long-run tendency or centre of gravity around which prices fluctuate. Kautsky condemns Bernstein's eclecticism and accuses him of vagueness and evasion in refusing to specify those uses in which marginal utility analysis is allegedly superior to the labour theory of value. However Kautsky himself offers neither a criticism of neoclassical theory nor the detailed treatment of wage determination which he admits to be required; nor does he so much as mention the problems associated with Marx's analysis of the transformation of labour values into prices of production. The chapter concludes with a dogmatic assertion that a rejection of the labour theory of value would entail abandonment, not just of any theory of exploitation, but of the materialist conception of history in its entirety. Kautsky makes no attempt to justify these very sweeping statements, and his treatment of the whole issue is greatly inferior to Hilferding's attack on Böhm-Bawerk which appeared five years later (see Chapter 3 above).⁴⁶

The chief purpose of the *Antikritik* was to defend the graphic picture of capitalist development drawn in the Erfurt Programme, which ostensibly

formed the basis of the SPD's strategy. This occupies the remaining four-fifths of the book. First Kautsky denounces the so-called breakdown theory as a figment of Bernstein's imagination. Neither Kautsky himself nor Marx and Engels had ever advanced a theory of inevitable economic collapse, and the very word was not (as Bernstein had claimed) part of the everyday language of social democracy. The true 'breakdown theory', as Kautsky concluded, was that of the *Communist Manifesto*, which referred only to the growing power, unity and class-consciousness of the proletariat and was completely inconsistent with the fatalism of which Bernstein accused the socialist movement. There was a little truth in this, but Kautsky had conveniently forgotten both the apocalyptic tone of some of his own earlier writing and Rosa Luxemburg's very explicit statement of the breakdown theory.⁴⁷

He was on much firmer ground in challenging Bernstein's critique of the concentration of capital. Again the revisionist case lacked precision, Kautsky argued, and it was difficult to know whether Bernstein was denying the existence of any tendency towards increased concentration. All theories were necessarily abstract and 'unrealistic', he observed, and, if Bernstein was saying nothing more than that, then he need not arouse serious concern. In fact the concentration of capital was progressing in all branches of the economy, sometimes very rapidly, sometimes more slowly. It was least developed in retail trade: Bernstein's was a theory of 'the barber's shop and the public house,' which did not apply to the leading sectors of manufacturing industry. Small capitalists were in any case increasingly dependent upon large capital, and this was especially true in agriculture, where statistics on land tenure concealed growth in the effective concentration of economic power. The existence of industrial cartels was further evidence of enhanced concentration, which Bernstein surprisingly ignored.⁴⁸

There was insufficient statistical support for Bernstein's claim that the number of property-owners was increasing, Kautsky continued, except in Britain, which, as the centre of a global empire, was a very special case. As for joint-stock companies, they represented a means for extending concentration. With their growing numbers of totally idle capitalists they also demonstrated the parasitic and historically superfluous character of the capitalist mode of production.⁴⁹ Finally, Kautsky maintained, Bernstein's theoretical case for the increased size of the propertied classes was unconvincing. The enormous expansion of surplus value did not require an ever-increasing number of capitalist bellies to consume it. Much was absorbed by unproductive expenditure by the very rich or by the state on their behalf, including military establishments and conspicuous consumption on fashionable and ostentatious goods. Above all, the accumulation of capital constituted the most important outlet for surplus value.⁵⁰

On the question of wages Kautsky made substantial concessions to

Bernstein, restricting physical immiseration to those areas where capitalist production had only recently established itself. Relative immiseration was growing, however, in the advanced countries, since proletarian living standards rose less rapidly than those of the capitalists, and the chronic insecurity of their position threatened the modest comforts of even the most privileged sections of the English and German working classes.⁵¹ There was nothing here with which Bernstein could disagree.

It was otherwise with his treatment of economic crises. Kautsky commenced with the revealing statement that crises were only a secondary issue, less important than the concentration of capital and the sharpening of social contradictions. They merely strengthened those tendencies, which would continue even in their absence. Marx and Engels had never claimed that economic crises were a necessary condition for socialism, Kautsky argued; once again Bernstein was setting up a straw man. Nor did anyone deny that the ten-yearly fluctuations experienced in Marx's day had ceased. The real question was whether crises, of whatever periodicity, must necessarily recur and, if so, for what reasons.⁵²

Kautsky maintained that the anarchy of capitalist production made crises inevitable, since it gave rise to over-production. As the rate of growth of output increased, so too did the system's requirements for customers. The working class could not constitute a sufficient market, since its share of aggregate income was decreasing. Any increase in the home market was due to the decline of subsistence production, and similar pressures permitted the expansion of external markets. But it was never enough. 'Every further extension of the market stimulates production, driving it to over-production and crises. And every crisis provides the most urgent incentive for the extension of the market.' This not only promotes the concentration of capital and increases the insecurity of working-class existence, thus moving society closer to socialism. It also undermines capitalism in a more direct way. Once over-production becomes chronic, in the sense that markets can no longer keep pace with production, the capitalist mode of production 'tends to become impossible' (*wird zur Unmöglichkeit*). Kautsky denies the necessity of a massive, world-wide crisis, with socialism emerging phoenix-like from the ashes of capitalist production. Over-production may set in only slowly, and there can be no question of precise knowledge of 'why' and 'when'. The class struggle may well do away with capitalism long before the final limit of chronic over-production is reached, but the very existence of such a limit is of political significance, since it serves to bring the ultimate goal within sight.⁵³

There is nothing more on crisis theory in the *Antikritik*, apart from a brief discussion of credit and cartels which adds very little to Luxemburg's assessment.⁵⁴ Kautsky published a much longer account of his ideas in *Die Neue Zeit* in 1901 while reviewing a book on crises by the Russian revisionist Michael Tugan-Baranovsky (for whom see Chapters 9 and 10

below). He begins by defending Marx's analysis of the falling rate of profit against Tugan-Baranovsky's assertions that the rate of profit will increase with rising labour productivity. Significantly, Kautsky once again treats this as an isolated technical issue with no direct bearing on the question of crises.⁵⁵ In the second part of the article he sets out his interpretation of Marx's theory of crisis, which is explicitly underconsumptionist. 'In the proletariat, however, there exists a class whose underconsumption is a necessary result of its social circumstances. The underconsumption is not however to be understood in a physical sense, a bit like undernourishment, but in social terms, as the consumption of a class which falls behind its production'.⁵⁶

Underconsumption in this sense is a universal feature of class societies, Kautsky continues, yet there have been crises for less than a century. Hence underconsumption leads to crises only under definite historical conditions. Before the advent of industrial capitalism, exploitation was oriented almost entirely towards satisfying the luxury consumption requirements of the propertied classes, and there was no great danger of over-production. Capitalism introduces both constraints upon consumption by the rich and continuous and rapid increases in the output of consumer goods. Therefore capitalists 'must seek an additional market outside their own sphere in occupations and nations not yet producing capitalistically'. But even this is inadequate, Kautsky asserts, because such markets do not possess the remarkable elasticity of capitalist production. 'This is, in short, as far as we can see, the generally accepted "orthodox" Marxist theory of crisis, established by Marx'.⁵⁷

Kautsky had advanced a similar argument as early as 1884,⁵⁸ foreshadowing Rosa Luxemburg's later analysis of imperialism, which will be considered in detail in Chapter 6 below. He continued his criticism of Tugan-Baranovsky by turning to the question of disproportionality between the various branches of capitalist industry, which Tugan-Baranovsky regarded as the only cause of crises (see Chapters 9 and 10 below). The latter had invoked Marx's reproduction models to demonstrate that over-production could be avoided so long as all branches grew at an appropriate rate. Only the anarchic, unplanned character of capitalist production, he concluded, made proportional growth unlikely and thus gave rise to crises. Kautsky agreed with him that disproportionality was a 'factor which from time to time can . . . engender crises of its own accord or further sharpen a general crisis' which was already in existence. But underconsumption was the 'ultimate cause' (*den letzten Grund*) of all crises. Capitalism was not a self-sustaining mechanism irrespective of human needs, as Tugan-Baranovsky believed. 'Production is and remains production for human consumption', Kautsky maintained, and continuous crisis-free expansion of production with increased consumption was impossible.⁵⁹

On the positive side, Tugan-Baranovsky had shown the futility of

attempts to invoke cartels as a means of averting crises.⁶⁰ He had also documented the global increase in unemployment, which Kautsky interpreted as evidence that crises had become sharper and more prolonged. Bernstein's 'liberal optimism' of a few years ago could no longer be sustained.⁶¹ Tugan-Baranovsky's data were also consistent with Parvus's hypothesis of long cycles in economic activity, the first beginning in 1815 and ending in 1849, the second occupying the period 1849–87, and the third (which had begun in 1887) still in its upward phase. This theory explained both the *relative prosperity of the 1890s and the inevitability of its demise*, Kautsky concluded, for the previous *Sturm und Drang* periods of rapid expansion had lasted only twenty or at best twenty-five years. Chronic overproduction must set in, probably quite soon. Before it began there was a serious danger of war, for periods of stagnation were most propitious to the preservation of world peace.⁶²

Kautsky's discussion of crises reveals the dominance of underconsumptionist ideas in Marxist thought before 1914, together with the marginality of the falling rate of profit and the widespread suspicion of disproportionality models of crises. In analytical terms, however, his performance was not especially impressive. It was very easy to score points off Tugan-Baranovsky by showing that his example of crisis-free growth with reduced consumption represented only one very special case,⁶³ or to hoist Bernstein by his own petard (since the pioneer revisionist himself accepted the reality of relative immiseration). Constructing a formal model of underconsumption and linking it to periodic crises was much more difficult, and Kautsky never made the effort. He did not need to, for Bernstein had even less to offer in this respect. Neither protagonist, in fact, had displayed any great aptitude for political economy.

V An Assessment

Kautskyian orthodoxy rested upon a particular view of German society, which Bernstein contested with only partial success. Kautsky maintained that capitalism in Germany was both fully developed and increasingly crisis-prone. It was thus ripe for replacement by socialism, through the revolutionary intervention of a homogenous and militantly class-conscious proletariat. Bernstein challenged Kautsky's assertion of the growing severity of economic crises, for which indeed no convincing explanation had been supplied. He was able to show that German society was much more complicated than the polarised pure capitalism of Marx's abstract models. Small business was too firmly entrenched, the *petite-bourgeoisie* too powerful, the working class too segmented and reformist, for the orthodox vision of imminent revolution to be at all credible.

But Bernstein's hopes for the gradual achievement of social democracy

through peaceful parliamentary means were equally unrealistic. They presupposed a liberal bourgeoisie which was prepared to ally itself with the socialists against the state; and there was no such animal. Thus Kautsky was right to argue that the various non-proletarian classes and groups constituted – potentially if not yet actually – a single reactionary mass in opposition to the working class, and that socialism could be won only through the independent action of the proletariat, fighting alone against all other classes. His error lay in a gross exaggeration of its revolutionary potential in contemporary Germany. The mirror image of Kautsky's mistake was Bernstein's wholly unwarranted optimism concerning the prospects for a class alliance to secure democratic reforms.

Both in practical organisational terms and at the intellectual level, Bernstein was the clear loser in the revisionist controversy. Attempts to amend the Erfurt Programme were consistently opposed by a substantial majority in the SPD. Even within the faction of the party hostile to Kautskyian orthodoxy, Bernstein was more of a symbol than an important political leader; this role was occupied by Joseph Bloch, the editor of the revisionist journal *Sozialistische Monatshefte*.⁶⁴ Bernstein's replies to Kautsky's analytical criticisms, published in occasional articles and in the various postscripts to the pieces collected in *Zur Geschichte*, were fragmentary and lacking in depth.⁶⁵ The theoretical treatise which would have been necessary if the revisionists were to mount an effective challenge to orthodox beliefs did not appear. Bernstein himself was almost certainly incapable of writing it and the only other possible candidate, Conrad Schmidt, had settled for life as a journalist.

This is not to deny that there was considerable force in their arguments, both at the more abstract level (neo-Kantian epistemology, for example), and in terms of more concrete economic analysis (value theory, crises, the emergence of what Hilferding was later to describe as 'organised capitalism'). There should have been nothing shocking in the notion of revisionism as such. Indeed, the very concept of Marxism as a science of historical society, with its constantly changing human subject-matter, could be interpreted as demanding continuous revision of laws and concepts. But orthodox Marxism was assuming the character of a rigid theology, immune to criticism and increasingly prone to heresy-hunts. Hence Bernstein was more often denounced than refuted.

Perhaps, too, the revisionists' intellectual project – a theory of history, society, politics and economics of sufficient stature to rival that of Engels and Kautsky – was simply too ambitious for it ever to have succeeded. Certainly revisionism failed to make much headway elsewhere in European social democracy. Even in Russia, where Bernstein claimed extensive support and where Lenin repeatedly accused not only the 'legal Marxists' and 'Economists' but also the Mensheviks of 'opportunism', the principal issues at stake were rather different. The controversy within the Russian

socialist movement concerned the strategy required to ensure a successful bourgeois–democratic revolution, which (before 1917) all non-peasant parties agreed to be the only possible form of revolution in the backward conditions of Tsarist Russia. It is true that ‘legal Marxists’ such as Tugan-Baranovsky and Struve used ideas similar to those of Bernstein, but this occurred as part of a process in which they came to reject all forms of Marxism (see Chapter 10 below).⁶⁶

In Germany, though, there is much to be said for the view that Bernstein, having lost the opening battle, went on to win the war. For all practical purposes the SPD was, as he described it, a pragmatic reformist party, largely devoid of revolutionary zeal and incapable (as the events of 1918–19 revealed) even of carrying out a comprehensive bourgeois–democratic reconstruction of the German state. Both the party and (especially) its trade union affiliates were compromised, by the – very limited – reformist gains which they achieved, into something very close to an acceptance of the social and political *status quo*.⁶⁷ Arguably the contradiction between revolutionary programme and reformist activity poses an inescapable dilemma for any socialist movement which operates, however tenuously, as a legal political entity.⁶⁸ The long-term consequences are clear. Sooner or later – it proved to be later – theory and practice would have to be reconciled, and it would not be practice which gave way. Thus the SPD’s Goerlitz Programme, in force between 1921 and 1925, was revisionist in spirit.⁶⁹ And many theoretical developments between 1914 and 1933, from Hilferding’s concept of ‘organised capitalism’ to the Frankfurt School’s rejection of any automatic economic laws, have their origins in Bernstein’s original polemic (see Chapter 14 below).

Prior to 1914, however, orthodoxy reigned. If the first fifteen years of the century did see considerable advances in Marxian political economy, it was largely through the disposal of unfinished business left over from Kautsky’s defeat of Bernstein. Aside from the theory of value, the agenda consisted of three closely related items. First, a more elaborate analysis of crises (or, according to taste, of economic breakdown) had to be provided. Second, a more systematic account was needed of the new stage in capitalist development in which the central problems were posed by cartels and credit, and in which bankers and financiers featured more prominently than the cotton manufacturers of Marx’s day. The final and most urgent requirement was for an economic explanation of imperialist rivalry, of colonial expansion and of the growth of militarism, which were posing political questions which could no longer be ignored. The response of the German theoreticians to these issues forms the subject of the next two chapters; Russian writings are discussed in Chapter 13.

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3. R. Geary, 'The German Labour Movement 1848–1919', *European Studies Review*, 6, 1976, pp. 297–330; W. L. Guttsman, *The German Social Democratic Party, 1875–1933* (London: Allen & Unwin, 1981); V. L. Lidtke, *The Outlawed Party: Social Democracy in Germany, 1878–1890* (Princeton, N.J.: Princeton University Press, 1966); G. Roth, *The Social Democrats in Imperial Germany: a Study in Working Class Isolation* (Totowa, N.J.: Bedminster Press, 1963).
4. Lidtke, *The Outlawed Party* pp. 59–66; G. Steenson, *Karl Kautsky 1854–1938: Marxism in the Classical Years* (Pittsburgh: University of Pittsburgh Press, 1978) pp. 67–8.
5. K. Kautsky, *The Economic Doctrines of Karl Marx* (London: A. & C. Black, 1925).
6. Steenson, *Karl Kautsky*, p. 66; D. W. Morgan, 'The "Orthodox" Marxists: First Generation of a Tradition', pp. 4–15 of R. J. Bullen *et al.* (eds) *Ideas Into Politics: Aspects of European History 1880–1950* (London: Croom & Helm, 1984).
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8. K. Kautsky, *The Class Struggle* (New York: W. W. Norton, 1971; first published 1892) pp. 48, 71–81.
9. *Ibid.*, pp. 53, 60–2, 68, 77–8.
10. *Ibid.*, pp. 81–7.
11. F. R. Hansen, *The Breakdown of Capitalism: A History of the Idea in Western Marxism* (London: Routledge & Kegan Paul, 1985) pp. 77–8.
12. *The Class Struggle*, p. 117.
13. R. Fletcher, *Revisionism and Empire: Socialist Imperialism in Germany 1897–1914* (London: Allen & Unwin, 1984) pp. 33, 40; Geary, 'German Labour Movement', p. 305.
14. Cited by Guttsman, *German Social Democratic Party*, pp. 274, 288.
15. P. Angel, *Eduard Bernstein et l'Evolution du Socialisme Allemand* (Paris: Marcel Didier, 1961) pp. 106–9, which is by far the best general account of Bernstein's life and thought. See also P. Gay, *The Dilemma of Democratic Socialism: Eduard Bernstein's Challenge to Marx* (London: Collier–Macmillan, 1962) p. 67, and Fletcher, *Revisionism and Empire*, pp. 152–4. On 'New Liberalism' see J. Allett, *New Liberalism: The Political Economy of J. A. Hobson* (Toronto: University of Toronto Press, 1981).
16. Cited by Lidtke, *The Outlawed Party*, p. 317; cf. Angel, *Eduard Bernstein; Fletcher, Revision and Empire*, pp. 143, 152–4.
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 21. T. Bottomore (ed.) *A Dictionary of Marxist Thought* (Oxford: Blackwell, 1983) pp. 36–7, 183, 247–8, 288; Fletcher, *Revisionism and Empire*, pp. 130–3; cf. Angel, *Eduard Bernstein*, pp. 182–206, and Gay, *The Dilemma*, pp. 151–63.
 22. *Zur Geschichte*, pp. 370–1, 378–80; cf. Angel, *Eduard Bernstein*, pp. 335–6. Von Buch's work, *Intensität der Arbeit, Wert und Preis der Waren* (Leipzig: Dunker & Humblott, 1896) is sufficiently obscure to have escaped Schumpeter's attention. Its central theme has recently resurfaced: see I. Steedman, 'Heterogeneous Labour, Money Wages and Marx's Theory', *History of Political Economy*, 17, 1985, pp. 551–74.
 23. *Zur Geschichte*, pp. 374–5; *Evolutionary Socialism*, pp. 29–32; Angel, *Eduard Bernstein*, pp. 208–13; Gay, *The Dilemma*, p. 180–4.
 24. *Zur Geschichte*, p. 372.
 25. *Evolutionary Socialism*, p. 35; cf. R. L. Meek, *Studies in the Labour Theory of Value* (London: Lawrence & Wishart, 1973) pp. 126–7; Angel (*Eduard Bernstein*, pp. 213–4) is misleading about Bernstein's views on this issue.
 26. *Zur Geschichte*, pp. 372–4.
 27. *Evolutionary Socialism*, pp. 33–9.
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 30. Heimann, 'Die Aktualität Bernsteins', p. 10; Angel, *Eduard Bernstein*, pp. 223–4.
 31. *Zur Geschichte*, pp. 97–105; cf. Angel, *Eduard Bernstein*, pp. 231–6, and D. M. Gordon, R. C. Edwards and M. Reich, *Segmented Work, Divided Workers: the Historical Transformation of Labor in the United States* (Cambridge: Cambridge University Press, 1982).
 32. A. Hussain and K. Tribe, *Marxism and the Agrarian Question*, especially pp. 103–38.
 33. *Evolutionary Socialism*, pp. 42–51.
 34. *Ibid.*, pp. 54–72.
 35. Hansen, *Breakdown of Capitalism*, pp. 38–9, 48–9.
 36. *Evolutionary Socialism*, pp. 73–5; Angel, *Eduard Bernstein*, pp. 218–21.
 37. *Evolutionary Socialism*, pp. 76–94; *Zur Geschichte*, pp. 229–32; Angel, *Eduard Bernstein*, pp. 224–8. The argument was put explicitly by Max Schippel at the 1894 SPD congress: see H. J. Marks, 'The Sources of Reformism in the SPD of Germany 1890–1914', *Journal of Modern History*, 11, 1939, pp. 337–8.
 38. Steenson, *Karl Kautsky*, p. 121.

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40. R. Luxemburg, *Reform or Revolution* (New York: Pathfinder Press, 1970; reprint of second German edition, 1908) pp. 8–13.
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43. K. Kautsky, *Bernstein und das Sozialdemokratische Program: Eine Antikritik* (Stuttgart: Dietz, 1899); cited hereafter as *Antikritik*.
44. See D. Geary, *Karl Kautsky* (Manchester: Manchester University Press, 1987).
45. *Antikritik*, pp. 1–34.
46. *Ibid*, pp. 34–41; Bernstein's reply is in *Zur Geschichte*, pp. 366–81.
47. *Antikritik*, pp. 42–9; cf. *Zur Geschichte*, pp. 218–222.
48. *Antikritik*, pp. 49–80.
49. *Ibid*, pp. 86–95, 100–1.
50. *Ibid*, pp. 104–14.
51. *Ibid*, pp. 127–8.
52. *Ibid*, pp. 135–7.
53. *Ibid*, pp. 140–5.
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55. K. Kautsky, 'Krisentheorien', *Die Neue Zeit*, 20, 1901–2, pp. 38–45, reviewing M. Tugan-Baranovsky, *Studien zur Theorie und Geschichte der Handelskrisen in England* (Jena: Gustav Fischer, 1901).
56. *Ibid*, pp. 78–9.
57. *Ibid*, pp. 79–81.
58. Anon. (K. Kautsky) 'Tongking', *Die Neue Zeit*, 2, 1884, pp. 156–64. (We are grateful to Dick Geary for bringing this article to our attention.)
59. 'Krisentheorien', pp. 110–8; cf. *ibid*, p. 140.
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61. *Ibid*, pp. 133–6.
62. *Ibid*, pp. 137–8, 140–1, 143. On the history of 'long wave' analysis see E. Mandel, *Long Waves of Capitalist Economic Development: The Marxist Interpretation* (Cambridge: Cambridge University Press, 1980). For Parvus, see Chapter 12 below and Z. A. B. Zeman and W. B. Scharlau, *The Merchant of Revolution: The Life of Alexander Helphand 1867–1924* (Oxford: Oxford University Press, 1965).
63. 'Krisentheorien', pp. 116–17.
64. Fletcher, *Revisionism and Empire*, pp. 2, 139.
65. For a survey of Bernstein's writings between 1900 and 1914 see Angel, *Eduard Bernstein*, pp. 331–60.
66. L. Kolakowski, *Main Currents of Marxism, Volume 2: the Golden Age* (Oxford: Clarendon Press, 1978) pp. 347–50, 355, 363, 367–72, 378–9; G. Gneuss, 'The Precursor: Eduard Bernstein', in L. Labedz (ed.) *Revisionism* (London: Allen & Unwin, 1962) p. 40.
67. R. J. Evans, 'Introduction: the Sociological Interpretation of German Labour History', pp. 15–34 of Evans (ed.) *The German Working Class 1888–1933* (London: Croom Helm, 1892); Geary, 'German Labour Movement', p. 308; Roth, *Social Democrats*, especially pp. 227–32.
68. R. Miliband, *Parliamentary Socialism* (London: Merlin, 1973).
69. Gneuss, 'The Precursor', p. 40; after the SPD's merger with the more radical USPD in 1925 the Erfurt tradition was revived with the adoption of the Heidelberg Programme of that date.

5

Finance Capital and Imperialism: Karl Kautsky and Rudolf Hilferding

I Introduction

The final quarter of the nineteenth century saw a number of important changes in the world capitalist economy and in the political relations between the Great Powers. Whereas the late 1860s witnessed the closest ever approximation to universal free trade, the trend thereafter was towards increased protectionism, together with growing monopolisation primarily through the establishment of trusts and cartels. World trade continued to grow more rapidly than industrial output, and between 1870 and 1914 there was a massive migration of people from Europe to the newly-settled areas of North and South America, Australia and South Africa. This was accompanied by the exportation of capital on a gigantic scale, increasing the overseas assets of the European countries from \$6.5 billion in 1874 to \$44.0 billion in 1913, and by the frantic acquisition of colonies in the 'Scramble for Africa' and elsewhere. How far this amounted to a distinct new stage of capitalist development remains controversial, for there had always been elements of monopoly in capitalist economies and the fastest growth in both commodity and capital exports came before rather than after 1875, while the 'imperialism of free trade' had allowed Britain (especially) to expand its formal and informal empire throughout the nineteenth century.¹

At the political level, however, there is less reason to doubt that fundamental changes were taking place. The long decades of peace and relative international harmony were giving way to an era of mounting tension, set against a background of increasing economic rivalry as the economies of continental Europe followed Britain with their own industrial revolutions. The most graphic evidence of increasing friction is supplied by the accelerating remilitarisation of Europe. Between 1870 and 1910 arma-

ments expenditure per capita doubled in Britain, France and Russia, and trebled in Germany; there were further substantial increases over the next four years. By 1914 arms accounted for 3.4 per cent of national income in Britain, 4.6 per cent in Germany, 4.8 per cent in France and over 6 per cent in Austro-Hungary and Russia.² By the standards of the late twentieth century these figures are small enough, but in the context of the recent past the increases were huge. If war itself lay in the future, preparations for war were evident on all sides in the quarter-century after 1890.

These developments posed serious problems for German Social Democracy. In practical political terms the movement had to decide its position on such issues as protective tariffs, colonial expansion and the growth of military expenditure. The stronger the SPD's electoral role, the more difficult it became to avoid taking a stand on these questions. The voting behaviour of the party's representatives in the Reichstag was a matter of public record, and even abstentions (justified on the grounds that the details of commercial policy were of no concern to the proletariat) were open to exploitation by its enemies. Nor could the related analytical issues be easily ignored. What was the relationship (if any) between political expansion, military belligerence and the economic contradictions of contemporary German capitalism? Did the new imperialism herald a qualitatively different stage of capitalist production? If so what were its implications for economic crises and the class struggle? How could the new stage be characterised, and how would it end? As with the revisionist controversy, the theoretical debate on imperialism was assumed by all who took part in it to have immediate political significance and, to a very considerable extent, they were right. In this chapter we consider the analysis of imperialism offered by Karl Kautsky and Rudolf Hilferding. Later chapters discuss the contributions of Rosa Luxemburg and Otto Bauer (Chapter 6) and of the Russian Marxists, most notably Nikolai Bukharin and V. I. Lenin (Chapter 13).

II Bernstein and Kautsky on Imperialism

Marx had provided very little guidance on these matters, his published writings on imperialism being scanty, fragmented and often contradictory. In addition his journalism (in which form many of the relevant pieces had appeared) was largely unavailable before 1914.³ As we saw in Chapter 1 Engels added little of substance beyond a denunciation of protectionism and a demand for the general disarmament of the leading capitalist powers, which was possible, he claimed, within the existing social framework. There is little suggestion in Marx's work, and hardly any in that of Engels, that there might be a close connection between economic crises, the concentration of capital, and the impulse to imperialism.

Was the new expansionism, then, nothing more than an aberration due to the political pressures of reactionary and pre-capitalist interest groups, rather than anything more fundamental? This position was consistently upheld by Edward Bernstein, once again reflecting the influence upon him of cosmopolitan British liberals such as Hobson and Brailsford. Like Hobson, Bernstein defended the right of more-civilised peoples to impose progress upon lower cultures. This much he had in common with the right wing of the SPD, where jingoism was rife.⁴ But Bernstein denied that colonial policy and national consciousness entailed an illiberal and aggressive chauvinism. On the contrary: for him the protectionist ideas of the *Kathedersozialisten* were romantic nonsense. The logic of free trade would prove irresistible, and international harmony would increase:

The economic development of nations will intensify their enmity: what nonsense! As if nations were petty shopkeepers competing for a limited clientele such that a gain for one necessarily represented a loss for the others. A mere glance at the development of the commercial relations among the advanced countries demonstrates the fallacious character of these ideas. The most industrially developed countries are simultaneously *competitors* and *customers* of one another; likewise, their trade relations expand simultaneously with their mutual competition ... the era in which peoples attempted to subjugate one another is finished in Europe, and the same will more and more tend to be true in Asia. We have entered a new epoch, an epoch in which international law will prevail.⁵

This essentially liberal optimism was clear, consistent and fully in accordance with Bernstein's overall conception of capitalist development. Karl Kautsky's ideas on imperialism never attained a similar coherence. Fruitful but profoundly contradictory, Kautsky's writings contain the germ of every significant view expressed by anti-revisionist theorists before 1914, as well as anticipating the non-Marxist model of imperialism advanced by Joseph Schumpeter.⁶ As early as 1884 Kautsky argued that colonies were a prerequisite for capitalist expansion, and that Germany's lack of them was one of the main reasons why she had failed to industrialise at the same time as Britain.⁷ In the seventeenth and eighteenth centuries colonial possessions had been essential both for the primitive accumulation of capital and as a source of markets. The latter function (realisation) was now much the more important, Kautsky maintained. Workers received in wages less than the value of their product, and capitalist consumption was insufficient to fill the gap. Hence capitalists must find 'a market outside the sphere of their own production' which could offer the prospect of continuous growth. Their first target was the domestic peasantry, but its purchasing power was restricted by its steady improverishment. Accordingly, 'as a sales market the colonies have become a condition of existence for capitalism'.⁸ This

position was later to be argued vigorously by Rosa Luxemburg (see Chapter 6 below).

The 'social imperialists' within the SPD were to use a similar analysis to support the expanding German empire, either with ill-concealed nationalistic fervour or on the slightly devious argument that anything which accelerated the development of capitalism also brought socialism nearer.⁹ Kautsky however denied that the French seizure of Tongking (the occasion for this article) would be of any lasting benefit for French capitalism. Rather the reverse: it would encourage competition from the emerging Chinese bourgeoisie, and with it the growth of a national liberation movement of the type already apparent in India, Japan and the Islamic world. The result would be the 'breakdown of the modern colonial system', which would 'make the continuation of the present industrial system impossible', and lead inexorably to socialism.¹⁰

There are echoes of this essentially Luxemburgist analysis of imperialism in *The Class Struggle*, the widely-read exposition of the SPD's Erfurt Programme which Kautsky published in 1892 (see Chapter 4 above). But his earlier triumphal conclusion is now tempered with pessimism. Territorial expansion is essential for the growth of markets, he argues; colonial policy encourages militarism; and this turns Europe into an armed camp. 'There are but two ways out of this intolerable state of things: either a gigantic war that shall destroy some of the existing European states, or a union of them all in a federation.'¹¹ This final suggestion re-emerged fifteen years later as the concept of 'ultra-imperialism' (see Chapter 6 below), and was to provoke the wrath of Lenin (see Chapter 13 below).

In these early writings Kautsky seems to be in no doubt that overseas expansion is a rational policy for the capitalist class as a whole. By 1897–8 his position had changed. In a long article on 'Colonial Policy Old and New', Kautsky distinguished 'labour colonies' based on European settlement from 'exploitation colonies' where plunder of the large native populations was the rule. The latter offered little but cheap imports. Only the labour colonies could provide a useful outlet for exports from the colonial power, and the outcome of the American War of Independence had demonstrated the futility of attempting to monopolise their markets. Pre-industrial classes (merchants, usurers, state functionaries) could benefit from exploitation colonies, but industrial capitalists needed customers with purchasing power. Where merchant capital had been monopolistic and militaristic, industrial capital sought peace and order and became (as in the case of Britain) actively anti-colonialist. Kautsky interpreted the contemporary reversion to mercantilist policies of protection and colonial plunder as a product of political reaction, carried out by classes opposed to economic development. It was the policy of bureaucrats, state pensioners and 'high finance' rather than of industrial capitalists. Kautsky concluded that German capitalists had gained nothing from the colonisation of

Africa, and would fare no better in China. Free trade on the British model was much more sensible.¹²

Within four years his views had changed once again. In his pamphlet *Commercial Policy and Social Democracy*, first published in 1901 and reissued in a revised version ten years later, Kautsky anticipated Hilferding and Lenin by pointing to the connection between the formation of cartels, industrial capitalists' demands for protection, and the growth of militarism which threatened to spark off a world war. His focus was now on an intense struggle for markets in a situation of chronic overproduction. Unlike earlier tariff systems, he argued, the new protectionism would prove to be permanent. It was based, not on infant industry considerations, but on the need to secure higher prices on the cartelised home market than were available abroad. The revenues from tariffs were used to finance arms spending, thus increasing the demand for steel and related products and giving one important section of the German bourgeoisie a vested interest in both protectionism (even for agriculture) and militarism. Cut-throat competition overseas and competitive expansion in search of new markets leads to growing international tension. The proposed international customs unions were entirely Utopian, since their members would be at different stages of development and thus unwilling to cooperate peacefully. And the existing world division of labour was under mounting pressure from newly-industrialising areas whose challenge had been financed by capital exports from the original advanced countries, whose dominant position they would soon attack. Once all the world's agricultural areas had been annexed, Kautsky concluded, war between the industrial countries would become inevitable. It could be averted only by the advent of socialism.¹³

III Hilferding on Finance Capital

The erratic, unsystematic and often contradictory nature of Kautsky's writings on imperialism owed something to the context: in the everyday political life of the SPD consistency was less valuable than the establishment of a firm line on the issues of the moment. It must not be forgotten, either, that these were intrinsically difficult questions on which historical precedent offered little guidance, and that Kautsky did not enjoy the benefit of hindsight. Above all he was neither trained nor especially adept as a political economist, and was unable to develop the rigorous analysis necessary for the construction of a coherent Marxist theory of imperialism.

The first serious attempt to provide such a theory was made by Rudolf Hilferding. In an early article on the changing function of protective tariffs, Hilferding had gone beyond Kautsky's position in *Commercial Policy* to argue that:

in the modern system of protective tariffs the action of the capitalist class seems no longer to be handicapped by the multiplicity of diverging individual interests; it is much more organised, united, conscious action, which uses political [*staatlich*] means with enormous power to increase its profit . . . [and] introduces the final phase of capitalism. To combat the fall in the rate of profit, this law of motion of capitalism, capital does away with free competition, organises itself and through its organisation is put in a position to increase its influence through state power, placing it immediately and directly in the service of its interest in exploitation.¹⁴

The consequences were an increasingly aggressive colonial policy, a further intensification of the class struggle, and ‘the strongest stimulus to over-production’.¹⁵

This fell well short of a comprehensive analysis of imperialism, which had to await the publication (some four years after its substantial completion in 1906) of Hilferding’s major work, *Finance Capital*. The book begins with an account of the Marxian theory of money and credit. Hilferding interprets credit as a means of keeping to a minimum the quantity of ‘idle money’ which is not used for productive purposes. Bank credit has significant advantages over commercial credit in economising on the use of money. Hence merchants lose much of their former influence and the banks become increasingly prominent as suppliers of credit to industry. There is also a change in the nature of bank credit, away from the supply of short-term finance (‘circulating credit’, as Hilferding terms it) to the provision of funds for long-term investment projects (‘capital’ or ‘investment credit’). This gives the banks a growing interest in the firm’s long-run prospects, in addition to its immediate solvency. It also leads to an important shift in the distribution of aggregate surplus value. The share of interest increases at the expense of entrepreneurial profit, reflecting the growing power of the banks in the economy as a whole.¹⁶

In fact the typical ‘industrial capitalist’ is no longer an owner-manager, Hilferding maintains, but a shareholder in a joint-stock company. The rise of corporate capitalism is an inevitable consequence of the economies of large-scale production, which entail that the expansion of the firm be ‘freed from the bonds of individual property’.¹⁷ Big business requires investments far beyond the resources of any individual or small group of partners. This capital is mobilised by the banks, who extend credit to productive enterprises in exchange for shares. Now shareholders are in effect money-capitalists, not entrepreneurs, and their dividend incomes resemble interest payments rather than entrepreneurial profits. Hilferding notes that the rate of interest is invariably less than the rate of profit on productive capital, and shows how this differential offers the opportunity of huge capital gains for company promoters. He takes as an example an unincorporated

enterprise with a productive capital of £1 million, an average rate of profit of 15 per cent, and hence an annual profit flow of £150 000. How much would the firm be worth if floated as a company on the stock exchange? Prospective shareholders will demand a dividend yield somewhat higher than the rate of interest (which Hilferding assumes to be 5 per cent). With the addition of a small risk premium, the required yield becomes 7 per cent. The capitalised value of an asset yielding £130 000 per annum at 7 per cent is £130 000/0.07 = £1 857 143 (Hilferding allows £20 000 per year for directors' fees and other expenses). This is the amount that investors will be prepared to pay for the newly-floated company. The difference between the value of the shares and the value of the productive capital (£857 143) accrues to the promoters as 'promoter's profit'. Algebraically,

$$P = \frac{100Y}{d} - \frac{100Y}{r}$$

where Y is the yield of the enterprise, P is promoter's profit, d is the dividend and r is the rate of profit. Promoter's profit is 'neither a swindle, nor some kind of indemnity or wage. It is an economic category *sui generis*'.¹⁸

The weakness in Hilferding's argument is obvious: he simply takes the difference between the rate of interest and the profit rate for granted, and offers no explanation of its origins or persistence. There is also a certain tension between the central role which promoter's profit plays in his analysis and his claim that the rate of profit tends to fall while the interest rate remains constant, which would reduce the scope for capital gains derived from the difference between them.¹⁹ Setting these problems aside, the significance of promoter's profit is unmistakable. The banks' advantages in mobilising capital mean that it is typically they who dominate company flotations, taking their rewards in the form of share capital and continually increasing their stake in productive industry. The growth of joint-stock companies thus reinforces the existing pressures for the centralisation of capital. The same process goes on within the banking sector itself, tending towards the formation of a single 'central bank' which will ultimately control capitalist production as a whole.²⁰

These developments go hand-in-hand with a challenge to free competition, already severely weakened by the growth of fixed capital requirements in many branches of industry. The banks sponsor cartels, trusts and mergers with the object of suppressing competition and pushing up the rate of profit on their investments. These monopolistic gains are capitalised into promoter's profit, which is then used to buy up further capacity in order to strengthen the cartel. The more secure the price ring appears, the greater the incentive for the banks to increase their stake in the industry concerned.²¹ There are three stages in the history of capitalism, Hilferding

concludes. At first 'usurers' capital' predominates. Then, in the classical phase, industrial capitalists establish their independence of the money-lenders. Finally there dawns the epoch of finance capital, which he defines (some 225 pages into the book) as 'capital at the disposition of the banks which is used by the industrialists'.²²

In chapter 15 of *Finance Capital* Hilferding summarises some of the most important economic and political peculiarities of this 'ultimate' stage of capitalist development. Monopoly undermines the operation of the labour theory of value by transferring profits from competitive to cartelised industries, giving rise to a dual economy in which the rate of profit is systematically higher for big business than for smaller enterprises. Investment slows down in both sectors:

in the cartelized industries, because the first concern of a cartel is to restrict production, and in the non-cartelized industries because the decline in the rate of profit discourages further capital investment. Consequently, while the volume of capital intended for accumulation increases rapidly, investment opportunities contract. This contradiction demands a solution, which it finds in the export of capital, though this is not in itself a consequence of cartelization. It is a phenomenon that is inseparable from capitalist development. But cartelization suddenly intensifies the contradiction and makes the export of capital an urgent matter.

In principle there are no limits to the process of cartel formation. It is possible to conceive of one giant cartel covering the entire economy, converting prices into 'a mere accounting device' and constituting 'a consciously regulated society, but in an antagonistic form'. Under such conditions social polarisation would reach its apogee, as

property, concentrated and centralised in the hands of a few giant capitalist groups, manifests itself in direct opposition to the mass of those who possess no capital. The problem of property relations thus attains its clearest, most unequivocal and sharpest expression at the same time as the development of finance capital itself is resolving more successfully the problem of the organisation of the social economy.²³

There follows a long and involved discussion of economic crises, in which the two central themes are disproportionalities between the various sectors of the economy (which may or may not take the form of a failure of consumption to grow in line with the expansion of production); and the decline in the rate of profit which results from the increase in the organic composition of capital. (On disproportionalities see Chapters 9 and 10 below.) The exact relationship between these two causal factors, however,

remains unclear.²⁴ As to the specific character of crises under finance capital, Hilferding makes few concessions to the revisionists. The development of credit and the concentration of banking capital does allow greater spreading of risk and weakens commodity speculation. Monetary and banking crises are therefore less severe than in the previous stages.²⁵ But on the central issue – whether *industrial* crises are ameliorated by the growth of cartels – Hilferding’s position is identical with that taken by Luxemburg and Kautsky (see Chapter 4 above). Cartels hinder the price and output adjustments which are required to re-establish prosperity. They thus exacerbate disproportionalities and ‘divert the main burden of a crisis to the non-cartelized industries’ instead of making crises in general less damaging.²⁶

This represents something of a digression from the main argument, which is resumed in the final five chapters of the book. Here Hilferding analyses what he describes as ‘the economic policy of finance capital’. The function of tariffs has changed, he argues, from the temporary encouragement of infant industries to providing permanent support for both monopoly pricing in the domestic market and the aggressive dumping of surplus output overseas. Similar practices in competing nations furnish a further stimulus to capital exports organised by the banks, which offer the only means of avoiding the tariff barriers established by rival nations.²⁷ This adds little either to Kautsky’s treatment of commercial policy or to Hilferding’s own earlier writing on the subject. More original – and in some ways the centre-piece of the entire work – is chapter 22, where Hilferding traces the connections between the export of capital and ‘the struggle for economic territory’. Because of economies of scale a large market is crucial to capitalists’ survival; this is why small countries like Belgium support free trade. For larger nations one solution is the establishment of global cartels. This, however, contradicts the strong pressures towards increased competition between national cartels, each able to call upon the support of its own nation state. International cartel arrangements thus represent ‘a kind of truce rather than an enduring community of interest’.²⁸

The outcome is a growing politicisation of economic relations. Capital export extends the market and thus helps to smooth out crises; it also increases real wages in the advanced capitalist countries. But it is limited by the availability of wage labour in the backward areas. This can be overcome only through the violent elimination of pre-capitalist production, by the introduction of forced labour, and by immigration from regions with large labour reserves. All these measures, however, require a degree of state intervention, so that imperialist domination over the poor countries is a necessary consequence of the export of capital. So too is increasing rivalry between the advanced nations. ‘The policy of finance capital has three objectives,’ Hilferding concludes: ‘(1) to establish the largest possible economic territory; (2) to close this territory to foreign competition by a

wall of protective tariffs, and consequently (3) to reserve it as an area of exploitation for the national monopolistic combinations.²⁹ Hence colonial ambitions induce political conflicts. A prime example, Hilferding suggests, is the disparity between the rapid growth of German capitalism and the relatively small size of its economic territory, which leads to heightened tension between Germany and England and raises the spectre of 'a solution by force'. There are, however, countervailing tendencies, most notably the large English and French investments in Germany which promote a common interest between the capitalists of the three countries. Everything depends upon the power relations between the respective nations. Hilferding concludes that 'the greater the disparities of power the more likely it is, as a rule, that a struggle will occur'.³⁰

He himself makes no firm predictions as to the eventual outcome, but expects there to be violent upheavals. 'Capitalism can pursue no policy other than imperialism.'³¹ The bourgeoisie has become anti-liberal and anti-cosmopolitan, endorsing the expanding power of the state and opposing Cobdenite pacifism. Militarism, oppression, racism and oligarchic rule: this is the ideology of imperialism.³² 'Finance capital, in its maturity, is the highest stage of the concentration of economic and political power in the hands of the capitalist oligarchy. It is the climax of the dictatorship of the magnates of capital.' Big business, the landowners and the *petite-bourgeoisie* are united in support of imperialism. Only the proletariat – and, much more precariously, the 'new middle class' of salaried and professional workers – are opposed to it, for only they would gain from the alternative policy of higher wages and an expanding home market. Finance capital

makes the dictatorship of the capitalist lords of one country increasingly incompatible with the capitalist interests of other countries, and the internal domination of capital increasingly irreconcilable with the interests of the mass of the people, exploited by finance capital but also summoned into battle against it. In the violent clash of these hostile interests the dictatorship of the magnates of capital will finally be transformed into the dictatorship of the proletariat.³³

Finance Capital ends with these stirring words.

IV Reactions to Hilferding

Within the mainstream of German social democracy the appearance of Hilferding's book was hailed as a most significant event. For Otto Bauer, the leading theoretician of the Austrian party, *Finance Capital* was even closer in spirit to Marx's than to Engels's writings, and read like another volume of Marx's *Capital*. Manchester liberalism was dead, Bauer main-

tained. Socialists needed to attack their new enemies, and Hilferding had provided an excellent starting-point.³⁴ Kautsky too described the book as ‘a completion of *Capital*’, which vindicated the Marxian method and both supplemented and revised volumes II and III.³⁵

In fact *Finance Capital* has proved to be the most influential text in the entire history of Marxian political economy, only excepting *Capital* itself. It is difficult to think of any significant theme in Lenin’s theory of imperialism, for example, that does not feature, usually prominently, in *Finance Capital*. There is the central concept of finance capital, seen as the ‘highest stage’ of capitalist development; the growth of monopoly in place of free competition; the repudiation of free trade by the capitalists and their increasing reliance upon tariffs to bolster their cartels; the emphasis on capital exports and colonisation, together with the mounting international tension that they generate; and finally the apocalyptic tone of Hilferding’s conclusion. All these can be found, in simpler language and considerably less depth, in Lenin’s *Imperialism*. Bukharin, too, relied heavily upon Hilferding (see Chapter 13 below). And virtually all subsequent Marxian analysis of the economic contradictions of capitalist society have drawn on Hilferding’s work. He seems to have been the first since Marx to connect the falling rate of profit with economic crises (and also, indirectly, with the export of capital).³⁶ His treatment of disproportionalities and his detailed scrutiny of Marx’s reproduction models³⁷ stimulated both the very different theory of capitalist breakdown which Rosa Luxemburg was soon to formulate, and – in conjunction with his concern for the supply of labour power as a fundamental problem for an expanding world economy – Otto Bauer’s impressive critique (see Chapter 6 below).

Thus *Finance Capital* changed the landscape of Marxian economics, overshadowing the previously dominant texts. Kautsky and Engels had offered restatements of established Marxian truths; what was novel in their work was rarely well-developed. Hilferding provided not only new concepts, new analyses, and a new vocabulary, but an attempted synthesis. Nevertheless the defects of his book are readily apparent. He achieved neither a single coherent account of economic crises nor a clear explanation of their relationship with the longer-term contradictions of advanced capitalism. He had neither a theory of economic breakdown nor a refutation; although the germ of his subsequent concept of a largely crisis-free ‘organised capitalism’ can be found in *Finance Capital* (see Chapter 14 below) the book contains no unequivocal prognoses. Hilferding’s treatment of capital exports is also imprecise. It is hard to judge whether he regarded the principal incentive for the export of capital to be the need to overcome foreign tariff barriers; differences in the organic composition of capital (and hence in the rate of profit) between advanced and backward areas; the restriction of domestic investment opportunities because of growing car-

telisation; or the new facilities offered by more highly developed financial institutions.³⁸

In addition to these analytical weaknesses, there are difficulties with the historical dimension to his argument. Hilferding generalised far too easily from his own German experience. The economic power of the German banks in the period before 1914 was paralleled (if at all) only in the contemporary USA, and even there not for long. There was never an equivalent phenomenon in Britain or France, where finance capital in Hilferding's specific sense did not dominate industrial production, and where the concentration of economic power was much less pronounced. This objection was raised against him almost immediately by Eduard Bernstein, whose review of *Finance Capital* accused Hilferding of hypostatising concepts such as 'capital' and 'bourgeoisie', which were represented as monolithic defenders of imperialism. This, Bernstein argued, was a crude over-simplification. Not only was the concept of finance capital itself wholly irrelevant to Britain, but even in Germany there were conflicts of interest and divisions of opinion which Hilferding glossed over. The large competitive sectors of German industry were proponents of free trade, along with the giant Siemens group and many financiers. Capitalists continued to display strong anti-imperialist tendencies, Bernstein concluded. Far from being played out, Cobdenism was still the banner of capitalist progress.³⁹

As already noted, Karl Kautsky's reaction to *Finance Capital* was sympathetic and generous. But Kautsky took the opportunity of his review to present his own most recent ideas on the theory of crisis and imperialism, which revealed significant differences between his thinking and that of Hilferding. Underconsumptionism was again to the fore although – as Kautsky admitted – it had played little part in *Finance Capital*.⁴⁰ Kautsky invoked Marx's numerical models of reproduction to show that equilibrium growth was not independent of increased consumption. Marx's numbers assume a definite rise in consumer expenditure: specifically, they require that capitalists' consumption expand faster than that of the workers (and this would be true *a fortiori* if allowance were made for an increasing rate of exploitation). To this extent, Kautsky concedes, Malthus was right, although his remedy for deficient aggregate demand is unworkable. Capitalists in general would indeed benefit from the employment of more unproductive labour (servants, for example), but individual capitalists are forced by competitive pressure to live more frugally. Hence luxury consumption rises more slowly than other categories of expenditure. Much the same is true with respect to the economics of military spending. Although purchases by soldiers increase consumer demand, Kautsky argues, the process is not without contradictions. Competition forces capitalists to keep wages down, although they are in desperate need of working-class

purchasing power. Similarly with arms spending: so far as militarism is financed by taxes on profits, capitalists will resist it. The result is chronic underconsumption.⁴¹

The second aspect of Kautsky's argument stresses the need for proportionality between agriculture and industry, which he regards as no less important than balance between departments I, II and III of the Marxian reproduction models. Agriculture sets the limit to industrial growth in its dual capacity as supplier of raw materials and as consumer of manufactured products. Kautsky maintains that it is the primary motive for massive overseas expansion. This too, was contradictory. In the initial stages, new markets were opened up for European manufacturers. Subsequently, however, these markets were destroyed by rural depopulation. Most recently the industrialisation of the agricultural areas themselves has further constricted the market opportunities which they offer for the advanced capitalist nations. The more vigorously capitalism seeks out new customers, the more rapidly it tends to eliminate its own sources of purchasing power.⁴²

Thus Kautsky's views on imperialism at this point were quite distinct from those of Hilferding, who was suspicious of underconsumptionism, said nothing about the purely economic aspects of military expenditure, and ignored the question of agriculture–industry balance. The two men did however agree in regarding finance capital as necessarily 'the most brutal and violent form of capitalism',⁴³ both domestically and in the international arena. If such phrases meant anything at all, they implied (like Hilferding's allusion to the impending 'violent clash of . . . hostile interests') that war was inescapable unless the socialist revolution came first, and that socialism would be the inevitable consequence of a major war. As late as 1909 Kautsky had regarded the latter prospect with equanimity:

In 1891, Engels still thought that it would be a great misfortune for us if a war broke out bringing a revolution with it and putting us into power prematurely. Since then the situation has changed considerably. The proletariat is so strong today that it can contemplate a war with more confidence. We can no longer speak of a *premature* revolution.⁴⁴

Typically, three years later Kautsky changed his mind. He now argued that war would be a 'frightful disaster' for the working class, but that peace and disarmament were perfectly feasible within the framework of the existing social system. If this meant that Social Democracy was showing the capitalists where their best interests lay, so be it; a similar lesson had been taught in the previous century, when the factory owners had discovered that they, too, gained from legal controls on the length of the working day.⁴⁵

Two developments were responsible for this *volte-face*. First, Kautsky's

genuine horror of war on humanitarian grounds had intensified as its likelihood increased; more and more he came to see it as something to be avoided at almost any cost, instead of as an inescapable, even a welcome, harbinger of socialism.⁴⁶ There was a second, less creditable reason. The SPD had lost ground for the first time in its history in the 'Hottentot election' of 1907, when colonial issues came to the forefront and jingoism revealed the extent of its hold over sections of the German proletariat. The party's centre of gravity began to shift rightwards, and by 1912 the leadership was making secret approaches to some of the bourgeois parties for an electoral alliance on a platform of peace and disarmament.⁴⁷ Kautsky now turned on the party's left wing who (he believed) regarded militarism as an inevitable consequence of capitalism, which could no more be suppressed within the system than the wage-labour relation could be done away with this side of the socialist revolution. He denounced the analogy as absurd. The left was confusing products of capitalism (militarism and colonial rivalry; excessive hours of work) with necessary conditions for the continued existence of capitalism (expanding markets; the creation of surplus value). Like overwork, militarism did have economic causes. But, Kautsky maintained, it could be overcome by a sufficiently powerful political campaign against it. The success of cartels demonstrated the possibilities for inter-capitalist cooperation. 'What has been increasingly true for two centuries for the relationship between enterprises is now becoming true of the relationship between capitalist states.' If North American railway companies could agree not to start a price war, why should not Germany and Britain sign an arms treaty?⁴⁸ With this question Kautsky had lined up with Bernstein against the catastrophist section of the SPD. In the following chapter we consider the response of the left to his analysis.

Notes

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2. A. J. P. Taylor, *The Struggle for Mastery in Europe 1848–1918* (Oxford: Clarendon Press, 1954) pp. xxvii–xxxiv.
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 7. Anon [K. Kautsky], 'Tongking,' *Die Neue Zeit*, 2, 1884, pp. 156–64. (We are grateful to Dick Geary for bringing this article to our attention.)
 8. *Ibid.*, p. 157.
 9. A. Ascher, 'Professors as Propagandists: the Politics of the *Kathedersozialisten*', *Journal of Central European Affairs*, 23, 1963, pp. 282–302.
 10. 'Tongking', *Die Neue Zeit*, 2, 1884, pp. 163–4.
 11. K. Kautsky, *The Class Struggle* (New York: W. W. Norton, 1971; first published 1892) pp. 101–4.
 12. K. Kautsky, 'Aeltere und Neuere Kolonialpolitik,' *Die Neue Zeit*, 16, 1897–8, pp. 769–81, 801–16.
 13. K. Kautsky, *Handelspolitik und Sozialdemokratie* (Berlin: Buchhandlung Vorwärts Paul Singer, 1911, 2nd edn; first published 1901) pp. 33–5, 38–9, 44–8, 93–4, 98. See also O. Bauer, *Die Nationalitätenfrage und die Sozialdemokratie* (Vienna: Wiener Volksbuchhandlung, 1907) chs 27 and 28.
 14. R. Hilferding, 'Der Funktionswechsel des Schutzzolles', *Die Neue Zeit*, 21, 1902–3, pp. 279–80.
 15. *Ibid.*, pp. 277–8.
 16. R. Hilferding, *Finance Capital* (London: Routledge & Kegan Paul, 1980) pp. 94–5, 103–4.
 17. *Ibid.*, p. 123.
 18. *Ibid.*, pp. 109–12, 114.
 19. *Ibid.*, pp. 103–4. Hilferding does however suggest a long-run decline in the dividend yield due to a reduction in the risk premium (*ibid.*, pp. 128–30).
 20. *Ibid.*, pp. 142–3, 180.
 21. *Ibid.*, pp. 186–92, 223–4.
 22. *Ibid.*, pp. 225–6.
 23. *Ibid.*, pp. 228–35.
 24. *Ibid.*, pp. 239–66.
 25. *Ibid.*, pp. 288–94.
 26. *Ibid.*, pp. 296–8.
 27. *Ibid.*, pp. 309–10.
 28. *Ibid.*, pp. 311–14.
 29. *Ibid.*, pp. 318–26.
 30. *Ibid.*, pp. 331–2.
 31. *Ibid.*, p. 366.
 32. *Ibid.*, p. 333.
 33. *Ibid.*, pp. 364–5, 370.
 34. O. Bauer, 'Das Finanzkapital', *Der Kampf*, 3, 1909–10, pp. 391–2.
 35. K. Kautsky, 'Finanzkapital und Krisen,' *Die Neue Zeit*, 9, 1910–11, pp. 764, 770–1, 883.
 36. *Finance Capital*, p. 315; cf. Bauer, *Nationalitätenfrage*, pp. 396–7.
 37. *Finance Capital*, pp. 244–56, 282–4.

38. A. Brewer, *Marxist Theories of Imperialism* (London: Routledge & Kegan Paul, 1980) p. 93.
39. E. Bernstein, 'Das Finanzkapital und die Handelspolitik', *Sozialistische Monatshefte*, 12, 1911, pp. 947–55.
40. Kautsky, 'Finanzkapital,' p. 874.
41. Ibid, pp. 801–4.
42. Ibid, pp. 839–46.
43. Ibid, p. 768.
44. K. Kautsky, *The Road to Power* (first published 1909; cited from 1910 edition) in P. Goode (ed.) *Karl Kautsky: Selected Political Writings* (London: Macmillan, 1983) p. 79.
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47. I. Petit, 'Kautsky et les Discussions Autour du Problème de l'Impérialisme dans le Parti Sociale-Democrate Allemand de 1907 à 1914', *Revue d'Allemagne*, 1, 1969, pp. 325–37.
48. Kautsky, 'Der Erste Mai', pp. 106–9.

6

Capital Accumulation, Imperialism and War: Rosa Luxemburg and Otto Bauer

I Rosa Luxemburg and the Accumulation of Capital

After 1907 the divisions within the SPD became more and more apparent. The right wing of the party, although always in the minority, advanced the revisionist case with increasing confidence against the left, whose belief in the inevitability of economic breakdown contributed greatly to their revolutionary political perspective. The central ground was occupied (at the theoretical level) by Kautsky and Hilferding. As we saw in the previous chapter, Kautsky's centrism was increasingly slanted towards the right. Thus the left's attack on class collaboration and the illusion of peaceful social change was directed against Kautsky himself.

By far the most important intellectual leader of the party's left wing was Rosa Luxemburg. As early as 1898 she had anticipated Kautsky with a scathing attack on Bernstein in which she proclaimed the inevitable economic breakdown of capitalism as a pre-condition for the achievement of socialism (see Chapter 4 above). These early polemical articles were almost completely lacking in analytical depth. Over the next fifteen years Luxemburg read, argued, wrote for the SPD press and taught political economy at the party school in Berlin. Her treatise *The Accumulation of Capital*, published in 1913, was a major theoretical work comparable with Hilferding's *Finance Capital* in its serious purpose and scholarly tone. (The *Antikritik*, written in prison in 1915 as a reply to her critics and containing a useful summary of the earlier book, is much more polemical). But it was also a political intervention. Far from shaking Luxemburg's beliefs, events after 1900 had markedly strengthened them. Her book was written to demonstrate scientifically the futility of Kautsky's dreams of international

peace and harmony, and to reassert the urgent necessity of revolutionary action by the proletariat in the face of an otherwise unavoidable world war.

Luxemburg's central theme reasserts the position taken by Kautsky in 1884 and 1901: capitalist growth is possible only if customers are available outside the system to realise the increasing quantity of surplus value produced within it. The compulsive quest for non-capitalist markets transforms the economies of the backward areas, overwhelming traditional pre-capitalist modes of subsistence and thereby destroying the very outlets which the advanced nations so desperately need. Thus capitalism is both fundamentally contradictory and increasingly aggressive, because of the growing intensity of the struggle for economic territory. Cobdenism is dead and buried. Socialism or the barbarism of modern warfare: this is the choice which capitalism offers to humanity.¹

If *The Accumulation of Capital* was directed against the dominant 'Marxist centre' in the SPD, however, its message was transmitted in code. Hilferding's name is missing from the index, and of the three references to Kautsky only one – a broadly favourable discussion of his review of Tugan-Baranovsky² – has any substance (for Tugan-Baranovsky's own analysis see Chapters 9 and 10 below). Instead Luxemburg criticises Marx, and does so as openly and energetically as any revisionist. The reproduction models in volume II of *Capital*, she maintains, have fostered the dangerous illusion that stable equilibrium growth is possible in a closed capitalist economy. Marx distinguished simple reproduction, in which all surplus value is consumed by the capitalists, from expanded reproduction, where part of the surplus value is accumulated. In simple reproduction the entire surplus product finds a market without difficulty, and there is no problem with the 'realisation' of surplus value. Using Marx's own numerical example, Luxemburg presents a two-sector model of an economy in which department I produces means of production and department II produces means of consumption for workers and capitalists, in the following proportions:

$$\begin{array}{l}
 \text{I: } 4000c_1 + \boxed{1000v_1 + 1000s_1} = 6000 \text{ means of production} \\
 \text{II: } \boxed{2000c_2} + 500v_2 + 500s_2 = 3000 \text{ means of consumption}
 \end{array}$$

Of the output of department I, the $4000c_1$ represent means of production which are used up within the department itself and are not exchanged with department II. Similarly 1000 ($500v_2$ plus $500s_2$) of the output of department II are consumed by workers and capitalists inside that department. Only the items inside the boxes are traded. Department I buys 2000 units from II in order to satisfy the requirements of its workers and capitalists for consumer goods ($1000v_1 + 1000s_1$), and II buys 2000 units from I to replace the means of production which it has used up ($2000c_2$). Thus $v_1 + s_1 = c_2$ or, in Marx's notation, $I_v + I_s = II_c$. There is no deficiency in the demand for

either department's output, and no reason why production should not continue at this level in later periods.³

Now consider a second example, in which simple reproduction is impossible:

$$\text{I: } 4000c_1 + 1000v_1 + 1000s_1 = 6000 \text{ means of production}$$

$$\text{II: } 1500c_2 + 750v_2 + 750s_2 = 3000 \text{ means of consumption}$$

Here department I's demand for consumer goods ($1000v_1 + 1000s_1$) exceeds II's requirements for means of production ($1500c_2$). Equilibrium between the two sectors requires output to grow, which means that capital must be accumulated. Marx assumes capitalists in department I to devote half their surplus value (500 units) to increase the quantity of constant and variable capital used in the following period, while capitalists in department II set aside one fifth of their surplus value (150 units) in this way. He further supposes accumulation to be divided between extra constant capital and extra variable capital in such a way as to maintain the organic composition of capital in each department at its original level. Thus the additional constant capital employed in department I (Δc_1) is 400 and the additional variable capital (Δv_1) equals 100; likewise, $\Delta c_2 = 100$ and $\Delta v_2 = 50$. Where s_{0_1} and s_{0_2} represent capitalist consumption, we can write:

$$\begin{array}{l} \text{I: } 4000c_1 + 400\Delta c_1 + \boxed{1000v_1 + 100\Delta v_1 + 500s_{0_1}} = 6000 \text{ means of production} \\ \text{II: } \boxed{1500c_2 + 100\Delta c_2} + 750v_2 + 50\Delta v_2 + 600s_{0_2} = 3000 \text{ means of consumption} \end{array}$$

Again the items in the boxes stand for exchanges between the two departments. Since $1000v_1 + 100\Delta v_1 + 500s_{0_1} = 1500c_2 + 100\Delta c_2 = 1600$, the demands from each sector for commodities from the other are equal, and capitalists in each department are able to realise all the surplus value which their workers have produced. Assuming the rate of exploitation (the ratio of surplus value to variable capital) to be unchanged, output in the next period is:

$$\text{I: } 4400c_1 + 1100v_1 + 1100s_1 = 6600 \text{ means of production}$$

$$\text{II: } 1600c_2 + 800v_2 + 800s_2 = 3200 \text{ means of consumption}$$

Growth occurs in a similar fashion in subsequent periods.⁴

There is no reason, Luxemburg concedes, why a planned socialist

economy could not develop like this. In capitalism, however, there is a basic difficulty. Continually expanding production requires continually expanding demand. Where does this demand come from? More specifically, what is the source of demand for that part of the social product (amounting in our example to $500 + 150 = 650$ units) which is destined for accumulation? Clearly it cannot be provided by the personal consumption of either capitalists or the existing workforce. Nor can population growth increase working-class purchasing power, since 'a capitalist economy is not interested in this increase for its own sake, as a starting-point of growing needs'.⁵ The necessary demand cannot come from non-capitalist strata such as the landowners, clergymen and state functionaries invoked as 'third persons' by Malthus and other early underconsumptionists, for they derive their incomes either from capitalist consumption or (to the extent that taxes and tithes are paid by working people) from wages. Their expenditure simply amounts to a displacement of capitalist or proletarian consumption.⁶ As for the suggestion that that the capitalists, in their role as entrepreneurs rather than consumers, can act as 'mutual customers' for each other, this is absurd. It constructs 'a roundabout that revolves around itself in empty space'; it would be 'production for production's sake'.⁷ (As we will see below, this is her chief error.) Finally:

recourse to foreign trade really begs the question: the difficulties implicit in the analysis are simply shifted – quite unresolved – from one country to another. Yet if the analysis of the reproductive process actually intends not any single capitalist country but the capitalist world market, there can be no foreign trade: all countries are 'home'.⁸

Even greater difficulties arise if allowance is made for the effects of rising productivity. Luxemburg adapts the figures in another of Marx's numerical examples to include an increase in both the organic composition of capital and the rate of exploitation, while keeping the rate of profit constant.⁹ For Luxemburg the real problem is not the falling rate of profit but lack of demand. She begins with another of Marx's models:¹⁰

$$\text{I: } 5000c_1 + 1000v_1 + 1000s_1 = 7000 \text{ means of production}$$

$$\text{II: } 1430c_2 + 285v_2 + 285s_2 = 2000 \text{ means of consumption}$$

The organic composition of capital is 5 in each department (only approximately so in II); the rate of exploitation is 100 per cent; and the rate of profit is at a common level of 16.7 per cent. Capitalists in department I again accumulate half their surplus value, and those in department II nearly two-thirds (184 out of 285). Luxemburg parts company with Marx in

assuming that accumulation is divided between constant and variable capital in the ratio 6:1, as against Marx's ratio of 5:1. In the spirit of our early exposition we may write (though Luxemburg does not):

$$\begin{array}{l}
 \text{I: } 5000c_1 + 428.7\Delta c_1 + \boxed{1000v_1 + 71.4\Delta v_1 + 500s_{01}} = 7000 \text{ means} \\
 \hspace{30em} \text{of production} \\
 \text{II: } \boxed{1430c_2 + 157.7\Delta c_2} + 285v_2 + 26.3\Delta v_2 + 101s_{02} = 2000 \text{ means} \\
 \hspace{30em} \text{of consumption}
 \end{array}$$

Again the boxed items are the amounts traded between the two departments. I requires $1000v_1 + 71.4\Delta v_1 + 500s_{01} = 1571.4$ from II to provide consumer goods for its existing labour force, for the increase in the labour force planned for the following period, and for capitalist consumption. Department II demands $1430c_2 + 157.7\Delta c_2 = 1587.7$ from I to replace the means of production used up in the current period and to allow for planned expansion of its constant capital. These two magnitudes are unequal. 'If this were a true picture of the accumulative process,' Luxemburg concludes, 'the means of production (constant capital) would show a deficit of 16 in the second year . . . similarly the means of subsistence would show a surplus of 16.' And the imbalance would grow in each subsequent period.¹¹

Neither workers, nor capitalists, nor Malthusian 'third parties' can provide the purchasing power necessary to realise surplus value, Luxemburg argues. Only one category of consumers can do this: those outside the capitalist mode of production altogether. Hence 'the realisation of the surplus value for the purposes of accumulation is an impossible task for a society which consists solely of workers and capitalists'. There is a 'deep and fundamental antagonism between the capacity to consume and the capacity to produce in a capitalist society, a conflict resulting from the very accumulation of capital which periodically bursts out in crises and spurs capital on to a continual extension of the market'.¹² Only through a recognition of this contradiction is a theory of imperialism possible. Marx's analysis fails to expose the problem of realisation. It gives the impression that the accumulation of capital can continue without limit, thereby removing 'the most important objective argument in support of socialist theory . . . socialist political action and the ideological import of the proletarian class struggle cease to reflect economic events, and socialism no longer appears an historical necessity'.¹³ The code is easily deciphered: in criticising Marx, Luxemburg is really attacking not just the revisionists but also Kautsky and the orthodox 'Marxist centre' of the SPD.

In reality, she continues, capitalism 'proceeds by assimilating the very conditions which alone can ensure its own existence'.¹⁴ It first attacks and destroys the 'natural economy' of pre-capitalist areas, introducing commodity production in its place. Valuable natural resources are seized;

labour power is 'liberated' and coerced into service; agriculture begins to be wrenched loose from industry and trade. All this is achieved by force, since 'if capital were here to rely on the process of internal disintegration, it might take centuries'.¹⁵ Luxemburg illustrates her argument with graphic accounts of the British conquest of India and (in chapter 27) the operation of French colonialism in Algeria and of the Opium Wars in China (chapter 28). The second stage is capitalism's struggle against 'peasant economy' or simple commodity production, in which industry and agriculture are finally torn apart and capitalist production relations are introduced. Although often presented as a peaceful, gradual development caused by the economic superiority of mass production methods, in reality 'the process of separating agriculture and industry is determined by factors such as oppressive taxation, war, or squandering and monopolisation of the nation's land, and thus belongs to the spheres of political power and criminal law no less than with economics'.¹⁶ In chapter 29 the North American settlers and the Boer republics of South Africa provide Luxemburg with telling examples.

Nothing can prevent the triumph of capitalism over simple commodity production. But herein lies the key to its eventual downfall: 'capital cannot accumulate without the aid of non-capitalist organisations, nor, on the other hand, can it tolerate their continued existence side by side with itself. Only the continuous and progressive disintegration of non-capitalist organisations makes accumulation of capital possible'. As soon as capitalism has won a complete victory everywhere, however, accumulation must stop, since no non-capitalist customers are available to realise surplus value. 'This is the reason for the contradictory behaviour of capitalism in the final stage of its historical career: imperialism.'¹⁷

Luxemburg's conception of imperialism is a distinctive one. It does not depend upon formal colonisation, and has little in common with Hilferding's emphasis on the growth of monopoly or the increasing dominance of the banks. 'The imperialist phase of capitalist accumulation which implies universal competition comprises the industrialisation and capitalist emancipation of the *hinterland* where capital formerly realised its surplus value. Characteristic of this phase are: lending abroad, railroad constructions, revolutions, and wars.' Luxemburg points to the massive export of capital after 1900 to Russia, Turkey, Persia, India, Japan, China and North Africa. Imperialist penetration leads first to the ruin of the local peasant economy and to increasing dependence of the nominally independent state upon European capital (in chapter 30 this process is described at length for the cases of Turkey and Egypt); then irresistible pressures arise for independent capitalist development in these hitherto backward areas. This, too, occurs amid a background of violence:

the achievement of capitalist autonomy in the *hinterland* and backward colonies is attained amidst wars and revolutions. Revolution is an

essential for the process of capitalist emancipation. The backward communities must shed their obsolete political organisations, relics of natural and simple commodity economy, and create a modern state machinery adapted to the purposes of capitalist production. The revolutions in Turkey, Russia, and China fall under this heading.

They represent above all a 'bid for economic independence'.¹⁸

This leads Luxemburg to a second definition of imperialism, as 'the political expression of the accumulation of capital in its competitive struggle for what remains still open of the non-capitalist environment . . . [which] grows in lawlessness and violence, both in aggression against the non-capitalist world and in ever more serious conflicts among the competing capitalist countries'. One manifestation of this is the almost universal abandonment of free trade, which proves to have been 'just a passing phase in the history of capitalist accumulation'.¹⁹ A second is militarism, the theme with which she concludes the book. Militarism is a feature of every stage of capitalism. Military power was used to subjugate pre-capitalist regions and remains 'a weapon in the competitive struggle between capitalist countries for areas of non-capitalist civilisation'. Most important, 'from the purely economic point of view, it is a pre-eminent means for the realisation of surplus value; it is in itself a province of accumulation'.²⁰ Luxemburg returns to the reproduction models to consider the impact of the state as a consumer.²¹ She concludes that 'taxes extorted from the workers afford capitalism a new opportunity for accumulation when they are used for armament manufacture',²² though it must be said that her reasoning here is not at all easy to follow.

II A Critique of Luxemburg

Even writers sympathetic to Rosa Luxemburg's revolutionary leftism have been highly critical of her economic analysis. Almost no one has been convinced by her attempt to demonstrate that accumulation is impossible in a closed capitalist system. Over and over again it has been urged against her that capitalists can, do and must constitute each other's customers, and that demand for that part of the social product which is destined for accumulation comes from capitalists intent upon increasing their employment of constant and variable capital. Her objection to this line of argument emerges most clearly from her critique of Tugan-Baranovsky, which she directs also against Bulgakov and Lenin. Accumulation on the basis of growing capitalist demand alone, without the exploitation of non-capitalist markets, would imply that 'human consumption becomes increasingly unimportant, and production more and more an end in itself'.²³ Luxemburg finds such an idea to be absurd. But she herself is mistaken in

imputing to the capitalist system as a whole the goal of expanding human consumption. By its very nature the system is anarchic and hence devoid of purpose, so that any teleology is inappropriate.²⁴ At the level of the individual capitalist she is equally wrong. The capitalist is motivated by profit, not by concern for the growth of consumption, and if endlessly increasing the production of machines which produce machines for the production of machines appears to be profitable, there is no reason why it should ever cease. It is of course important not to confuse the *possibility* of limitless equilibrium growth with the likelihood that it will occur. The crucial question here concerns the determinants of investment, which Luxemburg fails to specify.²⁵ Hilferding's analysis of monopoly as a factor inhibiting expenditure might have supplied the necessary foundation for such a theory, but monopoly plays no part in her thought.

In short, Luxemburg confuses the requirements of an individual capital (external sources of demand) with the needs of the capitalist system as a whole. There are also three further serious inconsistencies. First, her vigorous attack on disproportionality theories of economic crises because (she maintains) they entail acceptance of Say's Law founders on the fact that her own explanation is similarly flawed.²⁶ In her numerical example of accumulation with rising productivity, the overproduction of consumer goods corresponds (as Luxemburg herself admits) to an equal deficit in the supply of means of production. In aggregate, supply and demand are identical.²⁷ Second, it is difficult to reconcile Luxemburg's treatment of military expenditure with her dismissal of Malthusian 'third persons'. If capitalism gains from imposing taxes on workers when the proceeds are used to finance armaments, why should not the same be true of expenditure on state sinecures or the Established Church? There may well be good ideological and political grounds for capitalists' preference for military spending over other forms of state activity,²⁸ but Luxemburg does not explain what they are.

The third and most important of the inconsistencies in Luxemburg's discussion of imperialism concerns the effect of exports to pre-capitalist markets which, if they are offset by an equivalent amount of imports, have no direct impact on the level of demand. Only an export *surplus* provides a net increase in demand, and (in the absence of an increase in the quantity of international money) this necessarily involves the export of capital to the pre-capitalist world. Luxemburg appears not to recognise this difficulty. In her analysis the problem of inadequate demand is present throughout the history of capitalism, but capital export becomes significant only in the final, imperialist stage, and even then it plays a much less dominant role than in the models of Hilferding and Lenin.²⁹ The *Accumulation of Capital* contains even less by way of an explanation of the export of capital than is found in Hilferding's *Finance Capital*. Luxemburg's case can be salvaged by the introduction of indirect effects of commodity exports, which may

induce additional domestic investment spending even if the trade balance is neutral.³⁰ This, however, is not her argument and highlights once more the unsatisfied need for a theory of investment.

There are problems, too, with Luxemburg's treatment of the assimilation of the backward areas into the world capitalist economy. It was not invariably the case, as she maintains, that imperialist penetration sounded the immediate death-knell of pre-capitalist forms. These modes of production often proved capable of generating a surplus product and trading it with the capitalist nations. Thus in many backward areas slavery and various forms of feudalism were incorporated rather than destroyed.³¹ Objections can also be raised against Luxemburg's account of the industrialisation of the hinterland. She completely ignored the possibility that imperialism might block, retard and distort economic development in the Third World. Her vision of autonomous capitalist development on a wide scale was an illusion, and her aggressive and independent national bourgeoisies a chimera. Capitalist development has more often involved relations of dependence, the principal agents of assimilation being transnational companies with their roots in the advanced countries, which sustain their control through asset ownership, technological monopoly and debt.³² These issues will be considered in more detail in volume II of this book.

There are also a series of difficulties in Luxemburg's argument to which Bukharin pointed in *Imperialism and the Accumulation of Capital*,³³ written in 1924 as a direct rebuttal of her theory, and possibly intended as an attack upon the Left Opposition in the Soviet Union (see Chapter 15 below). On her analysis, Bukharin maintains, the non-capitalist periphery is not actually exploited by capitalism; it functions only to realise surplus value produced elsewhere.³⁴ Furthermore, he continues, Luxemburg fails to explain why capitalism strives for colonies overseas while its home territory still retains large pockets of pre-capitalist economic forms.³⁵ In addition, Bukharin points out that Luxemburg's belief in the imminence of capitalist collapse is inconsistent with the logic of her position, for the overwhelming majority of the world's population still belongs to the category of 'third persons'.³⁶

Whatever the merits of her logic, Luxemburg (quite unlike Hilferding) was extremely forthright in her conclusions. She stressed the role of force and state power throughout the lifespan of capitalism; asserted the economic necessity both of militarism and of increasing tension between the advanced countries; and repudiated the possibility of stable equilibrium growth in a closed capitalist system. Politically *The Accumulation of Capital* was an intense and deliberate provocation of the majority in the SPD, both the revisionist right and the 'Marxist centre,' which held out some hope for crisis-free economic progress and the avoidance of war. As Luxemburg recounts in the *Antikritik*, the book had a lively and overwhelmingly hostile reception in the party press. Surprisingly it drew no response from

Hilferding, who seems to have lost all interest in economic controversy. Kautsky's own reaction was delayed and indirect. In the meantime he entrusted the reviewing of the book for *Die Neue Zeit* to the young Austrian theoretician, Otto Bauer. Bauer's article proved important not merely as a critique of Luxemburg, but also as a contribution to Marxian crisis theory in its own right.

III Otto Bauer's Model of Accumulation

Biography of Otto Bauer

Bauer was born in Vienna in 1881 into a wealthy Jewish family with manufacturing interests in Bohemia. He studied law and economics (under Böhm-Bawerk) at the University of Vienna, where he associated with the Austro-Marxists Karl Renner, Rudolf Hilferding and Max Adler. Bauer published an early, and very influential, text on the nationality question. From 1907 to 1914 he was secretary of the Austrian Social Democratic Party (SPÖ). Captured on the Eastern front early in the First World War, Bauer spent three years as a prisoner of war in Russia. In 1918–19 he was Foreign Minister of the new Austrian Republic, and for the next fifteen years he was the effective leader and principal theoretician of the SPÖ. Forced into exile in Czechoslovakia by the Dolfuss *coup* in 1934, Bauer abandoned the centrist position of the Austro-Marxists for a more revolutionary stance. He fled again (to Paris) in May 1938, and died there three months later.

Bauer begins by considering the consequences of population growth, and studying the changes which must occur if full employment is to be maintained. This allows him to contrast the process of economic growth in a socialist economy, where a central planning authority can make the necessary adjustments, with that under capitalism, where there is no such conscious social regulation of production. He assumes that the population grows at a rate of 5 per cent each year while the employment of constant capital rises at an annual rate of 10 per cent. This both incorporates Marx's fundamental thesis of an increasing organic composition and allows Bauer to respond to Luxemburg's challenge that the analysis of reproduction must take account of technical change. 'For the time being' Bauer holds the rate of exploitation constant, so that real wages increase in line with the

productivity growth associated with the increased organic composition of capital. Despite the implicit promise, this assumption is not relaxed later in the article.³⁷

If the economy begins with 200 000 units of constant capital and 100 000 units of variable capital, and the rate of exploitation is 100 per cent, the course of economic growth in the aggregate is as follows:³⁸

	<i>Constant capital</i>	<i>Variable capital</i>	<i>Surplus value</i>	<i>Total value</i>
Year 1	200 000	100 000	100 000	400 000
Year 2	220 000	105 000	105 000	430 000
Year 3	242 000	110 250	110 250	462 500
Year 4	266 200	115 762	115 762	497 524

Here the organic composition of capital increases from 2.00 in the first year to 2.30 in the fourth, and the rate of profit declines (as it must, given a constant rate of exploitation) from 0.333 to 0.303. The rate of growth of net output (that is, total living labour, or $v + s$) is constant at 5 per cent each year. This is entailed by Bauer's assumption that variable capital grows at 5 per cent per year, and that the rate of exploitation does not change, so that surplus value has the same growth rate as variable capital. Gross output ($c + v + s$) increases at an increasing rate: 7.50 per cent between the first and second years, 7.57 per cent between the third and fourth. Most significantly, the capitalists' saving propensity, which Bauer terms (rather misleadingly) the 'rate of accumulation', also increases steadily. In year 1, for example, 25 000 out of a total surplus value of 100 000 is set aside for accumulation, which permits the employment in year 2 of 20 000 extra units of constant capital and 5000 in additional variable capital. Hence the capitalists save and accumulate 25 per cent of their incomes. By the third year this has risen to approximately 27 per cent, and will continue to increase so long as constant capital grows faster than variable capital and surplus value.

Next Bauer turns to the relations between the sectors. This can be expressed, in the first year, as:³⁹

$$\text{I: } 120\,000c_1 + 50\,000v_1 + 50\,000s_1 = 220\,000 \text{ means of production}$$

$$\text{II: } 80\,000c_2 + 50\,000v_2 + 50\,000s_2 = 180\,000 \text{ means of consumption}$$

If capitalists accumulated one quarter of their surplus value and invested it entirely within their own department, we could write:

$$\text{I: } 120\,000c_1 + 10\,000\Delta c_1 + \boxed{50\,000v_1 + 2500\Delta v_1 + 37\,500s_{0_1}} = 220\,000$$

$$\text{II: } \boxed{80\,000c_2 + 10\,000\Delta c_2} + 50\,000v_2 + 2500\Delta v_2 + 37\,500s_{0_2} = 180\,000$$

A comparison of the boxed items reveals that department I's demand for consumer goods from II is exactly equal to II's demand for means of production from I (= 90 000). But this would not establish equilibrium between the two departments, as the following situation would emerge in the second year:

$$\text{I: } 130\,000c_1 + 52\,500v_1 + 52\,500s_1 = 235\,000 \text{ means of production}$$

$$\text{II: } 90\,000c_2 + 52\,500v_2 + 52\,500s_2 = 195\,000 \text{ means of consumption}$$

The output of means of production would be 7000 less than that required by Bauer's assumption of a 10 per cent increase in constant capital (235 000 instead of 242 000), while the production of consumer goods would be greater than necessary by the same amount (195 000 as against 188 000). Too much capital would have been accumulated in department II, and insufficient in department I.

The solution, Bauer shows, is for capitalists in department II to invest some of their accumulated surplus value in department I, increasing output there and reducing the output of consumer goods accordingly. Of the $10\,000\Delta c_2$, 5334 are to be invested in department II and the remaining 4666 in department I; similarly, 1333 of the $2500\Delta v_2$ should be employed in department II, the other 1167 being moved to department I.⁴⁰ The capitalists in department II do this 'either by themselves establishing factories for the production of means of production, or by transferring part of their accumulated surplus value, through the mediation of the banks, for use of capitalists in the means-of-production industries; or through buying shares in companies which produce means of production'.⁴¹ All the surplus value of the capitalists of department I is of course employed within their own department.

Thus in year 2:

$$\text{I: } 134\,666c_1 + 53\,667v_1 + 53\,667s_1 = 242\,000 \text{ means of production}$$

$$\text{II: } 85\,334c_2 + 51\,333v_2 + 51\,333s_2 = 188\,000 \text{ means of consumption}$$

and department II's capitalists own (in addition to the entire output of their own department)

$$4666c_1 + 1167v_1 + 1167s_1 = 7000 \text{ units of means of production}$$

The same line of reasoning gives the position in year 3:

$$\text{I: } 151\,048c_1 + 57\,576v_1 + 57\,576s_1 = 266\,200 \text{ means of production}$$

$$\text{II: } 90\,952c_2 + 52\,674v_2 + 52\,674s_2 = 196\,300 \text{ means of consumption}$$

and year 4:

$$\text{I: } 169\,124c_1 + 61\,738v_1 + 61\,738s_1 = 292\,600 \text{ means of production}$$

$$\text{II: } 96\,876c_2 + 54\,024v_2 + 54\,024s_2 = 204\,924 \text{ means of consumption}^{42}$$

Compared with the first year, the organic composition of capital has grown by 14.2 per cent in department I (from 2.40 to 2.74) and the rate of profit has fallen by 9.18 per cent (from 0.294 to 0.267). In department II the organic composition is 11.9 per cent higher (having increased from 1.60 to 1.79), and the rate of profit is 7.01 per cent lower (falling from 0.385 to 0.358).

Bauer concludes that 'not only in the first year but also in every subsequent year the entire value of the product of both departments is sold without any disturbance, and the total surplus value is realised. Comrade Luxemburg's hypothesis that the accumulated part of surplus value could not be realised is thus false.'⁴³ It may be true, he continues, that not all surplus value produced (for example) in the first year is realised in that year. If capitalists buy the new machines which they need to expand production in year 2 only at the beginning of the second year, then that part of year 1's surplus value represented by $\Delta c_1 + \Delta c_2$ will only be realised in year 2; but it will eventually be realised. If the commodities in which $\Delta c_1 + \Delta c_2$ is embodied are sold outside the capitalist world, which Luxemburg thinks to be necessary, accumulation will be impaired, since the required means of production will no longer be available. 'The withdrawal of this part of the surplus product from the capitalist market would not, as Rosa Luxemburg believes, make accumulation possible; on the contrary, it would make any accumulation impossible.'⁴⁴

Having disposed of Luxemburg, Bauer turns to consider the cyclical nature of growth under capitalism. For this it is necessary for him to relax his original assumption of equality between the supply and demand for labour power. If the accumulation of variable capital goes on more slowly than the growth rate of the labour force, unemployment will result. In these conditions of *underaccumulation*, real wages fall and the rate of exploitation increases. With a given capitalist savings propensity, this increases the rate of accumulation. Eventually a point is reached at which variable capital grows faster than the working population. The ensuing *overaccumulation*, however, is also a transient phenomenon. As the reserve army of the unemployed diminishes, real wages rise again and the rate of exploitation falls, until not only the rate of profit but also the absolute amount of

surplus value that is produced begins to decline. What Marx described as 'absolute overproduction' precipitates a major economic crisis in which accumulation is severely curtailed, unemployment rises, real wages decline and profitability is once more restored. 'The periodic alternation of prosperity, crisis, and depression is the empirical expression of the fact that the mechanism of the capitalist mode of production automatically generates overaccumulation and underaccumulation, with the accumulation of capital adjusting again and again to the growth of population.'⁴⁵

Once the international implications are considered, domestic population growth ceases to be the key factor. Overaccumulation can occur continuously in some areas because of underaccumulation elsewhere.

Each year countries with continuous overaccumulation invest a large and growing part of their accumulated surplus value overseas. Examples: France and England. Countries with continuous underaccumulation attract capital from abroad and send labour overseas. Examples: the agrarian countries of Eastern Europe. The expansion of productive capital within a country itself is always restricted by the available workforce.⁴⁶

This highlights the kernel of truth in Luxemburg's false theory of imperialism. Although accumulation in a closed capitalist system is possible, it is also limited. Imperialism serves to widen these limits, not merely by expanding the catchment area from which labour power may be recruited but also by making available raw materials, stimulating the development of industries with above-average organic compositions and, during economic crises, providing markets for the 'huge masses of commodities' which would otherwise be unsaleable.⁴⁷

Bauer denies that his analysis constitutes an apology for capitalism:

for while the apologists for capital want to demonstrate the unbounded nature of accumulation – capacity to consume rises automatically with production! – we uncover the limit to accumulation. While the apologists wish to prove the impossibility of general crises, we show that the laws of accumulation can only operate through general crises and the consequent unemployment, wage reductions, increasing mass suffering, and growing bitterness and indignation among the mass of the workers.

Thus capitalism will indeed bring about its own downfall, if not in the way that Luxemburg supposes:

If its expansion is possible, it arouses indignation among the working masses through an arms race, through increasingly oppressive taxation, and through catastrophic wars. If its expansion is prevented, the limit to

accumulation is narrowed and crises become more frequent, longer, more devastating . . . Capitalism will not founder on the mechanical impossibility of realising surplus value. It will succumb to the indignation to which it drives the masses. Capitalism will break down, not when the last peasant and the last *petit bourgeois* on the entire earth are converted into wage labourers, so that no extra market is open to capitalism. It will be brought down much sooner, by the growing 'indignation of the working class, constantly increased, schooled, united, and organised by the mechanism of the capitalist production process itself'.⁴⁸

IV Luxemburg's Antikritik

Bauer's growth model was easily the most sophisticated piece of macrodynamic analysis attempted by any Marxian economist before 1914, and its close affinities with the modern Harrod–Domar theory are only now being fully appreciated. The purpose of this part of his article was to refute Luxemburg's breakdown theory and to show that stable equilibrium growth was indeed possible in a closed capitalist economy. While his criticism of *The Accumulation of Capital* was an effective one, this was an easy target, and Bauer's own model fails to withstand a more detailed scrutiny. As early as 1929 Henryk Grossmann demonstrated that the growth path set out in Bauer's numerical example could not be sustained indefinitely, and this has been confirmed by modern mathematical analysis. After a further thirty-one periods the economy simply runs out of surplus value to finance the specified rate of accumulation. This is an inevitable consequence of Bauer's assumption that constant capital grows twice as fast as variable capital, and that the rate of exploitation is unchanged. Algebraically, s_1 and s_2 rise too slowly to provide the ever-increasing Δc_1 and Δc_2 which the model demands, and the process of accumulation cannot continue.⁴⁹ Technically speaking, Bauer's model is overdetermined. Stable growth is possible only if at least one of the constraints which he imposes is lifted. An obvious option is to allow the rate of exploitation to rise, thereby increasing the rate of growth of the surplus value available for accumulation. Even then, however, there may be insufficient flexibility to guarantee the possibility of stable growth, the surest route to which is a constant organic composition of capital.⁵⁰ Despite his intentions, then, Bauer's model is one of capitalist economic breakdown, bound up with (if not in any simple sense caused by) the tendency for the rate of profit to fall in the course of technical change.

This conclusion, however, does not totally discredit his theory of crisis, which can be assessed on its own merits. The notion of alternating periods of under- and overaccumulation is intuitively appealing and has proved attractive to many later Marxian economists, not least because it offers an

explanation of cyclical fluctuations which avoids the many difficulties inherent in disproportionality, underconsumption and falling-rate-of-profit theories.⁵¹ But it does have one major weakness, in that it does not generate fluctuations in the rate of capacity utilisation. Depressions are always periods of heavy excess capacity, since aggregate demand is inadequate to realise all the surplus value that could be produced if the economy's full productive potential were to be achieved. For this reason Marx was right to insist that crises were bound up with realisation problems. At the very beginning of his article Bauer does refer to the contradiction between the continually increasing productive capacity of capitalist society and the narrow limits which constrain its capacity to consume,⁵² but this Kautskyian allusion is not followed up. Bauer's account of economic crises is thus seriously incomplete.

Very few of these criticisms were made by Rosa Luxemburg in her distinctly ill-tempered *Antikritik*, and most of her objections to Bauer are very wide of the mark. She complains that demographic change is not the real basis of capital accumulation; that accumulation can proceed (as in contemporary France) with a static population; and that accumulation determines the rate of population growth and not vice versa.⁵³ Luxemburg dismisses Bauer's treatment of disproportions between the two departments as involving 'sheer swindles', and denies that the capitalists in department II could conceivably purchase the 4666 units of means of production which are needed to maintain equilibrium growth.⁵⁴ This is quite simply wrong, and Luxemburg would have been better employed in asking how the *possibility* of balanced growth could be transformed into reality, or inquiring into the sources of the finance required by capitalists holding stocks of commodities produced in one year and not purchased until the next. She is on firmer ground in suggesting that the rate of exploitation in Bauer's model should be rising rather than constant, but even here she spoils her case by insisting that with an unchanged rate of exploitation 'all the technological progress is for the benefit of the workers alone'.⁵⁵

There is certainly nothing in Luxemburg's critique of Bauer to justify her assertion that 'this pedantically puzzled out system of hair-raising nonsense . . . is not a common error, such as can occur in the quest for scientific knowledge . . . [but] a disgrace to present official Marxism and a scandal for Social Democracy'.⁵⁶ It must be remembered that the *Antikritik* was written in the prison cell to which Luxemburg's opposition to the world war had brought her. Its main purpose was political rather than academic, and its principal target was Karl Kautsky, not Otto Bauer. Thus she concluded that Bauer's article represented 'the theoretical formula of a quite distinct tactical tendency', that of the so-called 'Marxist centre', who argued that imperialism was not a historical necessity but 'the wicked invention of a small group of people who profit from it'. Although opposed to the war, the

Kautskyians refused to accept that the revolutionary overthrow of capitalism was the only road to peace, believing instead in the possibility of convincing the capitalists that the ending of imperialism was in their own interest. 'The final confrontation between proletariat and capital to settle their world-historical contradiction is converted into the Utopia of a historical compromise between proletariat and bourgeoisie to "moderate" the imperialist contradictions between capitalist states.'⁵⁷ It was because she thought Bauer took this position that Luxemburg was so hostile to his political economy.

V Kautsky's Second Thoughts on Imperialism

Whatever the merits of this criticism when applied to Bauer it is not an unfair summary of the line taken by Kautsky in his writings in 1914–15 which, together with Luxemburg's *Antikritik*, are among the last significant German texts on the theory of imperialism.⁵⁸ In the first article, written some seven weeks before the outbreak of the First World War, Kautsky begins by objecting to the prevalent tendency for imperialism to be treated as coextensive with the whole of contemporary capitalism. This, he argues, reduces to a mere tautology the claim that capitalism is unable to survive without imperialism. In fact 'imperialism is a product of highly-developed capitalism. It arises from the pressure of every industrial capitalist nation to conquer and annex a bigger and bigger agricultural area.'⁵⁹ The relations between agriculture and industry are fundamental to an understanding of imperialism, Kautsky maintains. There are two conditions for stable growth: the familiar Marxian requirement of balance between the manufacturing departments I and II, and balance between agriculture and industry. Disproportionality between these latter two sectors becomes increasingly probable as the capitalist economy develops, since the purchasing power of agricultural producers fails to keep pace with industrial production. The resulting crises take the dual form of overproduction of manufactures and underproduction of agricultural commodities, reflected in rising prices for food and raw materials. (This had been a pronounced feature of the world economy since 1900, after a quarter of a century of declining primary product prices.)

Thus for Kautsky imperialism emerges as a special form of the struggle for agrarian territory. The liberal dreams of world harmony had come to an end, and free trade had been abandoned, because industrial areas were always able to dominate agricultural regions. Since industrialisation is a condition for the attainment or preservation of national independence, the USA and the nations of Western Europe had imposed tariffs against British manufactures. Britain's essentially defensive reaction to their challenge ushered in the age of imperialism. Huge capital exports were used to build

railway networks in the agrarian territories; state power was invoked to defend these investments; and in the stronger capital-importing states (especially Russia and the USA) indigenous industrialisation began, strengthening the resolve of the older capitalist powers to preserve political control over their territory wherever possible.

Thus far there was little to choose between Kautsky's discussion of imperialism and Hilferding's; even Luxemburg's analysis could be accommodated, if 'pre-capitalist' were to be substituted for 'agricultural' areas. It is only in the final section of the article that Kautsky breaks with Luxemburg (and without mentioning her name).⁶⁰ Here he denies that imperialism is necessarily the final stage of capitalism. Continued access to raw materials and outlets for capital are indispensable to the survival of the capitalist system. But militarism and war are not necessarily in the interest of the ruling class as a whole, which is separate from that of the arms producers. 'Every far-sighted capitalist must today call out to his comrades [*Genossen*]: capitalists of all countries, unite.' They are threatened by colonial liberation movements as well as by the resistance of the domestic working class to the fiscal burden which imperialism imposes upon them, while capital accumulation is endangered by the heavy taxation levied upon profits. Thus imperialism is

digging its own grave . . . from the purely economic standpoint it is thus not excluded that capitalism will experience yet another new phase, the overcoming of cartel politics [*Kartelpolitik*] in foreign policy, a phase of ultra-imperialism, which we must of course fight as energetically as imperialism, but which threatens us in other directions, not in those of armaments and the jeopardising of world peace.

Kautsky admits that a war is possible. So, too, is 'a holy alliance of the imperialists', if only at the end of a global conflict. The longer any world war lasts, the more likely is such an alliance to result from it.⁶¹

It is easy with hindsight to pour scorn on Kautsky's assertion that war might be avoided. At the time he wrote, however, there were grounds for believing international tensions to be easing. The existing pattern of alliances between the Great Powers appeared increasingly fragile, and some modern historians are inclined to deny the inevitability of an armed conflict between them.⁶² Several months into the war Kautsky returned to the subject to attack the revisionists Lensch and Cunow, who had stolen Luxemburg's clothes by maintaining that, precisely because imperialism was a necessary stage of capitalist development, it was futile and reactionary for social democracy to oppose it. Kautsky argued that this was a misunderstanding of Hilferding's *Finance Capital*, in which imperialism had been conceived as a type of policy rather than a separate stage. It followed that there might be alternative policies, and it was conceivable

that the present warlike policy would be replaced by a new one which would permit 'the common exploitation of the world by internationally united finance capital'. Such an ultra-imperialist policy would weaken the tendency towards the moral bankruptcy of the system, and herald 'an era of new hope and expectation within capitalism'. Everything depended on the outcome of the war.⁶³

Notes

1. N. Geras, 'Rosa Luxemburg: Barbarism and the Collapse of Capitalism', *New Left Review*, 82, 1973, pp. 17–37.
2. R. Luxemburg, *The Accumulation of Capital* (London: Routledge & Kegan Paul, 1951) pp. 318–19.
3. *Ibid.*, pp. 76–92, 127–30, citing K. Marx, *Capital*, volume II (Moscow: Foreign Languages Publishing House, 1961) pp. 397–402 (ch. 20, s. 2–3). See also M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 182–5.
4. *Accumulation of Capital*, pp. 114–19, citing Marx, *Capital*, vol. II, pp. 510–3. The notation is that of Howard and King, *Political Economy of Marx*, pp. 185–90, which includes a general algebraic solution.
5. *Accumulation*, pp. 131–33.
6. *Ibid.*, pp. 134–5.
7. R. Luxemburg, 'The Accumulation of Capital – An Anti-Critique', in K. Tarbuck (ed.) *Imperialism and the Accumulation of Capital* (London: Allen Lane, 1972) p. 57; *Accumulation*, p. 333.
8. *Accumulation*, p. 136.
9. *Ibid.*, p. 338.
10. Marx, *Capital*, vol. II, pp. 513–22.
11. *Accumulation*, p. 337.
12. *Ibid.*, pp. 350, 347.
13. *Ibid.*, p. 325; 'Antikritik', pp. 61–2, 76.
14. *Accumulation*, p. 366.
15. *Ibid.*, pp. 368–70.
16. *Ibid.*, p. 396.
17. *Ibid.*, pp. 416–17.
18. *Ibid.*, pp. 419, 444–5.
19. *Ibid.*, pp. 446, 449.
20. *Ibid.*, p. 454.
21. *Ibid.*, pp. 455–67.
22. *Ibid.*, p. 464.
23. *Ibid.*, p. 316.
24. A. Brewer, *Marxist Theories of Imperialism* (London: Routledge & Kegan Paul, 1980) p. 67.
25. J. Robinson, 'Introduction' to Luxemburg, *Accumulation*, pp. 19–21; M. Bleaney, *Underconsumption Theories: A Historical and Critical Analysis* (London: Lawrence & Wishart, 1976) p. 191; M. Kalecki, 'The Problem of Effective Demand in Tugan-Baranovski and Rosa Luxemburg', in Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy, 1933–1970* (Cambridge: Cambridge University Press, 1971) p. 148.
26. *Accumulation of Capital*, p. 324; *Antikritik*, pp. 75–6.

27. *Accumulation of Capital*, pp. 337–8; cf. M. H. Dobb, *On Economic Theory and Socialism* (London: Routledge & Kegan Paul, 1965) p. 268.
28. W. A. Darity, Jr, 'Kalecki, Luxemburg and Imperialism', *Journal of Post-Keynesian Economics*, 2, 1979–80, pp. 223–30; M. Kalecki, 'Political Aspects of Full Employment', in Kalecki, *Selected Essays*, pp. 138–45.
29. Dobb, *On Economic Theory*, p. 270; Kalecki, 'Problem of Effective Demand', pp. 152–3; G. Lee, 'Rosa Luxemburg and the Impact of Imperialism', *Economic Journal*, 81, 1971, pp. 847–62.
30. J. Robinson, cited in Dobb, *On Economic Theory*, p. 270, n; E. Patnaik, 'A Note on External Markets and Capitalist Development', *Economic Journal*, 82, 1972, pp. 1316–23.
31. Brewer, *Marxist Theories*, p. 72.
32. G. Lee, 'An Assimilating Imperialism', *Journal of Contemporary Asia*, 2, 1972, pp. 345–60.
33. N. I. Bukharin, 'Imperialism and the Accumulation of Capital', in Tarbuck (ed.) *Imperialism*, pp. 151–270.
34. *Ibid*, pp. 245ff.
35. *Ibid*, p. 248.
36. *Ibid*, pp. 260–4.
37. O. Bauer, 'Die Akkumulation von Kapital', *Die Neue Zeit*, 31, 1913, pp. 831–8, 862–74, cited from the English translation in *History of Political Economy*, 18, 1986, pp. 87–110. On Bauer and his 'Austro-Marxist' colleagues see M. E. Blum, *The Austro-Marxists 1890–1918: A Psychobiographical Study* (Lexington: University Press of Kentucky, 1985).
38. Bauer, 'Die Akkumulation', p. 93, adapted from Table 1.
39. *Ibid*, p. 94, Table 4, is the source for all the numbers in this paragraph.
40. *Ibid*, pp. 98–100.
41. *Ibid*, p. 98.
42. Derived from *ibid*, p. 96, Table 7.
43. *Ibid*, p. 100.
44. *Ibid*, p. 103 (original stress deleted).
45. *Ibid*, p. 107
46. *Ibid*, p. 107 (original stress deleted).
47. *Ibid*, p. 109.
48. *Ibid*, p. 110 (the unattributed quotation at the end of the final passage is almost certainly from Marx).
49. H. Grossmann, *Das Akkumulations- und Zusammenbruchsgesetz des Kapitalistischen Systems* (Leipzig: C. L. Hirschfeld, 1929) pp. 99–109, 117–25, 179–90; Z. B. Orzech and S. Groll, 'Otto Bauer's Scheme of Expanded Reproduction: An Early Harrodian Growth Model', *History of Political Economy*, 15, 1983, pp. 529–48; see also Chapter 16 below.
50. M. Bronfenbrenner and M. Wolfson, 'Marxian Macrodynamics and the Harrod Growth Model', *History of Political Economy*, 16, 1984, pp. 175–86; L. Samuelson and M. Wolfson, 'Expository Marxism and Comparative Economic Dynamics', *History of Political Economy*, 18, 1986, pp. 65–85.
51. See for example M. H. Dobb, *Political Economy and Capitalism: Some Essays in Economic Tradition* (London: Routledge & Kegan Paul, 1937) pp. 113–14; P. M. Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1968) pp. 147–55; M. Bronfenbrenner, 'Das Kapital for the Modern Man', *Science and Society*, 29, 1965, pp. 419–38.
52. Bauer, 'Akkumulation', p. 48.
53. *Antikritik*, pp. 81–2, 113.
54. *Ibid*, pp. 91–4.

55. Ibid, pp. 98, 108.
56. Ibid, p. 135.
57. Ibid, p. 108.
58. K. Kautsky, 'Der Imperialismus,' *Die Neue Zeit*, 32, 1914, pp. 908–22; Kautsky, 'Zwei Schriften Zum Umlernen', *Die Neue Zeit*, 33, 1915, pp. 33–42, 71–84, 107–16, 138–46.
59. 'Der Imperialismus', p. 909; original stress deleted.
60. An English translation of this section appeared as 'Ultra-Imperialism' in *New Left Review*, 59, 1970, pp. 41–6.
61. 'Der Imperialismus', pp. 920–2.
62. A. J. P. Taylor, *The Struggle for Mastery in Europe, 1848–1918* (Oxford: Clarendon Press, 1954) pp. 518–20.
63. 'Zwei Schriften', pp. 144–5.

Part II

***The Russian Contribution to
1917***

7

The Inheritance of Russian Marxism

I Introduction

From the outset of its theoretical development Germanic Marxism was joined by a second stream which originated further east, in Russia. However, Marx's legacy to Russian Marxists was by no means the same as that to the German socialists. Although the works to which they had access were essentially the same,¹ the contents were more ambiguous in the Russian context because of the underdevelopment of Russian capitalism and the character of tsarist absolutism. Furthermore, Marx expressed specific views on Russia which were often not well-founded and, moreover, had little relation to his overall theory of historical development. For these reasons it is desirable to outline the inheritance of Russian Marxism in some depth. In addition, since Russian Marxism proved far more sensitive to its domestic environment, greater attention needs to be given to the nature of the Tsarist empire.

II The Nature of Russian Absolutism

What was to prove the most durable of European absolutisms was still robust in the middle of the nineteenth century. The centralised bureaucracy of the tsarist state dominated society to an extent never even approximated by its Western European counterparts during earlier centuries. The state itself was the major landed proprietor and the owner of a high proportion of the non-agricultural economy.² At its disposal were armed forces commensurate with the extensiveness of its territory, together with a comprehensive apparatus of internal repression. The autonomy of the church was non-existent, that of educational institutions negligible. Its ideology was uncomplicated and expressed in the slogan 'Autocracy,

Orthodoxy and Nationality'. The pedigree was clear, unqualified as it was by any reforms parallel to those inaugurated in Germany and Austro-Hungary. The representative assemblies, universal male suffrage and civil rights which characterised Imperial Germany by the 1870s were totally absent from the Russian Empire, and remained so even in the twentieth century. Tsarism had withstood both the bourgeois revolutionary upsurges and the Napoleonic expansion from which they originated. Indeed, it had counter-attacked, assisting not only in the ultimate defeat of Napoleon, but also (from the late eighteenth century onwards) striking surgically into the West in order to suppress revolution and bolster reaction.³

The class character of this Leviathan is a complex matter. Modern historians tend to emphasise the independence of the state and the priority of its interests. This view is also implied in Marx's designation of Russia as 'semi-Asiatic'.⁴ Before the revolution Russian Marxists, too, were prone to take such a standpoint. However Marxian theory implies an intricate perspective on the relationship between class and state. If reality is contradictory, yet not obviously so, the requirements for prosecuting a class interest are unlikely to be agreed upon unanimously. Any class state must thus attain some degree of autonomy.⁵ In addition, while much of the historical evolution of Russian absolutism lends itself to a view which stresses the state's sovereignty over all social classes, the situation in the mid-nineteenth century is more complex. Viewing the history of the autocracy from this latter date does suggest that the record can be differently interpreted, as the formation of a feudal monarchy under exceptionally onerous conditions which required an especially high degree of autonomy for the state.

By the mid-nineteenth century the dominant economic class was a hereditary aristocracy, whose ownership of land was secure:

Of the roughly 100 000 noble landowners, nearly 50 000 had estates of less than 270 acres. But the other half of the noble proprietors owned 97 per cent of the 100 million acres of noble lands, and these still covered more than 50 per cent of all privately held land in European Russia. More striking still, a bare 10 per cent of the agrarian nobility with properties over 2700 acres owned 75 per cent of all land in estates. There were even 155 supermagnates whose estate holdings averaged 270 000 acres and comprised 33 per cent of all noble owned land.⁶

Significantly, the apparatus of the state and the structure of the nobility coincided. Under Nicholas I

a feudal hierarchy of ranks was created within the noble class corresponding to the stepped echelons of the state bureaucracy. Vice versa, all those occupying determinate positions in the service of the state were

given corresponding noble rank, which above certain levels became hereditary. Aristocratic titles and privileges . . . continued to be related by the political system to different administrative functions, down to 1917.⁷

Thus while the tsar might rule in his name alone, he did so not only through a bureaucratised nobility, but also through a noble landed class of which he himself was the predominant member.

The agrarian changes which were inaugurated at this time clearly reflected these facts. The abolition of serfdom during the 1860s was undertaken on terms which demonstrated the disproportionate weight of the noble interest. The reality of feudal relations remained significant, peasant land-holdings were reduced below those operative under serfdom, and compensation forced from the ex-serfs for appropriated noble lands was blatantly excessive.⁸ Subsequent amendments to the structure of privilege in the early twentieth century showed the same pattern. Concessions were made to the forces of popular revolution, but with minimal damage to the economic interests of the nobles or the political power of their state.

The relative purity of form which characterised this feudal absolutism meant that the economy which underpinned it was also extremely backward. National income per capita in 1861 was less than half that of Germany, France and Italy, less than one quarter of that of the UK, and less than one sixth of that of the USA.⁹ Infant mortality and illiteracy rates were easily the highest in Europe.¹⁰ A peasantry using a primitive technology and isolated in separate villages by underdeveloped communications accounted for well over 70 per cent of a total population which numbered 74 million.¹¹ Prior to the 1860s their condition of serfdom often approximated slavery as closely as it did the status of European villeins in the Middle Ages. Tied as they were to the person of the lord, rather than to the land, a small minority were utilised in large-scale mining, construction and industrial activities, and not just in a feudalised agriculture.¹² The nature of exploitation could thus take on an ancient rather than a medieval quality. Even after the abolition of serfdom, which began in 1861, the peasants achieved a very restricted freedom. Most were legally tied to the land, remained exploited by the nobility at the local level, and were subject to the harsh fiscal exactions of the central state.¹³

The urban population, no more than 10 per cent of the total in the 1850s, contained a proletariat of only embryonic form and even more minute proportions.¹⁴ Cities were essentially administrative, military and mercantile centres, thinly spread and without much large-scale industry. That industry which did exist largely represented the state's intervention to supply its own needs, which were predominantly military. Private capital, especially private domestic capital, was thus not a major force in mid-

nineteenth-century Russia. This in part explains why the bourgeois revolutionary waves of 1789, 1830 and 1848 had no significant repercussions in tsarist territory. The only stratum showing signs of contemporary Western influence was the intelligentsia. Consisting principally of elements drawn from the gentry, officialdom, the professions and students, it was increasingly radical in temperament and opinion.¹⁵ Nevertheless, the force it could muster from its own ranks was puny.

The twin historical forces that had produced this society were those which, in a later epoch, broke it apart: external military pressure, and peasant resistance and rebellion at home. Both worked initially to enhance the role of the central state in securing the interests of the nobility; the 'political fealty sought by the one was exchanged for patrimonial serfdom demanded by the other'.¹⁶ This process began in the fifteenth century under the relatively small Muscovite state of Ivan III and, while subject to the fluctuating fortunes characteristic of all ascendant absolutisms, was secured on a larger scale in the early eighteenth century under Peter the Great.¹⁷ Independent noble power was curtailed, its bureaucratic role enhanced by the development of a service aristocracy, and its economic exploitation of the peasantry confirmed. Peasant mobility was restricted, serfdom enforced, and rebellions suppressed. The autonomy of the towns was crushed and a geographically expanding empire provided with the instruments of a more concentrated central power.

Elements of economic modernity, however, were not absent. In the context in which the tsarist state achieved its preeminence, they could not be dispensed with; they were part and parcel of the very solidification of power in the face of a more vibrant West. In particular, under Peter the Great, industrial production was directly encouraged through importation of means of production and skilled labour.¹⁸ But it was an intensified exploitation through essentially feudal mechanisms that provided the resources to finance it, and forced labour was widely employed in the new industrial establishments. Backwardness and development therefore coexisted, and the state's attempts to accelerate the latter were to prove recurrent, being repeated, in the late nineteenth century, on an even grander scale. The contradictions thus intensified were to provide the structural condition which ultimately split the system apart.

After Peter had secured the foundations of Russian absolutism, both the modification of its framework and its geographical expansion were continued by his successors. In particular there was some relaxation of the restrictions placed upon the nobility. 'The coming decades were to make the peasant more than ever a serf, but the same period was to bring an "emancipation of the nobility" – a process finally completed by the imperial manifesto of 1762 which declared that, except in the presence of some public emergency, the nobles were free to serve the state or not, as they

might choose.¹⁹ A feudal structure of noble privilege without corresponding responsibility was thus secured within a political absolutism.

With the expansion of capitalist industrialisation in the West, however, the system came under increasing strain. Its fragility was exposed most notably in the Crimean defeat of 1856, after which the autocracy engaged in modernisation on a more extended scale. The two most notable changes were the abolition of serfdom during the 1860s and the fostering of rapid industrialisation, particularly from the 1880s. The former provided enhanced flexibility for an accelerated advance of the form previously inaugurated.²⁰ Transfer of labour from village to town was facilitated, while competition between state and nobility for shares in the agricultural surplus was diminished. The state now faced reduced constraints on its ability to pump out resources from the country to finance its ambitious plans for industry.

By 1914 Russia was the fifth largest industrial power, its growth in the previous three decades surpassing anything experienced elsewhere.²¹ A highly developed industrial capitalism was thus constructed within the *ancien régime*. Coupled with it was its ultimate gravedigger, a small but highly concentrated urban proletariat linked in a multitude of relations with a peasantry whose augmented exploitation had been the principal means through which the process had been accomplished.

III Marx's and Engels's Views on Russia

This was not, however, the Russian reality which Marx and Engels confronted from the 1840s. For the most part, they faced the simpler regime described earlier. Moreover, their primary interest prior to the 1870s was less the internal condition of the empire than its external impact. In their view the sinister design behind tsarist foreign policy was nothing less than world domination,²² but they were especially concerned with Europe. The armed intervention in Hungary during 1848 clearly revealed the counter-revolutionary stance of the autocracy:

Russia is decidedly a conquering nation, and was so for a century until the great movement of 1789 called into potent activity an antagonist of formidable nature. We mean the European Revolution, the explosive force of democratic ideas and the man's native thirst for freedom. Since that epoch there have in reality been but two powers on the continent of Europe – Russia and Absolutism, the Revolution and Democracy.²³

Nor was it the cause of revolution alone that was in danger; its material basis was simultaneously threatened. Marx and Engels saw Russian expan-

sionism as a force constraining European economic development. Of particular importance from this viewpoint was the prospect of Russian control of Constantinople and the Balkans, together with the actual domination of Poland. The former threatened to retard the incorporation of the periphery into a European-based economy and thereby hinder the direct expansion of capitalism from its original homeland, as well as indirectly inhibiting it within its original territories.²⁴ The latter put at risk the independence of European states and, more specifically, the prospects for a successful revolution in the West.²⁵

Much of this analysis was superficial. No coherent explanation was provided as to the forces underlying the alleged aim of global supremacy. European statesmen were frequently de-classed, described as cowards, tsarist agents or fellow-travellers rather than the representatives of class interests.²⁶ Moreover, neither Marx nor Engels provided a rationale for their belief that the weight of Russian power was great enough to hold back, let alone reverse, the dialectics of historical advancement. Quite apart from its inconsistency with the inevitability of modernism confidently proclaimed in the *Communist Manifesto* and *Capital*, this view was in tension with conceiving Russian internal history as a static barbarism.²⁷ Even Stalin, never noted for sensitivity in matters of theory, was moved to criticise the absence of a materialist analysis.²⁸

The more considered work of Marx and Engels on those aspects of the internal structure of Asiatic societies which they considered relevant to Russia was also inadequate. Indeed their very notion of an Asiatic mode of production can now be seen as involving inconsistencies, and its empirical application was frequently inaccurate.²⁹ This is not so obvious in the case of Russia, because of their frequent qualification of the term by a prefix. However, the designation of the tsarist empire as 'semi-Asiatic' is merely a further muddying of the waters. Here we have a concept designating a weighted average where only one of the elements from which it is formed is itemised, and the weights assigned are left unspecified. In addition, Marx's explanations of the Asiatic qualities of Russia are sometimes idealist.³⁰ The view that it had experienced no 'internal history' prior to the late 1850s borders on the absurd.³¹ And for Engels to regard the tsarist government as 'incapable of doing anything rational' in its internal policy is fundamentally to underestimate the range of its adaptability.³²

Nevertheless, in linking Russia to the Asiatic mode Marx and Engels thereby emphasised its non-European features, and this was to influence Russian Marxism deeply. In the course of his theoretical career Plekhanov increasingly stressed the non-Western aspects of Russian history (see Chapter 8 below), and opposed Lenin's theory of the 'democratic dictatorship of the proletariat and peasantry' on the grounds that its realisation would fail to eradicate the Asiatic features of the agrarian order (see Chapter 11 below). Lenin himself proved unable coherently to formulate a

theory of the class nature of the Russian state, alternating between descriptions that emphasised first its Asiatic, then its feudal and finally its bourgeois attributes.³³ For their part the Mensheviks became obsessed with duplicating in Russia the path they believed had been followed by the political history of Western Europe.³⁴ Trotsky's original formulation of his theory of permanent revolution rested upon the belief that in Russia classes had been disproportionately formed by the state.³⁵ And under Stalin's dictatorship the very notion of an Asiatic social formation was repudiated as part of a broader ideological defence of 'socialism in one country'; its apparent similarity with Soviet reality was altogether too close for comfort (see Chapter 15 below).³⁶

Russian Marxists were also influenced, again in different ways, by Marx's writings on the German revolution of 1848. Here, because of the economic backwardness of the German states, Marx had begun by recognising the appropriateness of the bourgeoisie's leadership, but he quickly became critical of its conservatism. As a result Marx turned toward a position which stressed the importance of the proletariat and peasantry acting to radicalise the revolution. It is not clear what type of revolution he expected to materialise from the success of such a strategy.³⁷ In the event, it did not bear fruit and Marx subsequently concentrated attention upon proletarian revolution in the context of advanced capitalism. Nevertheless, he did draw certain general lessons from the 1848 experience, which were reflected in the insistence of German Marxism that the proletarian party retain its independence under all circumstances. Given the persistence of the autocracy, and the relative underdevelopment of the tsarist social formation, it was not unreasonable for Russian Marxists to go beyond this and attribute a greater significance to Marx's remarks on the 1848 revolution. Thus Plekhanov emphasised not only that the social democratic party must preserve its independence, but also that it should take on a leadership role in the bourgeois-democratic revolution (see Chapter 8 below). After 1905, Lenin added to this the view that peasant support was indispensable, and the proletariat would inevitably come into conflict with the bourgeois class during the bourgeois revolution itself (see Chapter 11 below). Most significantly of all, Trotsky argued that Marx's views on the 1848 revolution implicitly represented a new paradigm of revolutionary change, and that in Russian conditions proletarian hegemony with peasant support meant that the bourgeois revolution would immediately move into the socialist phase (see Chapter 12 below).

The shortcomings in Marx's and Engels's own treatment of Russia were in part a result of their preoccupation with other matters. But even when Marx eventually began to probe more deeply into the empire's socio-economic structure his conclusions retained extraordinary features. He took seriously the possibility of a non-capitalist development based on the peasantry, which could culminate in socialism without the agency of a

revolutionary proletariat. Here he was greatly influenced by Russian populism, a movement of manifold themes which dominated the thought of the intelligentsia throughout the latter half of the nineteenth century. In fact only Stalin's collectivisation in the 1930s was to end its sway on Russian intellectuals. Populism was also the medium through which Marxism initially had its influence within Russia, and at the centre of this influence was Marx's economics.

IV Russian Populism

Russian chauvinism hinged upon the specifics of its society. Conservatives emphasised and celebrated the non-Western nature of the empire. While progressive thinkers outside Russia were appalled and frightened by the lack of civilisation, the Slavophilic ideologists took a mirror-image stance on the superiority of their home ground. In this they paralleled aristocratic attitudes which surfaced in the West, but their intellectual defence also sired as a by-product the first Russian populists, from whom emerged a novel doctrine of socialism whose leaders subsequently repudiated chauvinism and associated themselves with the Second International. The key in this development was an interpretation of the significance of the peasants' land commune (*obshchina*).

The *obshchina* resembled primitive communism in some respects. Its central quality was the holding of land by the community and its periodic redivision among households in an egalitarian manner designed to ensure the means of subsistence to all. The strip system of rotation agriculture allowed an individualised labour process but required regulation by the village commune. This was reinforced by the peasants' joint responsibility for meeting seigniorial dues and state taxes, so that the commune held and exercised an authority which constrained peasant individualism. Prior to the abolition of serfdom in the 1860s the peasant economy itself, and its interrelation with that of landlords and the state, was overwhelmingly 'natural', that is monetary exchange was almost non-existent.³⁸

Although commodity production received a marked impetus from the terms of the Emancipation, the basic communal organisation was retained. By the terms of the settlement serfs were freed from personal bondage but were tied to the land, and to their communes. No longer subject to explicit seigniorial obligations, they faced increased taxation which, levied now in terms of money, forced them into market relations. Thus a basis was laid for the development of commercialism, commodity production and agrarian capitalism in the peasant economy.

The extent to which the commune began to crumble as a result, and the degree to which peasants became socially differentiated, were to become issues of debate among Russian socialists in the final years of the nineteenth century; indeed, they still provoke controversy today. However, it is

certainly true that the commune, together with its long-serving practices, did not disappear with serfdom, and non-capitalist relations continued to predominate. In part because of this, Russian agriculture remained exceedingly backward, and traditional residues exercised a strong force on the peasant mind.

This provided the economic backbone to a Slavophile defence of the *ancien régime* in Russia. The commune was perceived as precluding the development of the corrosive and degenerative individualism seen in the West, thus inhibiting liberalism, proletarianism and socialism. Instead, or so it was thought, the commune tied the peasantry into the old order, at the apex of which was the tsarist autocracy and Orthodox Church. As a united state the Russian Empire could further extend its frontiers, and so 'liberate' Slavs in southern Europe as well as counter Western expansionism.

For the populists, the very same commune provided the hope for a new socialist society. In their scheme, too, communal relations inhibited the development of Western individualism, providing (in their case) the foundation for a flowering of modern socialism. Russia could thus miss out the capitalist stage in its development, and with a suitable change in the political structure move directly on to a collectivist path. Progress could be linear – Old Russia could form the basis of the New – precisely because of the socially backward nature of the agrarian system. The dialectics of capitalist development were neither necessary nor desirable. Of course, populists recognised that the commune was not an optimal institution. Patriarchal relations, near-universal ignorance and economic underdevelopment were too manifest for such a view to prevail among an intelligentsia that was deeply humanitarian in ethos and widely educated in Western thought. But it was believed that these unsavoury elements would wither as economic advance and enlightenment progressed along a socialist path of development.

It was into this framework that Marx's economics was fitted. Prior to the 1880s it functioned primarily as a warning as to what would occur if capitalist relations succeeded in becoming dominant in Russia, whose vast populace would be forced to experience all the horrors accompanying its 'laws of motion'. The eloquence with which they were depicted in *Capital*, and the analysis tying them to the very nature of capitalism, had a profound impact upon virtually all populist thinkers.³⁹ In doing so, it reacted back on Marx himself. Instead of attempting to coax his Russian readers toward the perspective he had laboured to formulate for thirty years, he moved in the direction of adopting theirs.

V The 'Late Marx'

Marx's initial encounter with populist themes, in the writings of Herzen, provoked a negative response. This reflected not so much the content as the

Slavophilic ethos which he detected in their exposition. Neither Marx nor Engels concealed their contempt for what they believed to be only a reformulated, although possibly more benign, form of Russian chauvinism.⁴⁰ However, the dropping of Slavophilic themes by later populists, coupled with a range of other influences, was to shift Marx's perspective during the 1870s. In what Edmund Wilson described as the 'last vital flicker' of his fertile mind, he reconstructed his position to one which allowed the possibility for which Russian populists strove.⁴¹ In doing so, it is maintained by neopopulists of the twentieth century, he laid the foundation for a 'Late Marx,' with a claim to attention alongside both the 'Young Marx,' whose themes were greatly to influence Western Marxism after the First World War, and the 'Mature Marx' whose ideas formed the intellectual nucleus of the Second International.⁴²

The impact of several intellectual and political currents were no doubt carrying Marx toward such considerations during the 1870s. In this period the Russian revolutionary movement was the most active in Europe.⁴³ Marx was both immensely moved by the courage of its activists and, no doubt, flattered by his own eminence in their eyes.⁴⁴ That he had a deep and abiding hatred of the Russian autocracy is unquestionable. The wish to lend support to those struggling against it must have weighed heavily with one who considered himself the intellectual head of historical progress.⁴⁵ He was also deeply impressed with the economics of Chernyshevsky, who had emphasised that the uneven development between Russia and the West made it possible for the former to duplicate the achievements of the latter without the horrendous costs.⁴⁶ The anthropology of Morgan had modified his views as to the worth of primitive communal forms, as had, perhaps, his extensive researches into Russian society.⁴⁷

The 'Late Marx,' however, produced no texts comparable with the *Economic and Philosophic Manuscripts*, let alone with *Capital*. There are merely cryptic remarks appended to earlier work, letters sent to Russians who had enquired about Marx's views on their concerns, and drafts of letters which were in fact never sent. By no stretch of the modern imagination can all this be construed as a 'system.' At most there is only the skeletal form of a position whose themes are never well specified, nor related properly to those of earlier analysis.

Marx's populist leanings first emerged during 1877 in a reply to a hostile review of *Capital* by the populist Mikhailovsky:

In order to be able to judge the economic development of contemporary Russia from a knowledge of its causes, I learned Russian, and then for many years studied the official and other publications concerning this subject. I arrived at this conclusion: if Russia continues to move in the path followed up to 1861, it will lose the finest occasion that history has

ever offered a people not to undergo all the sudden turns of fortune of the capitalist system.⁴⁸

Marx continues by limiting the applicability of the chapter on primitive accumulation in *Capital*, vol. I to Western Europe, repudiating any claim that it constituted a 'historico-philosophical theory of a Universal Progress, fatally imposed on all peoples, regardless of . . . historical circumstances'. Its applicability to Russia is only this:

if Russia attempts to become a capitalist nation . . . and in recent years it has made great efforts in this direction, it will not succeed without having first transformed a good part of its peasants into proletarians, and afterwards, once it has crossed the threshold of the capitalist system, it will have to submit to the implacable laws of such a system.⁴⁹

In 1881 his reply to Vera Zasulich's request for information on 'your ideas on the possible destiny of our village community' reaffirmed this position.⁵⁰ While Marx asserted that 'this community is the strategic point of social regeneration in Russia', he added that 'before it can function as such, it is necessary to eliminate first the pernicious influences which attack it from all sides, and then to assure it of normal conditions for spontaneous development'.⁵¹ This response had evidently given Marx cause for much reflection. No less than four rough drafts of his letter have subsequently come to light.⁵² And it is these that flesh out key elements of the argument. Marx recognises that the village commune combined collectivism and individualism in a matrix of production relations. Land was communally owned, but the labour process was individual and moveable property subject to private exchange. Depending upon which element became predominant, two different developments were possible. Continuation along the current path set in motion by tsarist modernisation would ultimately lead to the eradication of the former, and generate capitalist relations. But this process is not inevitable. If it were halted by a populist revolution, it would be possible to build instead upon communalism, allowing the positive achievements of capitalism in the West to be incorporated into a socialist reorganisation of the commune.

In these rough drafts of the Zasulich letter, Marx makes no reference to the belief that the realisation of the populist path depended upon proletarian revolution in the advanced West. The preface to the 1882 edition of the *Communist Manifesto*, however, does add this qualification.⁵³ This may reflect the influence of Engels, whose name appears as joint author of the preface, and who actually drafted it.⁵⁴ Certainly Engels's writings upon the themes of the 'Late Marx' stress to a far greater degree than those of Marx himself the indispensability of Western political leadership for the realisa-

tion of populist ideas.⁵⁵ There is also evidence to suggest that Engels never took the prospect very seriously, even before Marx's death.⁵⁶ After 1883 his position hardened even further. Engels's scepticism was reflected in the views of Russian Marxists in the twentieth century. While they sometimes recognised that Russia might conceivably avoid the maturation of capitalism, they usually specified the need for international revolution if this were to occur.⁵⁷ The development of a coherent doctrine of 'socialism in one country' was a product of the 1920s, and one occasioned by the failure of the European revolution after 1917 (see Chapter 15 below).

Any assessment of the significance of the 'Late Marx' involves confronting the inconsistencies with his prior writings and considering the influences which operated upon Marx during the 1870s.⁵⁸ That his views are not in accordance with the bulk of what he had previously written is palpably obvious: Marx had clearly abandoned the universally applicable 'natural laws' of industrialisation set out in *Capital*.⁵⁹ The constant theme from his very earliest works, to the effect that the proletariat alone provided the agency of communism,⁶⁰ was now joined by a socialism realisable through an alliance of intellectuals and peasants. Marx's many previous aspersions on the idiocy of rural life, the cultural barbarism of peasants, and their political unreliability were now apparently of limited applicability.⁶¹ Western imperialism, whose impact upon India Marx had both condemned for its brutality and heralded for its progressive consequences, could from the 1880s be seen in less categorical terms.⁶²

At all events, the populist project was impossible. Any attempt to implement socialism on the basis of the *obshchina* would have had to be authoritarian. The distance between the leaders and the masses, together with the underdeveloped labour productivity, meant that there could be no democratically organised transition to socialism. Even with appropriate Bakuninist sentiments widely distributed among the peasantry, the need for a disruption of the commune's traditional relations in order fully to socialise production would require that power be removed from those socialised. What would then save the ruling élite from experiencing the vicissitudes of class formation? In the year of Marx's death, Plekhanov was to make precisely these points against the populists,⁶³ guided by the Marxism of Marx's prime. The 'Late Marx' certainly provides no grounds for refuting them.

VI Conclusion

Thus Marx left a more complex legacy to his Russian followers than to their German comrades. His conception of Asiatic society was of limited theoretical interest to German Marxists. To their Russian counterparts, however, it suggested that their position was very different from that of

Europe. This highlighted in dramatic terms the fact that the development of Russian capitalism would have peculiar features, and that the appropriate revolutionary strategy might require specific forms of struggle, such as those outlined by Marx in his remarks on the German revolution of 1848. Even the centre-piece of Marx's mature work – the laws of motion of the capitalist mode of production – was of disputed relevance. The Russians did not have to wait for a revisionist controversy to engulf their ranks. It was there from the start, and with apparent support from Marx himself.

This background helps to explain the controversies that were to characterise Russian Marxism. The ambivalence of Marx's work in the Russian context interacted with the specific attributes of the tsarist regime to generate centrifugal forces on a sharper scale than ever emerged in Germany. While the late 1890s saw controversy which was intellectually similar to that in the SPD (see Chapter 10 below), from 1903 there was a new kind of fissure. At this point the Russian party split into Bolshevik and Menshevik factions. The rupture was occasioned by a dispute over the appropriate form of organisation, but it subsequently came to encompass issues of economic theory (see Chapters 8 and 11 below). Nor were the two wings of Russian Marxism without their own disputes. So far as political economy was concerned, the most important was associated with Trotsky's theory of uneven and combined development (see Chapter 12 below). Prior to 1917, Trotsky and his associates accepted the Menshevik view of party structure but their radicalism aligned them more closely with Lenin and Bukharin, the chief theorists of Bolshevism (see Chapters 11, 12 and 13 below). After 1914 and the disintegration of the Second International, differences within Russian Marxism became even more marked and there was a realignment of groups. In 1917 Trotsky and Lenin joined forces, but the October revolution was opposed by the bulk of the Mensheviks, and some Bolsheviks, as adventurism inconsistent with the tenets of orthodox Marxism (see Chapters 8 and 13 below).

At the same time, Marx's depiction of Russia as the bastion of European reaction elevated a Russian revolution to primary international importance. In consequence, reformism became a weaker force, while the heritage of revolutionary intransigence, which Marx himself had embodied and which within the ranks of German-speaking theorists Rosa Luxemburg alone kept alive, became a far stronger current. The advance in economic theory which emerged clearly reflected this priority of revolutionary practice. Far less attention was given to the theory of value and capitalist crises, and much more to understanding the precise nature of Russian economic development, in order to formulate an effective revolutionary strategy.

Notes

1. See Chapter 1, section 1. All Russian Marxists of intellectual significance were multilingual, most lived long periods as émigrés in various countries of Europe and North America, and their contacts with socialists of other nations were, for the most part, wide and highly valued.
2. P. Gatrell, *The Tsarist Economy 1850–1917* (London: Batsford, 1986).
3. H. Seton-Watson, *The Decline of Imperial Russia* (New York: Praeger, 1952); L. Kochan and R. Abraham, *The Making of Modern Russia* (Harmondsworth: Penguin, 1983); J. Blum, *Lord and Peasant in Russia from the Ninth to the Nineteenth Century* (Princeton: Princeton University Press, 1961); P. Anderson, *Lineages of the Absolutist State* (London: Verso, 1979).
4. U. Melotti, *Marx and the Third World* (London: Macmillan, 1977).
5. It is however true that Marx's work provides no criterion by which a condition of relative autonomy can be distinguished from that of genuine independence.
6. A. J. Mayer, *The Persistence of the Old Regime* (New York: Pantheon, 1981) p. 28.
7. Anderson, *Lineage*, p. 346.
8. For a detailed analysis of the terms of the Emancipation see A. Gerschenkron, 'Agrarian Policies and Industrialisation, Russia 1861–1917,' in H. J. Habakkuk and M. Postan (eds) *The Cambridge Economic History of Europe* (Cambridge: Cambridge University Press, 1965) vol. 6, pp. 706–800.
9. Gatrell, *The Tsarist Economy*, p. 33.
10. *Ibid.*, pp. 33–4.
11. P. Gregory, *Russian National Income, 1885–1913* (Cambridge: Cambridge University Press, 1982) pp. 155–7.
12. M. E. Falkus, *The Industrialisation of Russia 1700–1914* (London: Macmillan, 1970) pp. 24–35, 39 and 52; G. T. Robinson, *Rural Russia Under the Old Regime* (Berkeley: University of California Press, 1967) p. 277, note 3.
13. Gerschenkron, 'Agrarian Policies'; Robinson, *Rural Russia*.
14. Gatrell, *Tsarist Economy*.
15. M. Raeff, *Origins of the Russian Intelligentsia* (New York: Harcourt Brace, 1966).
16. Anderson, *Lineages*, p. 337.
17. R. Hellie, *Enserfment and Military Change in Muscovy* (Chicago: Chicago University Press, 1971); Anderson, *Lineages*, pp. 328–47; Kochan and Abraham, *Making of Modern Russia*, chs 2–7.
18. B. Brutzkus, 'The Historical Peculiarities of the Social and Economic Development of Russia', in R. Bendix and S. M. Lipset, *Class, Status, and Power* (London: Routledge & Kegan Paul, 1967) pp. 121–35.
19. Robinson, *Rural Russia*, p. 26; see also Anderson, *Lineages*, pp. 342–4 and P. Duker, *Catherine the Great and the Russian Nobility* (Cambridge: Cambridge University Press, 1967).
20. A. Gerschenkron, 'Agrarian Policies': A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1966); A. Gerschenkron, *Europe in the Russian Mirror* (Cambridge: Cambridge University Press, 1970); Falkus, *Industrialisation*; and Gatrell, *Tsarist Economy*.
21. Falkus, *Industrialisation*, p. 82; Gatrell, *Tsarist Economy*, pp. 41–3, 67; Gerschenkron, *Economic Backwardness*, pp. 119–142.
22. F. Engels, 'The Foreign Policy of Russian Czarism' in P. W. Blackstock and B. F. Hoselitz (eds) *The Russian Menace to Europe* (London: Allen & Unwin, 1953) pp. 25–55.

23. K. Marx, *New York Tribune*, 12 April 1853, in Blackstock and Hoselitz, *Russian Menace*, pp. 132–3.
24. K. Marx, *New York Tribune*, August 12, 1853 and December 30, 1853, in Blackstock and Hoselitz, *Russian Menace*, pp. 168–9, 171–2.
25. Blackstock and Hoselitz, *Russian Menace*, part IV.
26. See, for example, Blackstock and Hoselitz, *Russian Menace*, pp. 12, 113, 128–9, 135, 141, 164, 169, 171–2, 186, 268–70; S. F. Bloom, *The World of Nations* (New York: AMS Press, 1967) pp. 152–9.
27. Blackstock and Hoselitz, *Russian Menace*, pp. 46, 168, 171–2 and 261.
28. *Ibid.*, p. 243.
29. S. Avineri, *Karl Marx on Colonialism and Modernisation* (New York: Anchor, 1969) pp. 1–31; M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 225–37; Anderson, *Lineages*, pp. 462–549. Anderson, pp. 15–42, also points to a certain incoherence in Marx's and Engels's treatment of European absolutism. Melotti, *Marx and the Third World*, however, provides a defence of Marx's concept of Asiatic society, including its application to Russia.
30. Blackstock and Hoselitz, *Russian Menace*, pp. 167 and 254; Melotti, *Marx and the Third World*, p. 84.
31. *Ibid.*, pp. 46–7; see also pp. 18, 255–6, 261.
32. *Ibid.*, pp. 25–6. See Chapter 11 below.
33. V. I. Lenin, *Collected Works* (Moscow: Progress Publishers, 1960–70) vol. I, pp. 153, 154, 160, 196–8, 218, 258, 259, 261, 267–70, 283, 291, 359, 363, 367, 419, 426, 433, 451–2, 521; vol. II, pp. 109–11, 119, 120, 277, 288, 333, 335, 337, 453–4, 458, 563–4; vol. IV, pp. 213, 264–6, 363–4, 375–7, 405, 410, 421. See, however, Chapter 11 below.
34. A. Ascher, *Pavel Axelrod and the Development of Menshevism* (Cambridge, Mass.: Harvard University Press). Also see Chapters 8 and 11 below.
35. L. Trotsky, *Results and Prospects*, in *The Permanent Revolution* (New York: Merit, 1969) pp. 36–122; see also Chapter 12 below.
36. Blackstock and Hoselitz, *Russian Menace*; Melotti, *Marx and the Third World*, K. A. Wittfogel, *Oriental Despotism* (New Haven: Yale University Press, 1957) ch. 9; M. Sawyer, *Marxism and the Question of the Asiatic Mode of Production* (The Hague: Martinus Nijhoff, 1977).
37. See K. Marx, *The Revolutions of 1848* (Harmondsworth: Penguin, 1973); and R. Larsson, *Theories of Revolution* (Stockholm: Almqvist & Wiksell, 1970) pp. 17–107.
38. For further information on the commune see D. Atkinson, *The End of the Russian Land Commune 1905–1930* (Stanford: Stanford University Press, 1983); T. Shanin, *The Awkward Class. Political Sociology of Peasantry in a Developing Society: Russia 1910–25* (Oxford: Oxford University Press, 1972); Robinson, *Rural Russia*; and Brutzkus, 'Historical Peculiarities'.
39. A. Resis, 'Das Kapital comes to Russia,' *Slavic Review* 29, 1970, pp. 219–37; R. Pipes, 'Russian Marxism and its Populist Background', *Russian Review*, 19, 1960, pp. 316–37. After 1880, Marx's economics was put to a more direct and theoretical use, and its themes were employed to give coherence to the view that Russian capitalism could never actually become dominant. This argument, together with that of its critics, will be taken up in Chapter 9 below. Engels was both aware of the position and hostile to it: Marx appears to have made no comment, and was probably ignorant of the whole matter.
40. K. Marx, *A Contribution to the Critique of Political Economy* (London: Lawrence & Wishart, 1971) p. 33; K. Marx and F. Engels, *Selected Correspondence*

- dence (Westport, Connecticut: Greenwood, 1975) p. 286; Blackstock and Hoselitz, *Russian Menace*, p. 229; W. O. Henderson, *The Life of Friedrich Engels* (London: Cass, 1976) vol. II, p. 703.
41. E. Wilson, *To the Finland Station* (New York: Macmillan, 1972) p. 409.
 42. T. Shanin (ed.) *Late Marx and the Russian Road: Marx and the Peripheries of Capitalism* (London: Routledge & Kegan Paul, 1983).
 43. Pipes, 'Russian Marxism'.
 44. Henderson, *Life of Engels*, pp. 705, 708, 710; Marx and Engels, *Selected Correspondence*, Moscow edn, p. 333; Marx and Engels, *Selected Correspondence*, Greenwood edn, p. 390.
 45. Henderson, *Life of Engels*, p. 520; Shanin, *Late Marx*, p. 127; Bloom, *World of Nations*, p. 165.
 46. N. Chernyshevsky, 'Selected Writings' in Shanin, *Late Marx*, pp. 181–203; Henderson, *Life of Engels*, p. 705; Marx and Engels, *Selected Correspondence*, Moscow edn, pp. 256, 311; Marx and Engels, *Selected Correspondence*, Greenwood edn, p. 386.
 47. Henderson, *Life of Engels*, pp. 605–6; Marx and Engels, *Selected Correspondence*, Moscow edn, p. 373; Shanin, *Late Marx*, part II.
 48. Blackstock and Hoselitz, *Russian Menace*, p. 217; the context suggests that the phrase 'up to 1861' should read 'since 1861'.
 49. *Ibid.*, p. 217. The *Grundrisse* of 1857–8 shows clearly that Marx held to no linear scheme of development for pre-capitalist history. See K. Marx, *Pre-Capitalist Economic Formations*, ed. by E. J. Hobsbawm (New York: International Publishers, 1965). Also see Melotti, *Marx and the Third World*.
 50. Blackstock and Hoselitz, *Russian Menace*, p. 277.
 51. *Ibid.*, p. 279.
 52. See Shanin, *Late Marx*, part II.
 53. K. Marx and F. Engels, *Selected Works*, vol. I (Moscow: Progress Publishers, 1969) pp. 99–100.
 54. Shanin, *Late Marx*, II, pp. 70–1.
 55. Blackstock and Hoselitz, *Russian Menace*, p. 213. In the late 1840s Engels had denied the possibility of socialism in one country (Henderson, *Life of Engels*, p. 124). Marx similarly recognised the difficulties in 1858 (*Selected Correspondence*, Moscow edn, p. 111). And, in 1893, Engels claimed that Marx believed that a populist socialism required proletarian revolution in the West (*Selected Correspondence*, Greenwood edn, pp. 508–9). On this see also Larsson, pp. 19–49.
 56. Blackstock and Hoselitz, *Russian Menace*, p. 203–15; *Selected Correspondence*, Moscow edn, p. 464; Henderson, *Life of Engels*, pp. 705, 709–10. Engels was not fully consistent upon this matter, as Henderson, *Life of Engels*, pp. 384, 580–1 and 712, indicates.
 57. This was always true for Trotsky, and of Bukharin before the early 1920s. Lenin's position is a little less clear, but at times he expressed views similar to those of Trotsky and Bukharin; see Chapters 12 and 13 below. Martov, the most brilliant and flexuous of Menshevik thinkers, held to the same broad view: See I. Getzler, *Martov: A Political Biography of a Russian Social Democrat* (Cambridge: Cambridge University Press, 1967).
 58. The absence of the former is a major failing by commentators in Shanin, *Late Marx*. Part II. In general they are altogether too eager to endorse the sentiments of the 'Late Marx' without probing the problems which this poses for Marxism as a whole.
 59. K. Marx, *Capital*, vol. I, pp. 8–9.

60. G. Lichtheim, *Marxism* (London: Routledge & Kegan Paul, 1964); D. McLellan, *Karl Marx: his Life and Thought* (London: Macmillan, 1973).
61. Avineri, *Karl Marx*; D. Mitrany, *Marx Against the Peasant* (London: Wiedenfeld & Nicolson, 1951); M. Duggett, 'Marx on Peasants', *Journal of Peasant Studies*, 2, 1975, pp. 159–82.
62. Howard & King, *Political Economy of Marx*.
63. G. Plekhanov, 'Socialism and the Political Struggle', in *Selected Philosophical Works* (Moscow: Progress Publishers, 1974) vol. I, pp. 47–106.

8

The Political Economy of Plekhanov

I Introduction

About 1880, as the 'Late Marx' was emerging, the young Plekhanov was moving in an exactly contrary direction. He broke with his populist past, embraced a Marxism which incorporated central themes of the mature Marx, and began the process by which his ideas subsequently attained dominance in Russian revolutionary circles. The fact that he knew Marx's own views on Russia to diverge from his own,¹ and that he received scant encouragement from Engels or other leaders of Marxism for many years after Marx's death,² speaks for his intellectual confidence. Plekhanov's theoretical abilities are attested by the fact that the general parameters of his system dominated Russian Marxism for over three decades. Menshevism was based firmly upon his Marxism, and none of its theorists ever approached him in intellectual stature.³ The brief flowering of 'Legal Marxism' in the 1890s was no less indebted to him.⁴ Even after Plekhanov's break with Bolshevism in 1905 over the 'arithmetic of revolution,' Lenin still considered himself an adherent of his 'algebra' (see Chapter 11 below). Nor did the success of the October revolution, the theoretical principles of which were clearly contrary to those of Plekhanov (see Chapter 13 below), qualify Lenin's admiration for his philosophical work.⁵ In the Soviet Union his texts have been accorded a prominent place among the intellectual foundations officially held to legitimise it.⁶

Plekhanov's system of Marxian theory was born in a polemic with revolutionary populism, and throughout his life he was continually embroiled in theoretical controversies. The programme itself, however, manifests a remarkable constancy; Plekhanov conceded virtually nothing to those with whom he debated. Russian capitalism was held to be developing along Western lines, and progress toward socialism required that Marxists first concentrate upon bringing about a bourgeois-democra-

**Biography of
G. V. Plekhanov**

Georgy Ventinovich Plekhanov was born in 1856 at Gudalovka, a village in the central Russian province of Tambov. His parents belonged to the lower landed gentry and his father was of Tartar extraction. Plekhanov entered the revolutionary movement as a populist, but adopted a Marxist position in the 1880s, and as an émigré in Geneva formed the Emancipation of Labour Group in 1883. This was the most important intellectual centre of Russian Marxism for the next twenty years. Plekhanov's writings, more than those of any other single person, established the viability of Marxism in Russia, and subsequently the theoretical perspective of Menshevism. Within international Marxism his reputation was second only to that of Kautsky. After the 1905 revolution, and especially after the outbreak of war in 1914, his prestige declined among Russian Marxists because of his political moderation and aggressive nationalism. He opposed, but did not forcibly resist, the Bolshevik seizure of power, and died in Finland in May 1918.

tic revolution. Although his views changed on particular matters – and they were considerably widened as his diverse interests led him into new areas of study – the principles on which they were based remained firm.⁷ These propositions were those that have become associated with the Marxism of the Second International. Indeed, by the mid-1890s Plekhanov was regarded, and regarded himself, as one of its leading theorists – both a pillar of orthodoxy and the creator of a Marxism made relevant to backward Russia.

II Plekhanov's System, the Orthodoxy of the Second International and Russian Marxism

Plekhanov coined the term 'dialectical materialism' to define the essence of Marxism,⁸ and among the intellectuals of the Second International he was its most erudite exponent. His interest in, and knowledge of, philosophical thought was probably second to none; it certainly surpassed that of Kautsky. Hence Plekhanov's defence of orthodoxy hinged on philosophical issues. Although his response to Bernstein and Schmidt in the Revisionist controversy (see Chapter 4 above) did refer to economic matters, these were

of secondary concern to him compared with the defence of the materialist foundations against Kantian epistemology. No doubt his vigorous exposure of his adversaries' philosophical ignorance aided in their defeat, but he contributed nothing original to the debate on issues of political economy. Plekhanov also combined an implacable hostility to theoretical reconstruction with a call for Bernstein's expulsion from the SPD, a condemnation of Kautsky's tolerance of the revisionists, and a tendency to question the German theoretician's own competence in Marxism.⁹ This was not exceptional; a parallel hardness manifested itself in Plekhanov's stance during many other doctrinal controversies.

These characteristics of Plekhanov's work have led to its being described as an especially rigid form of Marxism that depended heavily upon the later works of Engels (and now known *not* to number Marx among its consistent advocates),¹⁰ and as a dogmatism that allowed frictionless incorporation into Stalinist ideology. It is indisputable that Plekhanov followed Engels very closely and failed to appreciate the difficulties inherent in his treatment of Hegel and the extension of dialectics to nature. He also wrongly believed that dialectical materialism represented a logically-connected comprehensive world view, and that criticism of it necessarily reflected either ignorance or reactionary designs. However, it remains true that Plekhanov took intellectual enquiry to be of the highest value, correctly perceived the hollowness of various forms of eclecticism, and diagnosed the reformist substance of important deviations from orthodoxy. More importantly, his system is not susceptible to charges that he articulated a mechanical materialism and embraced a historical fatalism, or that he devalued human agency and propounded a political quietism. He was condemned on such grounds by his populist critics, and he did not fudge his response. The substance of his refutation is crucial to the understanding of Russian Marxism as a whole, including its political economy.

For Plekhanov there was no question that laws of social development exist, and that historical materialism provides the concepts whereby their study can be made exact.¹¹ Previous systems of thought, notably Hegelian idealism and the French historians of the Restoration period, had made crucial intellectual advances. But only with Marxism, Plekhanov maintained, were the contradictions of these systems overcome, their truths preserved, their errors abandoned and the ultimate foundation of social life made clear. The materialism of Marx thus represented the culmination of intellectual development. Analysis by contemporary scientists, many of whom were ignorant of Marxism, was, in Plekhanov's view, continually confirming this.

Plekhanov makes this especially clear in *The Development of the Monist View of History*, published in 1895 at the height of the controversy with populism.¹² However, despite his emphasis upon the scientific quality of Marxism, he does not discuss the importance of classical political economy

in its maturation. This reflects more than Plekhanov's personal interest in philosophical thought. It indicates a general quality of Russian Marxism, and one which marks it off as a relatively autonomous stream from those of Central Europe. Technical economic analysis never became a significant component before the revolution in 1917.¹³ The underdeveloped nature of the Russian economy made the value categories of limited relevance, and the dominant concern of Russian theorists prior to the First World War was to understand the implications of the ascendancy of capitalism, rather than to analyse the causes of its breakdown. Indeed, the very debate with populism made Marxists in Russia before 1914 hostile to any argument which implied that capitalism had anything but a glorious economic future (see Chapter 9 below).

Nor was Plekhanov a historical unilinearist. Not every society was destined to travel the same path of development stages.¹⁴ In fact, he came to the same general conclusion on the different passages from primitive communism that Marx had outlined in the *Grundrisse*.¹⁵ Plekhanov of course would have been unaware of this, as the *Grundrisse* was not published until twenty-one years after his death.¹⁶ Furthermore, he sought to provide an analytical base for such multilinearity, which proved to be considerably clearer than Marx's own cryptic remarks.

Plekhanov stressed three considerations. First was the importance of geographical or natural conditions in determining economic development. It was this perspective that allowed him to account for the semi-Asiatic, pre-capitalist, condition of Russia which, he believed, crucially differentiated its history from that of Western Europe. Second was the relative autonomy of the different subsystems into which any complex society may be divided: economic, political, cultural, and so forth. On this basis Plekhanov attributed a crucial role to human consciousness and political organisation in influencing the course of historical development. Third, he argued that international interactions had dramatic effects, especially on backward societies. It was through external influence that Russia was propelled upon a capitalist development and the 'laws of motion' depicted in *Capital* became applicable.

The importance of geography for social development had been known since Montesquieu. But Plekhanov's own version of geographical determination is unique, since it was integrated into the theory of historical materialism summarised by Marx in the *Critique of Political Economy*.¹⁷ For Plekhanov human development is divided into two broad types, the Darwinian and the historical. The former pertains to the origination of the species and the latter 'begins precisely where the investigation of Darwin ends'.¹⁸ In Plekhanov's view it is the natural environment in which different groups of *homo sapiens* emerge which governs the form of the productive forces which are initially developed. Since, according to the materialist conception of history, these forces represent the central factors governing

the whole social formation,¹⁹ different geographical conditions are crucial in generating different forms of society.²⁰ If there is any development of the productive forces – and there may not be according to Plekhanov, in conditions of isolation²¹ – humanity's increasing mastery over nature reduces the determining importance of non-social elements. But the constraining influence of natural conditions is never entirely absent, only increasingly overlaid by social determinations.

This allowed Plekhanov to move beyond Engels's 'last resort' formulae,²² according to which there is interaction between different elements of a social formation, and the economic factor is regarded as only the *ultimate* determining force in history. The problem here is that it becomes difficult to talk in causal terms if every element can affect all others. Thus, if the development of the productive forces is influenced by superstructural components, how is it possible to say that the former determines the latter? Plekhanov's emphasis upon the importance of geography cuts through this circle. He was able to accept the interaction of all social subsystems,²³ whilst adhering to a monist materialism with substantive content. And, as he never tired of emphasising, while a developed science cannot ignore complexity, neither can it rest content with any dualism, or limit itself to tracing out the interactions of different factors upon each other.²⁴ It must seek the causal foundation of organic wholes.²⁵

Believing that he had so anchored historical materialism, Plekhanov nevertheless maintained that determination by natural conditions or productive forces took the form of mediation by relatively autonomous substructures of social relations. It is only in the most primitive of societies that the economy directly governs the superstructure. In the more differentiated societies its effects are mediated by systems of class relations, structures of political power and legal systems.²⁶ To support such claims, Plekhanov probed in depth what he considered to be the least obvious domain of materialist determination, that of artistic creation.²⁷

As determination is complex, so too are the laws of social development. But, precisely because of this, human consciousness and political agency have room for manoeuvre. Although Plekhanov never specifies the limits, he stresses that consciousness of the laws of development – provided most fully by Marxism – can, when politically organised, significantly affect their operation.²⁸ For him, this is how social democracy becomes relevant to the pre-capitalist conditions found in backward societies. Its role is to bring about that form of capitalist development most conducive to the rapid realisation of socialism. Thus the analysis of what forms of capitalist development are actually taking place, and what types are possible, and with what consequences, is raised to preeminent importance in political economy. It was on these issues that Lenin, Trotsky and Bukharin, in their different ways, ultimately parted from Plekhanov. Inevitably they also

broke with him at the level of political strategy or tactics (see Chapters 11, 12 and 13 below).

All these theorists emphasised the international context of Russian capitalism. But this also figured in Plekhanov's system. Without the more advanced economic conditions prevalent in the West, he argued, Russian capitalism might never have arisen (see section III below). More generally, he recognised that the trajectory of any society can be deeply affected by contact with others, especially if they are at different stages of development. Nor did Plekhanov rest content with describing the obvious ways in which this is true, but sought also to identify the laws which governed such interactions.²⁹ It was on this understanding that he took his stand against Bolshevism in 1917, and argued that Menshevism alone provided a secure basis for progressive advance. Inherent in this was a Marxist critique of the political economy which underlay the creation of the Soviet state.

Both Lenin's and, more especially, Trotsky's strategy for securing the socialist revolution in Russia required that proletarian revolution spread to the more advanced West. Only then, they argued, would there be an adequate material base for socialist construction in Russia itself (see Chapters 12, 13 and 15 below). The conclusions of Plekhanov's own analysis, however, questioned precisely this logic of his erstwhile followers. He had been forced to consider a similar scenario in his polemic with the populists. They too had sometimes argued that the more advanced economic conditions prevalent in Europe allowed Russia to by-pass the maturation of domestic capitalism and proceed directly to socialism.³⁰ Plekhanov did not deny out of hand that historical 'short cuts' were possible. Indeed, as we have seen above, and will confirm in sections III and IV, his own strategy of revolution rested precisely on the belief that they were both feasible and desirable. But he considered that they were only possible on a grand scale via an accelerated development in the appropriate relational structures. They could not be achieved solely through technological borrowing, transfers of resources, or international support.³¹ Historical materialism involved a sociological theory of determination, and Plekhanov took its terms seriously. In the case of socialist revolution this meant that there was no substitute for a large and matured proletariat. Thus a fully-grown capitalism in Russia could in no way be dispensed with as an essential pre-condition for socialism. Were the revolutionary leaders to proceed on a contrary assumption, they would necessarily undermine their own professed aims, no matter how favourable the external circumstances.³²

On the other hand, it is evident that Plekhanov's own scheme failed in a very dramatic fashion. After the First World War Bolshevism triumphed in Russia, while reformism and revisionism increasingly dominated the labour movements of the West. Wherein lay Plekhanov's own errors? The very

nature of his system makes the answer to this question problematical. Difficulties arise from the seriousness with which Plekhanov took dialectics; the very fecundity with which reality was endowed conceals the limitations of his analysis. Thus, for example, in the light of events during 1917–18 it might reasonably be assumed that Plekhanov's mistake arose from misspecifying the impact of capitalism on the Russian peasantry, an error whose origin perhaps lies in the inability of Marxist categories to capture properly the nature of a rural producing class. Or it might be supposed that, even in the era of democratic revolutions, the nature of backward capitalism made the bourgeoisie counter-revolutionary, while Plekhanov's strategy required them to be a radical force. Probing such issues is crucial to the evaluation of Plekhanov's Marxism, but their definitive resolution is made especially difficult because he himself was not unaware of them.

III *Plekhanov's Account of the Development of Capitalism in Russia*

Plekhanov recognised that capitalism does not emerge in the same manner in every country even though, when fully developed, its 'laws of motion' do operate in a broadly similar fashion irrespective of location.³³ The Russian case is historically unique. According to Plekhanov, it involves the transformation of a 'semi-Asiatic' empire into a formation approximating that of Western European countries. Far from complete even by the second decade of the twentieth century, he saw its origin in the reforms initiated by Peter the Great over two hundred years earlier in response to international pressure.³⁴ It was indeed its geographical proximity to the West, Plekhanov believed, that saved Russia from Oriental stagnation. Otherwise its history would have followed that of China.³⁵

The Westernisation of Russia was thus initiated by a 'revolution from above', with the state taking the lead.³⁶ It was, however, a protracted process in Plekhanov's view. Not until the Alexandrine reforms of the 1860s, again in response to international events, was a firm foundation for capitalist social relations inaugurated.³⁷ These changes therefore receive the bulk of Plekhanov's attention. In explaining their significance he appeals to what he regards as a *general economic law of transition*: the logic of a commodity economy.³⁸

Like Marx in the *Grundrisse*,³⁹ Plekhanov draws a sharp distinction between 'natural economy' and 'money economy'. He identifies the former with stagnation and the latter with growth, involved in which is the development of capitalist social relations. Petty producers engaged in market transactions are progressively differentiated, through a process akin to natural selection.⁴⁰ The vast bulk are ground down and ultimately proletarianised, while a minority evolve toward eventually becoming a capitalist bourgeoisie. Plekhanov recognises that the legal relations in

which this process occurs can retard or accelerate it, and are thus by no means irrelevant. However, he argues that any constraint placed by law can only be partial: it cannot definitively hold the development back. Indeed, juridical rules must ultimately adjust in accordance with the propositions of historical materialism, whereby superstructures are brought into conformity with the economic base. Hence there was a basis for bourgeois-democratic revolution in Russia.

The ending of serfdom in the 1860s is seen by Plekhanov as a watershed in the process of differentiation.⁴¹ The relations of personal domination ceased to have legal force, and the peasants became petty producers on their own account. Moreover, their redemption payments – which were monetised – forced them to become commodity producers. The Emancipation thus set in motion, or dramatically accelerated, the differentiation mechanism inherent in the nature of a commodity economy. The ultimate capitalisation of agriculture was assured according to Plekhanov; the commune on which the populists fixed their socialist programme was inevitably disintegrating. On this count alone, hopes for a peasant-based socialism were Utopian.

Such is Plekhanov's account of the development of capitalism in Russia. Any evaluation needs to bear in mind two facts. First, his analysis accords with Marx's own characterisation of Russia as semi-Asiatic (see Chapter 7 above), and is consistent with the importance that Marx gave to commodity relations in the genesis of capitalism. Second, some of the empirical evidence on the commercialisation of agriculture and differentiation of the peasantry substantiates Plekhanov's conclusion.⁴² Thus his argument both rests upon the political economy of Marx and corresponds with actual developments. Nevertheless, it is open to criticism in a number of respects.

The very allegiance to Marx's own 'Asiatic' classification of Russia is a weakness. It is not that Plekhanov blindly follows Marx; his conclusion rests upon the study of Russian historical sources unavailable to either Marx or Engels, and his view of Russian society as incorporating important Asiatic qualities tended to strengthen with time.⁴³ However, nothing compensates for the fact that 'semi-Asiaticism' was one of the least secure of Marx's concepts (see Chapter 7 above). The weaknesses are reflected in Plekhanov; indeed, they are more pronounced. Statements emphasising the Oriental qualities of Russian absolutism coexist with others indicating that feudal attributes are dominant.⁴⁴ The geography of the Russian empire, and the type of agriculture it facilitated, are used by Plekhanov to explain Asiatic features.⁴⁵ But no comparison with other regimes of Eastern Europe is made to confirm these causal assertions. Why tsarism could positively respond to threats from the West, while Chinese absolutism failed to do so, is left a mystery in Plekhanov's writings. And its very responses, which according to Plekhanov are part and parcel of the process of Westernisation, also in his account intensify the Asiatic attributes, particularly the role

of the state.⁴⁶ Plekhanov never resolved this paradox. His normally astute dialectical sensibilities seem to have departed from him, and it was left to Trotsky to reassert a more fertile Marxian perspective. Economic development would not simply be uneven, it would be integrally combined with non-occidental structures, so that the outcome would necessarily be different from that in Western Europe (see Chapter 12 below).

Plekhanov also follows Marx in emphasising the central importance of commodity relations in the genesis of capitalism. Again, he does not do so unthinkingly. The considerations to which Marx appeals in his final discussions of Russia, to qualify his populist conclusions (see Chapter 7 above), rest on the same effects engendered by the reforms of the 1860s upon which Plekhanov focuses. However, Plekhanov could not have known this with certainty, as Marx's writings were not fully available until well into the twentieth century. More importantly, this facet of Plekhanov's analysis is much stronger than his comments upon Russia's semi-Asiatic nature. Commodity production is clearly a necessary condition for the development of capitalism. None the less, the question remains whether it is sufficient.

Marx's emphasis on the importance of exchange relations in the origin of capitalism is at its purest in the *Communist Manifesto*.⁴⁷ The *Grundrisse*, *Capital*, and texts of the 'Late Marx' show that he never abandoned it.⁴⁸ He did, however, bring in qualifications. In particular Marx pointed to the ambivalent nature of merchant and money capital. While these forms could both extend commodity circulation and accelerate the ruin of petty producers, they did not tend to revolutionise the mode of production.⁴⁹ Engels had also pointed to the (second) serfdom in Eastern Europe as capable of integration in the world market,⁵⁰ and Marx had similarly commented upon slavery in the New World.⁵¹ Thus there were qualifications made to any general law connecting market production and the capitalist mode.

Plekhanov ignores these qualifications, despite the fact that their substance is reinforced by the serf-labour factories of pre-Emancipation Russia, and that tsarist agricultural policy prior to 1906 sometimes tended to strengthen the commune rather than hastening its demise.⁵² In his actual discussions of the development of Russian capitalism it is, nevertheless, hard to fault him for doing so. By the late nineteenth century it was clear that tsarism required capitalist industry, and that it would not be able continually to develop it without enhanced commercialisation of agricultural relations. Furthermore, since the reforms of the 1860s dramatically changed the situation of peasant *producers*, Marx's 'really revolutionary path'⁵³ to the development of capitalism could be expected to have been opened up. But, of course, Plekhanov's life-work had as its objective the creation of a political force which would overthrow the autocracy. Why then did he believe that the revolution would further the process of

capitalist development that was, on his own analysis, propelled by tsarism? A full answer to this question must await a consideration of his political theory in the next section, but there are problems in his economic analysis of the development of Russian capitalism which shed light on this issue.

Plekhanov (like Marx) displayed a pervasive distrust of the peasantry. He had deep misgivings as to the progressivity of any radical agrarian revolution. That a revolution was required to eradicate feudal remnants and facilitate capitalism in the countryside was not doubted.⁵⁴ The problem in Plekhanov's view was that its realisation 'from below' would in all probability set back capitalist development in other ways (for example, by breaking up the large estates), while raising the peasantry to a position of enhanced political significance which might hinder the further Europeanisation of Russia.⁵⁵ These fears were only too well-founded, although their realisation took a form Plekhanov did not imagine. During the revolutionary years of 1917–18, the Russian peasantry not only markedly revised the distribution of property that had previously differentiated it, but endowed the commune with a new life which was to persist until collectivisation in the late 1920s.⁵⁶ In this sense the peasant revolution was deeply regressive. That Plekhanov did not consider the possibility of a communal restoration, however, should not weigh as a heavy indictment. Even Lenin, whose studies of the peasantry had been far more extensive, had no inkling of such a possibility until the very eve of its realisation. It was one of the great contradictions of 1917 which even the keenest dialecticians failed to anticipate. But the emphasis which Plekhanov placed upon the connection of commodity production and capitalism did nothing to highlight the prospect, directed as it was against the populists' belief in the continued viability of traditional peasant economic organisation.

There is a further dimension to this issue which reflects less unambiguously on Plekhanov. He appears to have hoped that the urban revolution would dominate the rural to a point whereby the alteration of agricultural relations would minimise any constraint upon capitalist development. Nevertheless, he totally failed to appreciate the economically specific nature of agricultural production, with its very limited economies of scale.⁵⁷ Eminent bourgeois economists of the nineteenth century perceived the essential point,⁵⁸ whereas Marx did not.⁵⁹ The survival of small-scale agriculture was however stressed by the revisionists in Germany,⁶⁰ and while Lenin resisted the revisionists no less than Plekhanov, his work shows that he learned from them too (see Chapter 11 below). Plekhanov failed to do so.

Coupled with this attribute of agricultural technologies is the remarkable tenacity of an independent peasantry, which by its very nature can sustain its own survival and hinder the capitalisation of production. In industry the extension of the market leads artisans to become *commodity* producers, and their urban cultural environments break down traditional resistances to

this process. The capitalisation of commodity-producing relations can work smoothly, albeit brutally. It is different with peasants, whose own production may constitute their consumption to a qualitatively unique degree, and for whom the 'idiocy of rural life' provides a much lower incentive to specialise. Unless they are under pressure from monetised debts or taxes, the peasants can resist market penetration and hold back capitalist development.

Plekhanov's treatment of the development of Russian agriculture under tsarism implicitly incorporates the substance of this second point. His concentration upon the fiscal changes during the 1860s is fully in accord with it. Nevertheless, he seems not to have understood the matter *generally*, despite the importance he assigned to French history, where the revolutionary settlement gave it an alternative concrete form.⁶¹ His worries that an agrarian revolution 'from below' might hold back capitalist development lay elsewhere.⁶² Furthermore, they led him to oppose Lenin's scheme of the 'democratic dictatorship of the proletariat and peasantry', which was designed simultaneously to tap the power of peasant revolution against the autocracy, yet circumvent the persistence of the peasantry in its aftermath (see Chapter 11 below). Plekhanov's own scenario was less well designed to do either.

In addition, his opposition to Lenin's peasant programme exhibited another failing. His analysis of the development of agricultural capitalism concentrated upon the small producer. The transformation of the landlords' estates received much less attention, it being assumed that the de-naturalisation and de-feudalisation of the former would influence the latter, bringing about their capitalisation on an extended scale. This ignores the inability of the owners to adjust their operations productively and the partial decline of estate farming experienced after the ending of serfdom.⁶³ Lenin by contrast took cognisance of this fact, and it reinforced the logic of his revolutionary strategy (see Chapter 11 below).

Thus, despite Plekhanov's adherence to Marx's political economy and the evidence which accords with his theoretical treatment of the development of Russian capitalism under tsarism, there were important defects in his work. To appreciate the full extent of these limitations we must turn to the political theory which he sought to mount upon his economic base. An examination of Plekhanov's politics reveals further deficiencies in his economics.

IV The Structure of Revolutions

At various points in his writings, Plekhanov distinguished between the 'algebra of revolution' and the 'arithmetic',⁶⁴ meaning by this something akin to the distinction between strategy and tactics. Indeed he sometimes

defined Marxism as this 'algebra', and he believed that the strategy he developed for Russian revolutionaries rested upon that of Marx in the (not dissimilar) circumstances of the 1848 revolution in Germany (see Chapter 7 above).⁶⁵ He was none the less aware that algebra is abstract compared with arithmetic, so that there might be major differences even between those who adhered to the same revolutionary perspective. It was by means of such a viewpoint that Bolsheviks and Mensheviks could for a long time consider themselves members of the same party even when torn apart by distinct tactics.

The 'algebra' which Plekhanov placed before Russian revolutionaries was recognised to be complex.⁶⁶ The ultimate goal, shared by all international socialists, was socialist revolution on a world scale. Since this would take the form of a series of national, or territorial, revolutions,⁶⁷ it involved a Russian socialist revolution. However, Plekhanov argued that the historical position of Russia required, as a necessary preliminary, a Russian bourgeois-democratic revolution.⁶⁸ This was dictated by the underdevelopment of Russian capitalism, whose backwardness was exacerbated by the unfavourable autocratic environment. For its most rapid development, the political, legal and cultural superstructure of absolutism must be overthrown.

Although in Plekhanov's view such a revolution would usher in the rule of the bourgeoisie as a class, he justified it as necessary for the eventual success of socialism. The accelerated development of capitalism would ensure the development of the productive forces, while the bourgeois-democratic revolution would establish conditions favourable to the development of the working class as a socialist revolutionary force.⁶⁹ It would increase both quantitatively and qualitatively. Exploitation would be regulated in the interests of cultural development, and democratic freedoms would allow organisational maturation. There were, therefore, immediate as well as long-term benefits for the proletariat in supporting bourgeois revolution.

But Plekhanov did not believe it desirable for the working class to play second fiddle to the bourgeoisie in the democratic revolution. While the latter had an objective interest in revolution against tsarism, it would also be concerned to limit it to the realisation of its own class requirements. European historical experience confirmed this. Here, when bourgeois revolutions had mobilised the urban masses against the *ancien régimes*, the workers' immediate gains had been sparse, and the revolutions had been curtailed in ways disfunctional to the socialist future.⁷⁰ Especially in his early works, Plekhanov was determined that the forthcoming Russian revolution would not repeat this. Consequently, the proletariat needed an independent political organisation to protect its own interests and to drive the bourgeoisie on, further than it would otherwise proceed.⁷¹ He envisaged an alliance of bourgeoisie and proletariat against the autocracy, but one in

which a strike 'together' resulted from marching 'separately', and with the working class in the lead.⁷² As such the proletariat took on the role of a 'national class'.⁷³

While Plekhanov was sure that the socialist revolution was not feasible as an immediate goal,⁷⁴ he was also convinced that a bourgeois revolution of the type he sought would not be easy. His contempt for the political conservatism of the Russian bourgeoisie increased over time.⁷⁵ Both were well-founded in experience, as the events of 1905 and 1917 showed. The defect of Plekhanov's position was not an ill-judged optimism concerning bourgeois radicalism, but rather that he limited his perception to the level of political behaviour. The linchpin in his strategy was that, despite all the reluctance and hesitations of the bourgeois class, there was an objective, economically-rooted, conflict of interest between it and the autocracy.⁷⁶ But Plekhanov never probed this in depth. In his economic analysis he had concentrated on the development of Russian capitalism in agriculture. He did not carry out an analogous inquiry into the dynamics of industry, yet it was the urban bourgeoisie to whom he assigned a revolutionary role. He looked at the Russian bourgeoisie in terms of Marx's general categories of class conflict, and the behaviour of their European counterparts. He did not theorise from the historically specific conditions of Russian industrialisation, and on this basis deduce the politics of the bourgeoisie.

Had he done so, it would have been evident that the bourgeoisie occupied a structural position that cast doubt upon its ability to play the part allotted to it. Urban industry's weight in the economy was relatively small, the commanding heights were extremely capital-intensive, significantly aided by the state's military demands and subsidies, and facilitated by the large injections of foreign capital which were made possible by tsarism's harsh fiscal policies.⁷⁷ Furthermore, it was not obvious that there was a fundamental conflict between industry and the autocracy, that is, one that could not be resolved by a series of compromises in an evolutionary fashion. Certainly, industrial capital would have preferred a less arbitrary regime, enhanced access to government and socio-economic reforms. But the issues which provoked bourgeois discontent in 1789 and 1848 were in large part absent.⁷⁸ The bourgeoisie's dissatisfaction with the autocracy was more akin to that of a junior family member, anxious to exert greater influence, but within the context in which it had hitherto grown.⁷⁹ It was indeed precisely this conclusion which Lenin reached in the light of the 1905 revolution; the bourgeoisie, he believed, favoured a 'Prussian' form of modernisation, whereby the *ancien régime* was reconstructed from above, not one involving the overthrow of tsarism (see Chapter 11 below). Trotsky, too, drew similar conclusions, but was more optimistic that such an evolutionary path would fail (see Chapter 12 below). Lenin, by contrast, took the prospect much more seriously.

Plekhanov's failure to provide an economic analysis of industrial capita-

lism was compounded by a significant omission in his treatment of agriculture, a point already touched upon in the preceding section. He did not recognise the economic basis which underpinned the rural owners' interest in constraining the development of a free rural labour market, in ensuring that a significant section of the peasantry remain fastened to inadequate land holdings, and that non-peasant agriculture be disproportionately favoured in government fiscal policies. Thus even commercially-oriented landlords remained tied to an autocratic form of government. Just as the bourgeoisie could not duplicate the action of the French middle class at the end of the eighteenth century, so landed property could not follow the path taken by leaders of agricultural capitalism in mid-seventeenth-century England. The economic basis of previous bourgeois revolutions was lacking in Russia, yet Plekhanov's strategy was geared to the belief in their political emulation.

Consequently Lenin's view that a 'Prussian' solution to Russia's modernisation was structurally grounded was absolutely correct. Paradoxically, its political manifestation had been partially documented by Plekhanov himself. He had shown how the process of reconstruction from above had been undertaken from the early eighteenth to the late nineteenth centuries. What Lenin saw, and what Plekhanov failed to see, was that the outcome of the 1905 revolution was a new episode in this history. The bourgeoisie's conservatism deeply disturbed Lenin, leading him to conclude that a radical democratic revolution would require an alliance of the proletariat and peasantry *against* the bourgeoisie (see Chapter 11 below). Moreover, such an alliance would not necessarily succeed; there was an alternative evolutionary scenario currently working itself out which could complete Russia's transition to modernity in a 'Prussian' manner. Of necessity, this strengthened Lenin's Bolshevism at the level of party organisation, a position which did find a basis in Plekhanov's treatment of conscious human agency within historical materialism.⁸⁰

Lenin's strategy also filled another gap in Plekhanov's economics, though he himself was not aware of this until 1917 when it contributed to another fundamental change in his revolutionary strategy, and brought him closer to Trotsky. Plekhanov had set two broad goals for bourgeois revolution: it was to provide more favourable conditions both for the development of capitalism economically and for the flowering of the working class as a socialist force. He realised that they were in partial conflict, since the bourgeoisie would seek to limit the revolution to the first goal, while the working class would aim at measures implementing both. However, prior to 1905 at least, Plekhanov did not believe that this posed an insuperable problem. The conflict between the bourgeoisie and proletariat within the democratic revolution was of a secondary order; it concerned politics, not economics. Thoroughgoing reforms beneficial to the working class in its future role as a socialist force (limitations on the

working day, minimum wage legislation, regulation of the labour process, etc.) were not regarded as incompatible with the maintenance of the bourgeois economic order. Plekhanov was surely correct in this belief, but what he failed to consider in any depth was the process by which reforms economically compatible with capitalism would be implemented politically, and the implications this had for economics.

Proletarian hegemony, as Plekhanov envisaged it, logically involved two aspects: its exercise by the proletariat, and its acceptance by the bourgeoisie. Its success was not simply a matter of the former. Were the bourgeoisie to resist the proletariat (and Plekhanov fully recognised that they had an interest in doing so), the possibility of a second civil war – inside the first – would arise; the proletariat would be forced to move against the bourgeoisie as well as against the autocracy. And proletarian success would have important economic implications, since material life would have to be reorganised on non-bourgeois principles. Thus a working class seeking to carry out the first stage of Plekhanov's 'two-stage' scheme of revolution would be forced to go beyond it. In this light, Plekhanov's views on why the proletariat would limit itself to bourgeois revolution are beside the point.⁸¹ The issue is *not*, as critics usually phrase it, that a working class will necessarily press for socialist measures. It is that the measures Plekhanov understood to be 'bourgeois' engender a political conflict whose resolution brings about a change in the economic order. Trotsky was the first to recognise this problem in Plekhanov's Marxism, and it formed the basis of his 'revolution in permanence', whereby the bourgeois revolution would become telescoped into the socialist revolution (see Chapter 12 below). With this the 'algebra of revolution' dramatically changed.

V Conclusion

What of course did not change were Plekhanov's arguments as to why a socialist revolution would lack the material foundations capable of securing it. Without extensive accumulation of capital, a large matured working class and a shrunken peasantry, both scarcity and counter-revolution would ultimately destroy it. For Plekhanov there was no possibility that the 'advantages of backwardness' or international revolution could overcome these elementary truths of orthodox Marxism.⁸²

The logic of Plekhanov's position of limiting the revolution to a bourgeois phase therefore propelled him onto a course whose objective meaning was the road Lenin designated as Prussian (see Chapter 11 below). Though he stuck to the terms of his original formulation, Plekhanov's actual position during and after 1905 receded from it. The hegemonic role of the working class was watered down, deference to the demands of the bourgeoisie became more pronounced, and the defence of the tsarist empire

in an imperialist war was finally claimed to be the appropriate stance of Marxism.⁸³ The tortuous path of Plekhanov's retrenchment is tragic. Its source, 'in the last resort', was his inability accurately to diagnose the backward nature of Russian capitalism. The fact that he did correctly maintain the ultimate folly of an alternative 'algebra of revolution' cannot detract from this failure.

The contradictions in Plekhanov's system underlay the divisions that were to emerge in the Russian revolutionary movement during the twentieth century. Lenin, Trotsky and Bukharin were each to develop different programmes that are intelligible products of its weakest links. Practice also played its part, since the revisions were partially the result of attempts to apply Plekhanov's Marxism, and more especially their failures to do so. But while matters of political strategy were paramount, each came to rest upon an economic theory of capitalist development.

Before this could occur, however, Marxism itself had to triumph intellectually, and populist socialism had to be defeated. Here, too, the political economy of Russian capitalism was central. It is to the main features of the debate, and especially the advances in Marxist economics which it engendered, that the next chapter is devoted.

Notes*

* References to Plekhanov's *Selected Philosophical Works* (Moscow: Progress Publishers, 1974-81) are indicated by *SPW*, followed by volume number. References to Lenin's *Collected Works* (Moscow: Progress Publishers, 1960-70) are indicated by *CW*, followed by volume number.

1. Vera Zasulich, to whom Marx had conveyed his populist leanings in 1881, was an associate of Plekhanov.
2. S. H. Baron, *Plekhanov: The Father of Russian Marxism* (Stanford: Stanford University Press, 1963) pp. 122, 142, 161.
3. Trotsky broke with key tenets of Plekhanov's system in 1904-6 under the influence of Parvus. But apart from a fleeting popularity among some Mensheviks in 1905, Trotsky's views were not influential prior to 1917 (see Chapter 12 below).
4. S. H. Baron, 'Legal Marxism and the "Fate of Capitalism" in Russia', *American Slavic and East European Review*, 16, 1957, pp. 113-26.
5. *CW*, XX, p. 358; V. Fomina, 'Plekhanov's Role in the Defence and Substantiation of Marxist Philosophy', in *SPW*, I, p. 46.
6. See the Introduction to each volume of Plekhanov's *Selected Philosophical Works*.
7. What was perhaps the main departure from these principles occurred in 1892, when the prospect of peasant revolts led him to modify his ideas toward a position Lenin would subsequently articulate after 1905 (see Chapter 11 below). However, this proved to be transient and Plekhanov quickly reaffirmed his previous ideas; see R. Larsson, *Theories of Revolution* (Stockholm: Almqvist & Wiksell, 1970) pp. 143-4, 148-50, 307-8.

8. *SPW*, II, pp. 124, 424; III, p. 119.
9. *SPW*, II, pp. 17, 316, 514; III, pp. 55, 104, 282. Baron, *Plekhanov*, pp. 164–85, 246.
10. S. Avineri, *The Social and Political Thought of Karl Marx* (Cambridge: Cambridge University Press, 1968); L. Kolakowski, *Main Currents of Marxism, I. The Founders* (Oxford: Oxford University Press, 1978).
11. *SPW*, I, p. 607.
12. *SPW*, I, pp. 480–697.
13. Tugan-Baranovsky's work was the principal exception to this. Not surprisingly, prior to 1917 his economics alone had a significant impact on Germanic Marxism. Equally unsurprisingly, however, he was not a member of the main bodies of Russian Marxism, especially after 1900.
14. *SPW*, I, p. 197; II, p. 228; III, p. 327; IV, pp. 79, 713; V, pp. 327, 675.
15. *SPW*, I, p. 303; II, pp. 295, 597, 619; IV, p. 79; K. Marx, *Pre-Capitalist Economic Formations*, edited by E. J. Hobsbawm (New York: International Publishers, 1965).
16. It was published in Moscow in 1939, but remained virtually unknown in the West until the East Berlin reprint of 1953; see E. J. Hobsbawm, 'The Fortunes of Marx's and Engels's Writings' in E. J. Hobsbawm (ed.) *The History of Marxism, Volume I: Marxism in Marx's Day* (Hassocks: Harvester, 1982) pp. 327–44.
17. K. Marx, *Critique of Political Economy* (London: Lawrence & Wishart, 1971) pp. 20–2.
18. *SPW*, I, p. 659.
19. *SPW*, I, pp. 609, 626; II, pp. 141, 214, 269.
20. *SPW*, I, pp. 580, 586, 657, 698; II, pp. 146, 175, 194, 214, 617; III, pp. 142, 145, 148; IV, pp. 76, 79, 272; V, pp. 50, 215.
21. There may even be retrogression. See *SPW*, IV, p. 274.
22. K. Marx and F. Engels, *Selected Works, Volume III* (Moscow: Progress Publishers, 1970) pp. 487–8.
23. *SPW*, I, pp. 71, 630; II, pp. 145, 261; III, p. 160.
24. *SPW*, I, p. 501; II, pp. 134, 159, 226, 455; III, pp. 156, 167, 626.
25. *SPW*, I, pp. 406, 408, 490; II, pp. 191, 226, 232, 455; III, p. 605.
26. *SPW*, I, pp. 34, 537, 614, 621, 630, 636; II, pp. 172, 188, 214, 228, 272, 274, 617; III, pp. 160, 165, 300, 302, 367; IV, pp. 9, 14, 329.
27. *SPW*, II, p. 165. See especially *SPW*, V.
28. See Plekhanov's now classic 'On the Question of the Individual's Role in History' in *SPW*, II, pp. 283–315.
29. *SPW*, I, pp. 33, 243, 383, 586, 610, 626; II, pp. 174, 196; IV, p. 9.
30. See, for example, N. Chernyshevsky, 'Selected Writings' in T. Shanin, *Late Marx and the Russian Road: Marx and the Peripheries of Capitalism* (London: Routledge & Kegan Paul, 1983) pp. 181–203.
31. *SPW*, I, pp. 60, 147, 303, 316, 626, 670; II, p. 91; III, p. 623; IV, pp. 14, 59, 76, 86, 103, 121, 128, 162, 251, 281, 293, 297, 302, 316, 335, 346, 410, 450, 539, 621, 629, 683, 710; V, pp. 64, 89, 133, 147, 267, 400, 458, 521.
32. *SPW*, I pp. 95, 296, 328, 448; IV, pp. 153, 187. See also Chapter 7, section V above.
33. *SPW*, I, pp. 69, 197; IV, p. 713.
34. G. Plekhanov, *History of Russian Social Thought* (New York: Howard Fertig, 1967); *SPW*, I, pp. 369, 383, 389; II, p. 174; IV, pp. 49, 406.
35. *SPW*, I, p. 398; V, pp. 60, 146.
36. *SPW*, IV, pp. 432, 713; V, p. 124.

37. *SPW*, I, pp. 133, 144, 243, 390, 730; IV, pp. 45, 51; V, pp. 105, 131; T. Dan, *The Origins of Bolshevism* (London: Secker & Warburg, 1964) p. 14.
38. *SPW*, I, pp. 58, 266, 288, 311, 316, 321; II, pp. 173, 259, 295, 460, 482, 493; IV, pp. 77, 350; V, pp. 54, 61, 140, 348. See also R. L. Meek, *Studies in the Labour Theory of Value* (London: Lawrence & Wishart, 1973) 2nd edn.
39. K. Marx, *Grundrisse* (Harmondsworth: Penguin, 1973) p. 158. As already indicated, Plekhanov would have been totally unaware of the existence of the *Grundrisse*. Plekhanov focused upon the stages of natural economy, commodity production, and socialism because of the emphasis he placed on the Asiatic, rather than the feudal, elements in pre-capitalist Russia. The alternative Marxian schema of feudalism, capitalism, and socialism was considered much less applicable to Russia.
40. *SPW*, I, p. 266.
41. See the references in note 37 above.
42. V. I. Lenin, *The Development of Capitalism in Russia*, *CW*, III; P. Gatrell, *The Tsarist Economy* (London: Batsford, 1986) ch. 4.
43. M. Sawyer, *Marxism and the Question of the Asiatic Mode of Production* (The Hague: Martinus Nijhoff, 1977) pp. 146–87; S. H. Baron, 'Plekhanov's Russia: The Impact of the West Upon an "Oriental" Society', *Journal of the History of Ideas*, 19, 1958, pp. 388–404.
44. *SPW*, I, pp. 63, 131, 254, 277, 287, 390, 432; II, p. 452; IV, pp. 46, 416, 429, 516, 596, 688; V, pp. 50, 142.
45. *SPW*, III, p. 154; IV, p. 79; V, p. 50.
46. Plekhanov, *History*, pp. 33, 48–58, 61–8, 98, 110, 147–9, 212; *SPW*, IV, pp. 47, 51, 194, 527; V, p. 105.
47. K. Marx and F. Engels, *Selected Works, Volume I*, pp. 108–127.
48. Meek, *Labour Theory of Value*; M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 54–9; T. Shanin (ed.) *Late Marx and the Russian Road: Marx and the Peripheries of Capitalism* (London: Routledge, 1983).
49. K. Marx, *Capital*, vol. III (Moscow: Progress Publishers, 1971) ch. 20.
50. K. Marx and F. Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1965) p. 355.
51. Marx, *Grundrisse*, p. 513.
52. A. Gershenkron, 'Agrarian Policies and Industrialisation, Russia 1861–1917', in H. J. Habakkuk and M. Postan (eds) *Cambridge Economic History of Europe* (Cambridge: Cambridge University Press, 1965) vol. 6, pp. 706–800.
53. K. Marx, *Capital*, vol. III. ch. 20.
54. *SPW*, I, p. 356.
55. *SPW*, I, pp. 21, 82, 97, 104, 147, 309, 315, 359, 398; II, p. 436; IV, pp. 33, 48, 110, 416; V, pp. 23, 55, 63, 72, 89, 92, 112, 141, 144, 441, 467; S. H. Baron, 'Plekhanov and the Revolution of 1905', in J. S. Curtiss (ed.) *Essays in Russian and Soviet History* (New York: Columbia University Press, 1963) pp. 133–48; Baron, *Plekhanov*, pp. 10, 31, 76, 101, 104, 107, 136, 141, 265, 304, 346; Dan *Origins*, pp. 177, 310, 313.
56. D. Atkinson, *The End of the Russian Land Commune, 1905–1930* (Stanford: Stanford University Press, 1983); T. Shanin, *The Awkward Class* (Oxford: Oxford University Press, 1972).
57. Today, this factor is far less important because of the electrification of the countryside and the development of mechanised agricultural equipment.
58. J. S. Mill, *Principles of Political Economy* (London: Longman, 1909) pp. 131–2; A. Marshall, *Principles of Economics* (London, Macmillan, 1936) p. 652.

59. See, however, S. A. Mann and J. M. Dickinson, 'Obstacles to the Development of a Capitalist Agriculture', *Journal of Peasant Studies*, 5, 1978, pp. 466–81.
60. A. Hussain and K. Tribe, *Marxism and the Agrarian Question, Volume I: German Social Democracy and the Peasantry, 1890–1907* (London: Macmillan, 1981).
61. T. Kemp, *Industrialisation in Nineteenth-Century Europe* (London: Longman, 1985) 2nd edn, ch. 2.
62. See note 55.
63. G. T. Robinson, *Rural Russia Under the Old Regime* (Berkeley and Los Angeles: University of California Press, 1967) pp. 129–37.
64. *SPW*, I, p. 120; III, pp. 18, 48, 90, 137, 607, 625; IV, p. 528.
65. *SPW*, I, pp. 205, 669; II, p. 675; III, p. 571.
66. *SPW*, I, pp. 275, 355, 359; II, pp. 204, 421.
67. *SPW*, I, pp. 353, 358; S. Bloom, *The World of Nations* (New York: AMS Press, 1967).
68. *SPW*, I, pp. 351–62.
69. *SPW*, I, pp. 73, 140, 171, 341; IV, pp. 103, 109, 442.
70. *SPW*, I, pp. 58, 82, 102, 212, 341; V, pp. 164, 275.
71. *SPW*, I, p. 104.
72. As P. B. Axelrod put it, 'if there is no possibility of assigning to the Russian proletariat an independent, pre-eminent role in the struggle against police-Tsarism, autocracy and arbitrariness, then Russian Social Democracy has no historical right to exist'. Quoted in N. Harding, *Lenin's Political Thought* (London: Macmillan, 1977), vol. 1, p. 47.
73. *SPW*, I, p. 376.
74. *SPW*, II, p. 586 and notes 30 and 31 above. By contrast the German SPD *did* see socialist revolution as an immediately feasible goal: see Chapters 4–6 above.
75. *SPW*, I, 355, 477; II, pp. 77, 181, 443; III, pp. 173, 552, 558; IV, p. 718; V, pp. 587, 654; Dan, *Origins*, pp. 19, 183; Baron, *1905*.
76. *SPW*, I, pp. 208, 211, 394; II, p. 524; III, p. 476; IV, p. 722; V, p. 213.
77. A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1965).
78. As the one time social democrat and later conservative-liberal, Peter Struve, realised. See R. Pipes, *Struve: Liberal on the Right, 1905–1944* (Cambridge: Harvard University, 1980) p. 300.
79. R. A. Roosa, 'Russian Industrialists Look to the Future: Thoughts on Economic Development, 1906–17', in Curtiss, *Essays*, pp. 198–218.
80. Significantly, Plekhanov opposed Lenin on matters of party organisation far less clearly than other leading Mensheviks, both at the time of the Second Congress (in 1903) and during the Liquidationist controversy after 1905.
81. *SPW*, I, pp. 84, 94; Baron, *Plekhanov*, p. 270; Baron, *1905*, p. 136; Dan, *Origins*, p. 183.
82. *SPW*, I, pp. 49–106, 147, 296, 303, 316, 328, 335, 448, 626, 670; II, p. 91; III, p. 623; IV, pp. 59, 76, 86, 103, 121, 128, 131, 153, 162, 187, 251, 281, 293, 297, 302, 316, 335, 346, 410, 450, 539, 621, 629, 683, 710; V, pp. 64, 89, 133, 147, 267, 400, 458, 521.
83. Baron, *Plekhanov*, pp. 279–361.

9

Populism and Orthodox Marxism in the 1890s

1 Introduction

Plekhanov developed his Marxism primarily in opposition to populist intellectuals. The underdeveloped nature of the Russian labour movement in the 1880s meant that his immediate aim became that of converting revolutionaries of the intelligentsia to his position, rather than seeking to influence the proletariat directly.¹ Plekhanov's attack on populism, however, was part of a broader Marxist critique. The first round had been fired by Engels in 1873,² and debates with populism in Russia were to end only with Stalin's collectivisation in the late 1920s. The high point of the controversy came between 1894 and 1899, when there was a significant increase in the number of critical publications. This was also the period which saw the intellectual breakthrough of Marxist social democracy. In particular, the economic theory on which populist philosophy rested was undermined by a battery of sophisticated counter-arguments. While populism survived – principally in the socialist revolutionary party – it did so only by transforming its stand in ways which made major concessions to the Marxian critics.³

There was a material base to this victory of ideas. The intensified polemics of the 1890s were prompted by the famine which gripped rural Russia at the beginning of the decade, and revealed that the peasant economy was in a deep crisis.⁴ The Marxist position was further buttressed during subsequent years by the very rapid industrial growth and the unmistakable emergence of an urban proletariat as a political force.⁵ Capitalism was clearly gaining ground, and the radicalism of the working class appeared in sharp contrast to the passivity of the peasantry. The principles of Plekhanov's Marxism, therefore, received concrete vindication; the ranks of social democracy swelled as those of populism diminished.

The fact that the victory proved incomplete – that populism lived on in altered form – also reflected weaknesses in Plekhanov's system. However inarticulately, the non-Marxist socialists recognised that the nature of backward capitalism was not wholly as Plekhanov pictured it; there were significant barriers to a full-blown development of capitalism in Russia, and the peasantry was inadequately analysed in Marxian theory. As capitalism has 'spread East' during the twentieth century, and Marxism has become associated with anti-colonial movements in which peasants have played a central role, populism has exacted revenge; its characteristic themes have re-emerged in new contexts and significantly influenced Marxism itself. In this sense the intellectual inferiority of the 'Late Marx' discussed in Chapter 7 has not proved to be a terminal weakness. During the second half of the present century, it has proved to be closer to Marxism as a world political movement than the 'mature Marx,' which provided the basis of Russian orthodoxy prior to 1914.

II The Populist Theory of Russian Capitalism

Populism incorporated a variety of ideas and represented a unity only insofar as they all embodied a hostility to capitalist development, and a disposition to base progress upon the traditional institutions of Russian economic life. There was considerable diversity of opinion as to what exactly constituted 'progress', how it was best achieved, the extent to which capitalism posed a threat, and the health and adaptability of non-capitalist institutions.⁶ But in the last two decades of the nineteenth century there was increasing coherence in populist theory. It was generally held that Russian capitalist development was blocked, so that comprehensive emulation of Europe was not only undesirable but also impossible. If Russia was to survive as a sovereign power, economic evolution had therefore to be predominantly non-capitalist. The alternative was a subordination to Western nations, perhaps even formal colonisation.

The principal theorists involved were Vasily Vorontsov and N. F. Danielson.⁷ Each used elements of Marxian economic theory, and especially Danielson who translated *Capital* into Russian and corresponded with Marx and Engels over a period of nearly three decades.⁸ In fact he regarded himself as a Marxist and was widely thought of as such. What he and Vorontsov did, however, was to integrate themes of Marxian economics with those of populism, as support for the latter.⁹ This was an enduring feature of populist writers as we have seen in Chapter 7, and although there was a tendency to become increasingly critical of Marx and Engels as their arguments met social democratic opposition, most populists remained well-disposed toward the founders. They often viewed Russian

Marxist 'orthodoxy' as illegitimate as well as erroneous, much to the chagrin of Plekhanov.

Although Vorontsov and Danielson differed in significant ways, their arguments as to the impossibility of a full-scale development of Russian capitalism can be taken together. Both rested upon the same basic theory: capitalist economic relations necessarily generated underconsumption. In its pure form capitalism would thus stagnate; only factors extraneous to capitalist social relations could offset this and allow growth. Surplus value could not be completely realised within a fully capitalised economy. Workers' consumption demand was insufficient because the rate of exploitation was positive, and the shortfall could not be made good by capitalists because surplus value was in part used for accumulation, or saved. To ensure full realisation of surplus value, a capitalist economy needed a specific type of market system – one in which there were external sources of consumption demand.¹⁰

This was a *general* theory of capitalism, and not an analysis of the *specific* deficiencies of its Russian variant. But the populist economists applied it to Russia by denying that capitalism there could tap sufficient sources of external consumption demand. Its 'late start' meant that foreign markets were already monopolised by the more developed economies. Russian capitalism, it was held, was only maintained in its present degenerate form by the artificial stimulus of tsarist fiscal policy. Ultimately the state's resources would prove insufficient even to maintain this parasitic *status quo*. Unless the strategy of attempting to follow Western Europe were abandoned, sustained and comprehensive economic development would prove impossible. Russia had to follow her own 'special path' of progress distinct from that of the West (but perhaps borrowing from it the modern technologies that could be utilised in non-capitalist production relations).

The populist economists did differ as to the actual consequences of the capitalist development that Russia had experienced. Vorontsov emphasised the capability of peasant 'popular production' to resist encroachment and maintain its integrity. In sharp contrast, Danielson pointed to the destructive impact of capitalism on the peasant economy. In his view it brought ruin rather than transformation: rural producers were impoverished but not converted into wage-labourers. He further argued that the technical progress internal to the capitalist sector raised the organic composition of capital, so reducing the demand for labour-power and increasing the concentration of wealth. Therefore, any development was introverted and did not convert the non-capitalist economy into a new mode of production.

Danielson's argument in particular can be interpreted as a 'special case' of the political economy of *Capital*, which is the way in which he understood it himself. It is one which stresses the underconsumptionist strands in Marx's own exposition, and strips the contradictions of progres-

sive content.¹¹ Against it, the orthodox Marxists emphasised and developed those elements of Marxian political economy which the populists neglected. Plekhanov led the way and articulated all the principal arguments that would be utilised against populism.¹² In itself this was a singular achievement, and more especially so since Plekhanov wrote prior to the appearance of volumes II and III of *Capital*, whose contents proved to be crucially important for the arguments of orthodoxy. However, in the 'great debate' of the 1890s Plekhanov left to others the task of extending and embellishing this earlier economic critique, concentrating his own polemic against the philosophical and sociological elements of populist theory.

The economic arguments of Marxist orthodoxy were stated in different ways by many authors of varying abilities. Most also felt the need to run through the whole course of refutational material, at great length; in consequence there was much duplication and a large element of overkill. It is, however, possible to single out two participants who towered above the rest. Tugan-Baranovsky and Lenin expressed the orthodox critique with a consistent discipline and thoroughness which others achieved only sporadically. Tugan-Baranovsky focused his theoretical attention upon proving the possibility of realisation through the extended reproduction of means of production. Lenin emphasised that realisation of surplus value was inherent in the extensive growth of capitalist relations. Tugan-Baranovsky's empirical analysis complemented his theory since it was the development of the Russian factory which dominated his frame of reference. The empirical work of Lenin also dovetailed with his theoretical perspective: he documented the changing relations in the rural economy with a hitherto unequalled degree of systematisation. The chief arguments of Tugan-Baranovsky and Lenin were thus complementary. Neither author denied the essential points made by the other, and frequently gave their own account of them. But it was in specialised areas that they each made their major contributions, and in the next four sections we shall concentrate upon these. This departs from the practice of many other authors who emphasise the importance of P. B. Struve in the critique of populism during the 1890s.¹³ Struve was undoubtedly significant as a catalyst of the 'great debate,' and in organising the literary forces of social democracy. However, in political economy, he was definitely second-rate compared with both Tugan-Baranovsky and Lenin. His chief economic argument against populism made a major (and erroneous) concession to that of his opponents.¹⁴

III Tugan-Baranovsky on Extended Reproduction

It is to the credit of Tugan-Baranovsky that he was the first to see the significance of Marx's reproduction models, which made their appearance with the publication of volume II of *Capital* in 1885.¹⁵ They were in his view

the single greatest achievement of economic theory to date, in that they provided a rigorous framework by which the multiple interconnections of different sectors in a capitalist economy became analytically tractable. Tugan used them in 1894 to formulate a theory of cyclical growth, criticise alternative theories, and organise his empirical analysis of fluctuations in the British economy.¹⁶ In the process he spelt out a critique of all theories of underconsumption, including that of the populists. In their stead he placed emphasis upon the concept of 'proportionality' and its converse, 'disproportionality,' as central to understanding the functioning of capitalist economies.

**Biography of
M. I. Tugan-Baranovsky**

Mikhail I. Tugan-Baranovsky was born in 1865 at Solyonoye in the Ukraine. By birth he was half-Ukrainian and half-Tartar, as well as possibly of aristocratic lineage. Holding degrees in natural science, law and economics he came to prominence in social democratic circles in the 1890s during the controversy with the populists over capitalist development. While working within a Marxist framework of analysis, he also adopted a critical attitude to Marxism as early as 1890. His revisionism became more pronounced in the early part of the twentieth century after he had left the social democratic movement. From the mid-1890s onwards he held a number of university posts, at St Petersburg and elsewhere. In the last decade of his life he became deeply committed to the cooperative movement. Being also a Ukrainian nationalist he moved to Kiev in 1917 and served as Finance Minister in the provisional Ukrainian government. He died in January 1919.

Marx had dealt with reproduction mainly through numerical examples. Tugan followed him in this approach, but integrated three additional elements that Marx had treated independently.¹⁷ First, he frequently added a new department III (although Marx had sometimes divided department II into wage goods [IIa] and luxury goods [IIb] to the same effect). Second, and more important, Tugan introduced a rise in the organic composition of capital into the analysis. Third, and of crucial significance, he emphasised that capitalist production is production for profit. It is *not* production aimed at the satisfaction of human needs, the fulfilment of consumption requirements or the generation of economic growth. If these occurred they

were derivative, not primary. No Marxist, of course, would disagree on this latter point (or indeed the preceding two), but Tugan-Baranovsky believed that they had failed to appreciate its implications: it was because of this that underconsumptionism had been given a degree of credence in Marxism itself. Once economic analysis was properly structured, he argued, no significant element of underconsumption theory could remain intact: the contradictions of a capitalist economy could be traced solely to factors generating disproportions between the departments of production.¹⁸

In part this followed Marx's own conclusion in his analysis of reproduction, where he had indicated that, so long as department productions were in the requisite proportions, the realisation of surplus value was unproblematical. The demand generated by department I for consumer goods realised the surplus value of department II; analogously, the demand for constant capital in department II allowed the realisation of surplus generated in department I.¹⁹ Coupled with an increasing organic composition of capital, this meant that capitalist development could be viewed as essentially the production of means of production through the further production of means of production. Absurd as this conclusion seemed from the viewpoint of human values – and Tugan-Baranovsky readily admitted this element of absurdity²⁰ – it necessarily followed from a correct understanding of production under capitalist relations. It also implied that the realisation of surplus value was increasingly independent of consumption requirements. Tugan-Baranovsky pushed this conclusion to its logical extreme (or almost so) by imagining a (virtually) automated economy in which the production of ever more machines is used to produce even more machines.²¹ Similarly, the process of reaching this end-point will involve the realisation of surplus value with declining consumption – possibly with the immiseration of the mass of the population. Consumption demand, therefore, has no privileged role in the operation of capitalism.

In relation to Vorontsov's and Danielson's extreme form of underconsumptionism, Tugan-Baranovsky's argument represented a telling refutation. However, the more reasonable forms of underconsumptionism which many Marxists embraced (see Chapters 4–6 above, and Chapter 10 below) were not undermined. His model implied only that there was no inevitable and continuous insufficiency of domestic consumer demand, as the populists claimed. Temporary shortfalls resulting in cyclical ruptures of accumulation still remained possible. Indeed, he admitted that certain types of disproportionality, which would generate a crisis, might be described as underconsumption. It is true, nevertheless, that he did not emphasise this point. He described the root problem in the malfunctioning of a capitalist economy as the lack of institutions which would ensure proportionality. Tugan-Baranovsky stressed the general phenomenon of disproportionality, rather than the possibility of disproportionate consumption, and he came

to be associated with hostility to all forms of underconsumptionism.²² Furthermore, he maintained that even if one were to regard deficient consumption as a correct description of the cause of crises, underconsumption would not entail stagnation. As Tugan-Baranovsky attempted to show in his theory of cycles, there were forces operating in a capitalist economy that would ensure an upswing.²³ Russian capitalism was therefore not blocked; there was no bar to Russia following the same path of development previously taken in the West.²⁴

Tugan-Baranovsky's argument was abstract, but this was appropriate because it was designed to undermine a similarly abstract argument from the populists. Nevertheless, he did not always realise the limits which were placed upon his conclusions. In particular, Marx's reproduction models were organised in terms of the value categories prior to transformation. Thus prices of production and rates of profit were not explicitly depicted. In following Marx here, Tugan-Baranovsky failed to show that the price-profit structure of a capitalist economy could in principle lead capitalists to engender the growth paths he depicted. Today it is possible to do so,²⁵ but he did not take his argument sufficiently far (even after volume III of *Capital* was published). More significantly, given the context in which he wrote, Tugan-Baranovsky's models failed to depict properly the growth patterns actually followed by capitalist economies. For example, he admitted that foreign trade had played a significant part in British capitalist expansion. But he explained this by specific circumstances, not theoretically.²⁶ At the height of colonial expansion, this was an extreme and dramatic stand to take. Marxism would not long remain content to cast imperialism in a role of accidental importance, and Tugan-Baranovsky's work would then be attacked on this ground.²⁷ So far as specifically Russian capitalism was concerned, Tugan-Baranovsky's argument also left much unsaid. The reproduction models presumed an established capitalist economy. Part of the populists' case, however, was that capitalism in Russia was blocked by the much larger non-capitalist sector. Lenin perceived this limitation,²⁸ and his own argument concerning realisation took a very different tack. Like Tugan-Baranovsky, however, he stated his case in extreme form in order to deprive populism of every vestige of legitimacy.

IV Lenin on Realisation through Extended Commodity Production

Lenin attempted to follow Marx, and certainly emulated Plekhanov, far more closely than did Tugan-Baranovsky. His principal theoretical argument against the populist economists was an elaboration of the 'logic of commodity economy' on which Plekhanov had earlier staked his claims (see Chapter 8 above). In this sense he was much less original than Tugan-

Baranovsky. But the force of his argument was certainly no weaker, for it bore a closer relation to the actual circumstances of the Russian economy, and more easily allowed a statistical confirmation.

Biography of V. I. Lenin

V. I. Lenin (pseudonym of Vladimir Ilich Ulyanov) was born in 1870 at Simbirsk in the Volga region, the son of middle-class parents. Graduating in law from the University of St Petersburg in 1891, he entered social democratic politics two years later. Rising quickly to prominence, he participated actively in the ideological defeat of populism and sought to organise an effective Marxist party, continuing to do so even after his arrest and internal exile in 1895. He left Russia in 1900 and in 1903 his Bolshevik faction began the process of forming a separate party. Initially splitting from the main body of Russian Marxists over organisational questions, Lenin subsequently developed a distinct theoretical position on a broad range of issues. He is unique among Marxists in being both an important theorist and the principal organiser of a major party. Lenin is also noted for bringing party organisation within the scope of Marxist theory. As leader of the Bolsheviks from the very beginning, he became chairman of the Council of Peoples' Commissars after the October revolution, a post he held until his death in January 1924.

Lenin's perspective was dominated by a typology of broad development stages starting with natural economy, progressing through commodity production, and culminating in socialism. The separation of town from country, the emergence of distinct industries, specialisation of economic activity and the division of labour, were identified with the growth of commodity production, the higher stages of which were those of capitalist commodity production. In each stage production was more efficient than in the previous one, and competition was the driving force in the replacement of one stage by another.²⁹

For Lenin, the central mistake of Vorontsov and Danielson was that they failed to recognise the stadial nature of capitalism. To identify it as they did with large-scale machine industry, concentrated in urban centres, and employing only wage labour, was to fix upon the highest stage and ignore the multitude of preliminary types coexisting with the more advanced. The correct perspective, Lenin argued, required recognition of the many forms that capitalist relations could take. Moreover, he continued, once firmly established, commodity production (and thus capitalist commodity pro-

duction) could not be blocked. Certainly it would not be contained by limited markets, for the process ensured their development *pari passu* with economic progress. Here Lenin turned Danielson's argument against its author. While it was true that the impact of commodification and capitalisation brought immiseration, this itself necessarily involved an extension of the market. Deprived of means of production of their own, the expropriated producers were forced to become purchasers of consumption goods, and hence sellers of labour power. The market was expanded at the same time as the bulk of participants were impoverished.³⁰

Lenin did not make light of the misery associated with the development of capitalism. Nor was his treatment simplistic. He did not fail to explain that the earlier forms could sometimes inhibit the more advanced types of capitalism. It was even possible for the higher stages partially to rejuvenate otherwise anachronistic types of economic organisation. He fully recognised that not all industries followed the same pattern of evolution, and that remnants of natural economy which rested on legal sanction could retard progress.³¹ In consequence it is difficult to accuse Lenin of an insensitivity to the complexity of the development process as he imagined it.

On the other hand, Lenin used his formula in an extreme fashion. Although Plekhanov's perspective had been essentially the same (see Chapter 8 above), he was more circumspect in its application. Thus, while Plekhanov had seen capitalism as the outcome of a process of commodification, Lenin tended to identify the two.³² He considered the 'degree of the development of the home market' to be 'the degree of development of capitalism in the country', so that 'the question of how a home market is being formed for Russian capitalism reduces itself to the following: How and in what direction are the diverse aspects of the Russian national economy developing?'³³ Lenin was criticised in 1900 by P. N. Skvortsov, in a review of *The Development of Capitalism in Russia*,³⁴ for this conflation.³⁵ It is a central weakness to which we return in section VII of this chapter.

In the attempt to validate his theoretical treatment Lenin proceeded by critically examining statistical material on the Russian economy. Tugan-Baranovsky also engaged in extensive empirical analysis to support his own argument against the populists. Given their different perspectives, it was inevitable that they concentrated on distinct aspects of the problem. Tugan-Baranovsky focused principally upon industry, and especially upon the growth of factories, while Lenin was far more concerned with the transformation of the rural economy. The following two sections take up the researches of each author in turn.

V 'The Russian Factory in the Nineteenth Century'

Tugan-Baranovsky's theoretical argument, outlined in section III, was not meant to represent a mere 'possibility.' He believed that actual capitalist

development involved an ever-larger department I relative to department II, that capitalist economies had a tendency to bring about 'proportionality,' and that their economic malfunctioning arose from the lack of institutions by which this might be accomplished smoothly. It was, however, an argument that did not easily lend itself to comprehensive validation, especially in the relatively backward conditions of the Russian economy. Furthermore, he realised that the historical evolution of industry was far more intricate than his theoretical scheme might suggest. Consequently, although his empirical work on the Russian economy was clearly informed by his theoretical perspective, it ranged far more widely. *The Russian Factory in the Nineteenth Century*, first published in 1898,³⁶ traced the whole expansion of industry from the time of Peter the Great, and on its own account alone constituted an impressive refutation of much of what populist economists held as central to their case. But its contents went beyond the debates of the 1890s. The book remains one of the best analyses of industrialisation carried out in the framework of historical materialism.³⁷

Tugan-Baranovsky's principal concern was to undermine the charge that the role of the Russian state in developing factory production gave industry an 'artificial character'. He forcefully argued that the modernisation inaugurated under Peter was a necessity for survival.³⁸ As we have seen in Chapter 8, Plekhanov took the same view, but Tugan-Baranovsky endowed it with far more content and explained its economic features in greater detail. In particular, he stressed that there was no alternative to the capitalist features which were partially embodied at this stage. New types of production had to be undertaken in large-scale factories so as to economise on the use of imported skills.³⁹ Merchant capitalists alone had the resources and capability to organise the new facilities.⁴⁰ The state's direct intervention was also required to provide forced labour, as the domestic market for free labour was virtually non-existent.⁴¹

With time the dialectics of progress became evident, Tugan-Baranovsky explained, as measures once conducive to the growth of industry became barriers to further advance. Bonded labour, which had initially facilitated development, subsequently became a hindrance.⁴² Wage labour was increasingly substituted, and pressures intensified for a general reform of serfdom.⁴³ Nevertheless, he admitted, the impact of emancipation in the 1860s set back some sectors of large-scale industry. Those still heavily dependent upon serf labour had the ground cut from under them, and their reorganisation – which ultimately proved more efficient – was painful and protracted.⁴⁴ Nor did the growth of large-scale industry at once replace the existing small-scale crafts according to Tugan-Baranovsky. In many cases there was a contrary effect. Production which had at first been confined to factories, because it required the skills of imported labour, was transferred to small producers and generated a renaissance of traditional industrial activity.⁴⁵ In addition, as factory production developed it brought in its

wake increased activity for suppliers, who were sometimes organised in a customary fashion. But this was only possible because much of the older industry had been long dominated by merchant capital.⁴⁶ Subsequently, Tugan-Baranovsky pointed out, mechanisation undermined familial production, although even then there was no straightforward replacement of 'small-scale' by 'large-scale' production, as the Erfurt programme suggested.⁴⁷

Tugan-Baranovsky also recognised that 'late starters' differed significantly from the British model, which had tended to be the benchmark for populist economists. Their industrialisation was less spontaneous: state activity played a dominant role, non-capitalist institutions were fused with capitalist relations, overt coercion complemented market discipline, and technological borrowing played a significant part.⁴⁸ Also, elements of Western ideology became linked with traditional beliefs; liberalism was remoulded by very specific types of class interest.⁴⁹ Even so, he emphasised, the development of industrial capitalism in Russia meant that the whole economy became increasingly integrated into the world market.⁵⁰ Consequently the 'special path' which the populists favoured became more and more irrelevant; the path actually taken had merged Russia into the general economic history of Europe.⁵¹ Westernisation was in progress despite the fact that it had been accomplished by historically specific means, and with the aim of maintaining Russian sovereignty.

Tugan-Baranovsky thus became the first socialist to recognise that 'late starters' differed significantly from the British model which Marx himself, like the populists, had elevated to a canonical status. Moreover, it was precisely the 'uneven and combined development' to which Tugan-Baranovsky pointed that provided the materialist basis for Trotsky's theory of permanent revolution, in which it was argued that the proletarian revolution might occur first in the backward society of Russia rather than in the advanced centres of Western Europe. Unlike Plekhanov and Lenin, who focused upon the development of agrarian capitalism, Trotsky followed Tugan-Baranovsky in concentrating upon urban industry. But he differed from him by examining the 'modernity' of Russian industrialisation in terms of its effects upon the social structure. The form of Russia's industrialisation, Trotsky argued, dramatically expanded the size of the Russian proletariat while minimising the formation of a domestic bourgeoisie and *petite-bourgeoisie* concentrated in the cities. In any conflict with the state it would be the proletariat which would prove to be the dominant force; so too would its class interest. Furthermore, the tsarist method of encouraging industrial development exacerbated the agrarian problem, which allowed the urban revolution to tap peasant support. As has now been widely recognised, Trotsky's theory more correctly located the class dynamics of the revolutions in 1917 than any of its competitors (see Chapter 12 below).

Tugan-Baranovsky himself did not probe into these political issues, which Trotsky derived from the same economic perspective that characterised *The Russian Factory*. Instead his argument was directed against the populists, and he was concerned to emphasise that Russia's unique pattern of modernisation would bring its future history into conformity with that of Western Europe. Tugan-Baranovsky believed that, through Russian integration into the world market, the 'special path' which the populists favoured had become impossible to achieve. In this he was correct, but after the intellectual defeat of populism the revolutionary implications of the different 'special path' which he himself had outlined provided the foundation for an important strand of Bolshevik politics in 1917 (see Chapters 12 and 13 below).

VI The Development of Capitalism in Russian Agriculture

Many of the points Tugan made were reinforced by independent documentation in the work of Lenin. However, they were woven into a very different perspective by Tugan. During the course of the twentieth century the future Bolshevik leader moved closer to it, and away from that which governed his own analysis in the 1890s. Lenin also gave it a twist that resulted in political action wholly at variance with the stance of Tugan himself (see Chapters 11, 12 and 13 below). But all this lay ahead. During the high point of the controversy with populism, Lenin remained firmly tied to his own theoretical vista, and to its empirical confirmation. His concern lay principally with the peasant economy. Lenin's central aim was to confirm empirically that the inequality in 'popular production' and the differentiation of rural producers – both of which were unmistakable – were symptomatic of polarisation into a bourgeois and a proletarian class. The statistical information available in the late 1890s far exceeded that to which Plekhanov had access fifteen years earlier, and Lenin carefully used it to construct a massive onslaught upon populist economics.⁵²

The very nature of his theory, outlined in section V of this chapter, provided ample opportunities to accomplish his task. It indicated that there were multiple indices of capitalist development; as a process, rather than an end-state, capitalism could be seen as a pervasive force. Lenin took full advantage of this to argue that the documented specialisation, commercialisation, inequality in land holdings, concentration in the ownership of means of production, and not just the use of wage labour, *all* pointed to the development of capitalism.⁵³ He did not claim that rural petty producers actually constituted a bourgeoisie and proletariat in the classical sense, only that there was overwhelming evidence that they were becoming such. To do so he focused on the variation in circumstances between peasant *households*, rather than individuals. The rural proletariat was predominantly

composed of poor peasant families, whose inadequate access to means of production forced some of their members into the labour market. At the other extreme, rich peasant families could not provide their own labour requirements internally, and had to hire wage workers.⁵⁴ The mechanism of primitive accumulation, therefore, was envisaged as very different from that which Marx had illustrated (for England) in volume I of *Capital*.⁵⁵ Lenin did not emphasise this,⁵⁶ and acknowledged that there remained a large rump of middle peasant households which neither hired out their members, nor hired others. He nevertheless maintained that the competitive edge provided by the larger resources available to the richer peasants would progressively embourgeoisify and proletarianise. 'Popular production' was, therefore, increasingly capitalist production, albeit at a low stage of development.⁵⁷

It was precisely this composition of the countryside that accounted for the prevalence of populist sentiments. According to Lenin, populism correctly understood (that is, in terms of Marxian categories), was nothing more than a petty bourgeois ideology.⁵⁸ It reflected the marginalised condition of the bulk of peasant households, and further economic progress would see it wane. Nevertheless, it was dangerous, for it hindered the development of proletarian consciousness, and populist-inspired reforms might succeed in retarding higher forms of capitalism.

However, Lenin did not consider populism to be entirely reactionary. He recognised that its anti-capitalism was allied to a hostility to feudalism. Serfdom, of course, had long ceased in Russia but the imperfect form of the emancipation allowed the survival of many feudal remnants. In consequence, there was a real need for an anti-feudal agrarian revolution. Constraints on the ability of peasants to alienate and acquire both land and labour power, the persistence of labour rents, and the lack of civil liberties, all inhibited economic advance.⁵⁹ Insofar as populism adopted a critical perspective on these issues it was an objectively progressive force. Lenin's attitude to his opponents was thus more complex than that of many other Marxists, including Plekhanov. While he agreed that populist ideas were false, he also realised that they might be of use to social democrats. This consideration was, indeed, destined to play a much greater role in his thought. But before it could do so he had drastically to revise his theory of Russian capitalist development. We consider this change in Chapter 11 below.

VII Some Problems with the Marxists' Arguments

Populist economic theory was undermined during the 1890s, and its philosophy and sociology suffered under parallel attacks from Marxian critics. This is not surprising. Orthodox Marxism was a far superior system

of thought, while the main thrust of economic development was on its side. Nevertheless, it is possible to identify serious limitations in its arguments. Some of these deficiencies are in fact inherent in Marxism generally, and have been repeatedly in evidence throughout its intellectual history.

The questions of 'realisation' and the 'home market' were ones of supply and demand: of whether demand was sufficient to absorb supply. But neither Marx, nor his Russian followers, used these categories precisely. What Marx had said was contradictory. He adhered both to a (neoclassical) notion of demand which precluded any possibility of its being inadequate, and formulated an alternative (Keynesian) concept of demand that could make deficiencies permanent.⁶⁰ The Russian Marxists made no progress beyond this. Lenin seemed totally unaware that there was a problem and met difficulties by quoting the obscurities of *Capital* (see Chapter 10 below). Tugan-Baranovsky recognised the need for a theory of demand, but his own analysis did not rise even to the level of Marx.⁶¹ Their arguments, therefore, lacked a solid foundation. Today they can be reconstructed and made logically robust (which, of course, implies nothing concerning their empirical validity) whereas the arguments of their adversaries are more problematical.⁶² However, this does not set aside the criticism that the Marxists' arguments were not conclusive in their debate with the populists.

Indeed, given the actual historical circumstances of tsarist industrialisation, it is possible partially to accept the spirit of the populists' analysis, if not its letter. The growth of industrial capitalism in Russia during the 1890s was in fact contradictory. The resources for expansion were not wholly furnished from internally-generated surplus value, as Tugan-Baranovsky's abstract scheme of reproduction depicted. They were provided in part by squeezing peasant agriculture, and by maintaining the institution of the commune to facilitate it. This acted to hold back productivity growth on the land, thus restraining the possibility of increasing the future exploitation of the country to continue the process. The exact magnitude of this problem still remains unclear,⁶³ but there certainly was a problem which Marxists did not adequately recognise. In this sense there was an element of 'artificiality' at the core of tsarist industrial policy, and populist economists highlighted the peculiarity more sharply than did the Marxists.

Further support for at least the intuition of the populists is provided by recent research on the Russian peasantry, and on rural petty producers more generally. In Chapter 8 it was pointed out that Plekhanov's treatment of the development of capitalism suffered from two deficiencies: it failed to note the relative absence of economies of scale in agriculture, and it overlooked the means available to a peasantry to maintain its position. The Russian Marxists repeated these errors in the 1890s. Indeed, Lenin's mistakes were more serious than those of Plekhanov since he identified capitalist development with the development of the market. Furthermore, and again following Plekhanov, the Marxists did not seriously consider the

constraint which the specific organisation of Russian agriculture placed upon economic progress and the differentiation of the peasantry. The commune was not simply a waning feudal remnant whose economic rationale was totally destroyed by commercialisation, as Lenin maintained.⁶⁴ It played an essential technical role: the open field system of crop rotation required a management agency over and above individual peasant households, and there were great economic difficulties placed in the way of peasants separating their holdings, even apart from the legal constraints which were maintained until 1907.⁶⁵ The commune was, therefore, rooted in the contemporary reality of peasant agriculture, not simply in its past.

Moreover, while peasant economic activities did produce inequalities in income and wealth, these inequalities were limited in magnitude and did not always give rise to class differences between peasants. An element of differentiation was related to the life-cycle of peasant families and their redistributive procedures, coupled with those of the commune.⁶⁶ Nor did the development of commodity production always run counter to these practices; it could facilitate their operation rather than hinder them.⁶⁷ Thus both Lenin's theoretical perspective and his reconstruction of empirical data misspecified at least part of the observed inequalities in the village.⁶⁸ The peasantry was more homogeneous than he realised, and to view it as a petty-bourgeois stratum was inadequate because to do so reflected an unduly limited view of the economic and political actions it could take. Lenin was especially wrong when he compared Russian peasants with those described by Marx in the *Eighteenth Brumaire*.⁶⁹ Concrete vindication of this emerged during 1917–18, when communal institutions were not only not weakened by the agrarian revolution but were the means by which it was accomplished, and were strengthened by its outcome.⁷⁰ The peasantry proved itself to be neither a bourgeois force, nor a proletarian force, nor an amalgam of such forces. It fitted neatly into none of the existing Marxist categories.

None of this implies that populist economics was essentially sound. It clearly was not. But it does mean that the criticism of populism and the affirmation of Marxism were not identical tasks, as the Marxists tended to believe. And it is Lenin's analysis which is most subject to censure. In due course he realised the inadequacy of his work, though he never did explain the exact nature of his error in the 1890s (see Chapter 11 below). One possible reason for his change, however, was manifest as the decade drew to a close. While he was attempting to document the formation of classes within the peasantry, Russian Marxism itself was undergoing a process of differentiation. In particular, there arose a version of revisionism parallel to that which occurred in Germany. The attempt to thwart its influence brought a subtle modification in Lenin's position on agricultural economics, and probably contributed to a major change in his tactics in the early years of the twentieth century. This is not, of course, the sole

significance of Russian revisionism. As a critique of Marxian economics it merits attention in its own right, not least because it embodied genuine analytic insight. It thus forms the subject of the next chapter.

Notes*

* References to Lenin's *Collected Works* (Moscow: Progress Publishers, 1960–70) are indicated by *CW*, followed by volume number.

1. See 'Socialism and the Political Struggle' and 'Our Differences' in G. Plekhanov, *Selected Philosophical Works* (Moscow: Progress Publishers, 1974) vol. 1, pp. 49–352.
2. F. Engels, 'Russia and the Social Revolution' in P. W. Blackstock and B. F. Hoselitz (eds) *The Russian Menace to Europe* (London: Allen & Unwin, 1958) pp. 203–15.
3. O. H. Radkey, *The Agrarian Foes of Bolshevism* (New York: Columbia University Press, 1958); M. Perrie, *The Agrarian Policy of the Russian Socialist Revolutionary Party* (Cambridge: Cambridge University Press, 1976).
4. R. Kindersley, *The First Russian Revisionists* (Oxford: Clarendon Press, 1962) p. 41.
5. R. Pipes, *Struve: Liberal on the Left* (Cambridge, Mass.: Harvard University Press, 1970) p. 145.
6. See A. P. Mendel, *Dilemmas of Progress in Tsarist Russia* (Cambridge, Mass.: Harvard University Press, 1961); A. Walicki, *The Controversy Over Capitalism* (Oxford: Oxford University Press, 1969); R. Wortman, *The Crisis of Russian Populism* (Cambridge: Cambridge University Press, 1967); F. Venturi, *Roots of Revolution* (London: Weidenfeld & Nicolson, 1960).
7. *V. V. Sud'by Kapitalizma V. Rossii* (St Petersburg: M. Stasjulevic, 1882); Nikolai-on, *Ocherki Nashego Poreformennogo Obschestvennogo Khozyaystva* (St Petersburg: A. Benke, 1893). (Vorontsov wrote under the pseudonym 'V.V.', and Danielson under 'Nikolai-on').
8. A. Reis, 'Das Kapital Comes to Russia,' *Slavic Review*, 29, 1970, pp. 219–37.
9. It was this that ultimately drove Engels toward Plekhanov's position. See K. Marx and F. Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1965) pp. 462–5 and Chapter 7 above.
10. For a more extended exposition, see Walicki, and R. Luxemburg, *The Accumulation of Capital* (London: Routledge & Kegan Paul, 1951) pp. 276–291. The sympathetic treatment of Vorontsov and Danielson by Luxemburg is, of course, a result of their similarity with her own theory (see Chapter 6 above).
11. Alternatively, but not inconsistently, Danielson's economics can be regarded as fleshing out the remarks Marx made in his reply to Mikhailovsky's review of *Capital* in 1877: see Blackstock and Hoselitz, *Russian Menace*, pp. 216–18 and Chapter 7 above.
12. Plekhanov, 'Our Differences'.
13. See, for example, Kindersley, *First Russian Revisionists*, Pipes, *Struve*, and T. H. Von Laue, 'Legal Marxism and the "Fate of Capitalism in Russia"', *Review of Politics*, 18, 1956, pp. 23–46.
14. See S. Bulgakov, *O Rynkakh pri Kapitalisticheskoy Proizvodstve* (Moscow: M. I. Vodovozovoj, 1897) and Luxemburg, *Accumulation of Capital*, pp. 292–8.

15. K. Marx, *Capital* (London: Lawrence & Wishart, 1970) vol. II, chs XX and XXI. A Russian translation appeared in 1886.
16. M. I. Tugan-Baranovsky, *Promyshlennye Krizisy v Sovremennoi Anglii* (St Petersburg: I. N. Skorokhodova, 1894). A second edition appeared in 1900, and a third in 1914. The second edition was translated into German as *Studien zur Theorie und Geschichte der Handelskrisen in England* (Jena: G. Fischer, 1901). The third edition has been partially translated into English as 'Periodic Industrial Crises', *Annals of the Ukrainian Academy of the Arts and Sciences in the United States*, 1954, pp. 745–802.
17. Tugan-Baranovsky's schemes are presented in L. M. Kowal, *Economic Doctrines of M. I. Tugan-Baranovsky* (Urbana: University of Illinois Ph.D., 1965) pp. 309–20.
18. This claim was backed up by a critique of Marx's arguments on the falling rate of profit, immiseration and distribution (see Chapter 10 below).
19. See M. C. Howard and J. E. King, *The Political of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 185–90, and Chapter 6 above.
20. Tugan-Baranovsky, *Studien*, pp. 230–1. See also Chapter 10 below.
21. *Ibid.*, p. 230.
22. Tugan-Baranovsky, *Studien*, p. 203; 'Periodic Industrial Crises', p. 801.
23. Tugan-Baranovsky, 'Periodic Industrial Crises', pp. 780–802.
24. Tugan-Baranovsky, *Promyshlennye*, p. i.
25. Howard and King, *Political Economy*, pp. 181–93.
26. L. M. Kowal, 'The Market and Business Cycle Theories of M. I. Tugan-Baranovsky', *Rivista Internazionale di Scienze Economiche e Commerciale*, 4, 1973, p. 314.
27. Luxemburg *Accumulation of Capital*, pp. 311–26.
28. *CW*, I, p. 89; IV, p. 90.
29. *CW*, I, pp. 33, 37, 63, 71, 211, 430, 483; II, pp. 70, 376, 394, 403, 412; III, pp. 75, 110, 115, 144, 214, 219, 228, 231, 270, 315, 336, 354, 356, 428, 440, 469, 496, 542; IV, pp. 115, 119, 123. See also R. L. Meek, *Studies in the Labour Theory of Value* (London: Lawrence & Wishart, 1973) 2nd edn.
30. *CW*, I, pp. 102–23; II, p. 138; III, pp. 42, 68, 91, 111, 166, 169, 181, 284, 377.
31. *CW*, III, pp. 184, 286, 311, 318.
32. *CW*, I, pp. 69, 93, 141, 149, 153, 173, 175, 178, 218, 228, 309, 367, 380, 407, 424, 429, 430, 436, 438, 450, 459, 466, 467, 480, 485, 492, 494; III, pp. 27, 67, 69, 155, 174, 178, 181, 193, 205, 244, 252, 284, 309, 311, 317, 324, 369, 335, 344, 355, 367, 376, 383, 389, 392, 408, 417, 431, 453, 470, 496, 535, 540, 548, 589, 595, 611, 656; IV, pp. 51, 115.
33. *CW*, III, p. 69.
34. *CW*, III.
35. R. Service, *Lenin: A Political Life* (London: Macmillan, 1985) vol. 1, p. 69. Lenin's reply to Skvortsov is contained in *CW*, III, pp. 611–58.
36. The book went through three editions between 1898 and 1907. There was a German translation based on the second Russian edition of 1900, published in the same year. The third edition has been reprinted four times in Russia since 1917, which indicates its seminal quality. References here are to the English translation (Homewood, Illinois: Richard D. Irwin, 1970) of the third Russian edition.
37. Modern economic historians remain deeply impressed by it; see, for example, S. Amato, 'Tugan-Baranovsky's Theories of Markets, Accumulation and Industrialisation: Their Influence on the Development of Economic Thought and Modern Historiographic Research' in I. S. Koropecy (ed.) *Selected*

- Contributions of Ukrainian Scholars to Economics* (Cambridge, Mass.: Harvard University Press, 1984) pp. 1–59.
38. Tugan-Baranovsky, *Factory*, pp. 1–43.
 39. Tugan-Baranovsky, *Factory*, pp. 14, 204.
 40. *Ibid.*, pp. 1–43.
 41. *Ibid.*, pp. 16–20.
 42. *Ibid.*, pp. 21–2, 62–5.
 43. *Ibid.*, chs 2–5, 9.
 44. *Ibid.*, ch 9.
 45. *Ibid.*, pp. 42–3.
 46. *Ibid.*, pp. 1–43.
 47. *Ibid.*, chs 7, 12.
 48. *Ibid.*, pp. 53, 297; also see *ibid.*, ch 12.
 49. *Ibid.*, chs 8, 13.
 50. *Ibid.*, pp. 94–5, 257, 268.
 51. *Ibid.*, p. 277.
 52. *CW*, III, pp. 74, 82, 84, 86, 173, 182, 281, 333, 344, 448, 455, 499, 590. Also see *CW*, I, pp. 18, 144, 208, 219, 313, 465; II, pp. 188, 361, 378; IV, pp. 13, 70.
 53. *CW*, I, pp. 61, 313, 449; II, p. 365; III, pp. 27, 74, 117, 121, 138, 148, 160, 172, 174, 178, 182, 185, 219, 232, 252, 551.
 54. *CW*, I, pp. 51, 209; III, pp. 72, 78, 87, 114, 176, 311, 355, 545; IV, pp. 54, 136.
 55. K. Marx, *Capital* (London: Lawrence & Wishart, 1970) vol. 1, part VIII.
 56. But see *CW*, II, p. 176.
 57. *CW*, II, pp. 214, 352; III, pp. 355, 371, 385, 417, 438, 435, 442, 533, 540.
 58. *CW*, I, pp. 234, 288, 354, 362, 382, 385, 396, 404, 440, 447, 493, 503; II, pp. 177, 199, 220, 240, 515.
 59. *CW*, I, pp. 290, 300, 426, 466; II, pp. 317, 442, 467; III, pp. 80, 156, 168, 173, 186, 194, 261, 316, 434, 526, 590, 598, 624; IV, p. 64.
 60. See Howard and King, *Political Economy*, pp. 210–11, 216–18.
 61. Compare Tugan-Baranovsky, 'Periodic Industrial Crises', pp. 748–9, 765–6, 781, 802.
 62. See M. Kalecki, 'The Problem of Effective Demand with Tugan-Baranovsky and Rosa Luxemburg' in *Selected Essays on the Dynamics of the Capitalist Economy* (Cambridge: Cambridge University Press, 1971); M. C. Howard, *Profits in Economic Theory* (London: Macmillan, 1983) pp. 164–77.
 63. Compare A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge Mass.: Harvard University Press, 1966) pp. 119–51, and P. Gatrell, *The Tsarist Economy* (London: Batsford, 1986) pp. 98–140.
 64. *CW*, I, pp. 189, 341, 358, 365, 369, 394, 397; II, pp. 484, 508; III, p. 512.
 65. G. T. Robinson, *Rural Russia Under the Old Regime* (Berkeley: University of California Press, 1967) pp. 122, 222; A. Gerschenkron, 'Agrarian Policies and Industrialisation, Russia 1861–1917', in H. J. Habakkuk and M. Postan (eds) *The Cambridge Economic History of Europe* (Cambridge: Cambridge University Press, 1965) vol. 6, pp. 719, 745, 792; A. Hussain and K. Tribe, *Marxism and the Agrarian Question*, vol. I (New Jersey: Humanities Press, 1981) pp. 47, 88; *ibid.*, vol. II, pp. 7, 9, 14.
 66. Robinson, *Rural Russia*, ch. 12; T. Shanin, *The Awkward Class* (Oxford: Oxford University Press, 1972).
 67. H. Friedmann, 'World Market, State, and Family Farm: Social Bases of Household Production in the Era of Wage Labour', *Comparative Studies in Society and History*, 20, 1978, pp. 545–86; H. Friedman, 'Simple Commodity Production and Wage Labour in the American Plains', *The Journal of Peasant Studies*, 6, 1979, pp. 71–100.

68. Lenin's error may be partially explained by his inability to gain access to time-series data. See, for example, *CW*, III, p. 182. But clearly his whole perspective precluded him from being sensitive to this issue.
69. K. Marx and F. Engels, *Selected Works*, vol. I, pp. 394–487. See *CW*, I, pp. 123, 256, 373, 430; II, p. 449; III, p. 315; IV, p. 121.
70. Shanin, *The Awkward Class*; D. Atkinson, *The End of the Russian Land Commune 1905–1930* (Stanford: Stanford University Press, 1983) parts III–V.

10

Russian Revisionism

I The Three Forms of Russian Marxism in the 1890s

During the course of Marxism's rise to prominence in the 1890s, two distinct groups of Marxists evolved away from orthodoxy: the 'legal Marxists' and the 'economists'. Orthodoxy was defined by adherence to the tenets of Plekhanov's system, and the repudiation of any allegation that Marx's and Engels's work might be in need of correction or amendment, rather than merely being applied to new circumstances; its principal proponents were Plekhanov himself and Lenin. The 'legal Marxists' included P. B. Struve, M. Tugan-Baranovsky and S. N. Bulgakov; Tugan-Baranovsky was by far the most important economic theorist. Their position prior to 1900 was to accept the political programme which Plekhanov had formulated, while adopting a critical perspective on the foundations of Marxian theory itself. At the turn of the twentieth century Struve, Bulgakov and other 'legal Marxists' of lesser importance increasingly drifted away not only from Marxism, but also from materialism and socialism, embracing instead liberalism, idealism and moderation.¹

'Economism' was another form of revisionism, but one that was very different from legal Marxism, both in its origin and in what it sought to revise. Whereas the legal Marxists were intellectuals with little connection with the developing workers' movement, the economists were intimately involved with it. In addition, while the legal Marxists concentrated on revising theory, rather than practice, the economists' position was almost the exact reverse. They were essentially unconcerned with theoretical issues and sought to increase social democratic involvement in economic campaigns. They considered that organising strikes, aiding the formation of unions and gaining legal concessions from the state were of paramount importance. These activities were not simply means to a political objective, but also substitutes for leading a bourgeois-democratic revolution. To justify their position, however, they did sometimes appeal to German revisionism, and Bernstein claimed them as his supporters.²

Economism reflected a tension in Marxism between its ultimate goal, socialism, and the means designated to achieve it, the labour movement. And the economists were distinguished by a willingness to be limited by the labour movement, to follow rather than actively lead. Theoretically they are of no interest to political economy. They were, however, very significant in the evolution of Russian social democracy. Their conflict with orthodoxy was the process by which 'Leninism', as it is conventionally understood in terms of a theory relating class to party, emerged. Lenin's most famous work, *What is to be Done?*, was written in response to the challenge posed by economism (see Chapter 11 below).³

For our purposes Russian revisionism is limited to legal Marxism, which has a theoretical significance in its own right. Not only could Struve claim to have originated fundamental aspects of international revisionism,⁴ but some of the criticism of the legal Marxists went deeper than that of the Germans. Politically, however, the revisionist controversy in Russia was a muted affair. During the 1890s legal Marxists and orthodoxy both viewed populism as the common foe, and for this reason tended to close ranks. Furthermore, all legal Marxists at the time accepted the need for a bourgeois-democratic revolution and were unwilling to embrace economism, which was seen by the orthodox as the real threat between 1898 and 1903. By 1901 the legal Marxists had moved out of the ranks of social democracy altogether, and this further reduced Plekhanov's and Lenin's willingness to engage them systematically. Orthodoxy did not, of course, adopt a policy of total silence toward the Russian revisionists, but its responses were certainly sporadic and sometimes restrained. It was only after 1900 that a more adequate critique from the ranks of revolutionary Marxism was forthcoming.

The 'revision' of Marxism proposed by legal Marxists was comprehensive; it covered dialectics, the materialist conception of history, the 'laws of motion' of a capitalist economy and the theory of value. Although the last two areas are of most concern to political economy, the first two involve elements that are crucial to the subsequent evolution of Lenin's ideas. They will, therefore, be considered in the next section, before we deal with value and crisis theory. Also, as in the populist controversy, there was considerable duplication of effort. In what follows we deal only with the highlights, as developed by the best theorists.

II Dialectics and Historical Materialism

Struve's *Critical Notes on the Question of the Economic Development of Russia*,⁵ published in 1894, was primarily a Marxist attack upon populism and, indeed, sparked the 'great debate' of the 1890s discussed in Chapter 9. Even here, though, there were revisionist themes, and they were to

strengthen with time.⁶ Three aspects are important to Marxian political economy. First, Struve argued that epochal changes could be evolutionary; antagonistic forces might mutually adjust so that, instead of contradictions intensifying, they could become 'blunted'.⁷ Second, in criticising the populists, Struve painted capitalist progress in a bloodless form. While Danielson saw only the negative side, he strenuously emphasised the positive. This was reflected in the famous closing sentence of *Critical Notes*: 'let us admit our lack of culture and enrol in the school of capitalism!', which gave substance to the populist charge that at least some Marxists were indeed apologists for the bourgeois order.⁸ Third, in explaining the parlous state of the peasant economy, Struve utilised elements of non-Marxian theory and was especially attracted to Malthusianism. Over-population, he argued, was a central force responsible for the famine conditions of the early 1890s.⁹

Plekhanov had little difficulty in parrying the general claims for evolutionary social change. No Marxist had ever argued that *all* progress was brought through revolution, and the Marxian conception of dialectical laws was abstract, making possible many concrete manifestations. Moreover, Struve's own exposition of historical materialism was deeply flawed. He saw contradictions in terms of an antagonism between economic relations and the prevailing legal system, but, as Plekhanov rightly emphasised, this was by no means the core of the doctrine.¹⁰ Thus the leader of orthodoxy made no more concessions to Struve's revisionism than he did to that of Bernstein (see Chapter 8 above).¹¹

Nor, overtly, did Lenin, but his own subsequent development of Marxism did incorporate significant concessions to the substance of Struve's critique.¹² After 1905 there was a major shift in Lenin's thought towards accepting the validity of Struve's notion of 'blunted contradictions' and non-revolutionary development. Russian history was now interpreted by Lenin as a 'reconstruction from above' in which tsarism and the dominant landed class sought accommodation with those elements of the bourgeois order necessary to their own survival. The events of 1905 brought the bourgeoisie itself into the process; it achieved junior status in the ruling coalition and became thoroughly conservative in the face of popular radicalism. Thus Lenin came to believe that it was quite possible for the bourgeois transformation in Russia to be completed in an evolutionary, 'Prussian', form (see Chapter 11 below). In fact, during the early years of the twentieth century, there was a real agreement between Struve and Lenin on this matter;¹³ their differences lay not so much at the analytic level as in politics. While Struve moved increasingly to the right and welcomed reform, Lenin shifted to the left in order to counter it. How far Lenin was actually indebted to Struve for his views is, however, far less clear (see section VII below). For most of the 1890s they were relatively close at the personal level and Lenin had a high regard for Struve's intellectual abilities

which,¹⁴ despite his abusive attacks upon him after 1900, he may never have lost.

Lenin, however, yielded nothing to Struve in the latter's treatment of capitalist economic development, which he characterised as 'objectivism' rather than 'materialism',¹⁵ and described as significantly underestimating the costs of capitalist advance. On this Engels himself was in full agreement.¹⁶ More specifically, Lenin believed that the contradictions of capitalism are operative from its very inception.¹⁷ This was fully consistent with his tendency to view capitalism as a *process* (see Chapter 9 above), although in this case it meant he was closer to the view of Danielson than Struve. And Lenin probably 'bent the stick' too far in the other direction. He underestimated the actual importance of population growth as a force generating a deterioration in the peasants' condition.¹⁸ Furthermore, it is possible to argue, despite Marx's own hostility to Malthus,¹⁹ that excessive population growth is an inherent effect of feudal economic relations.²⁰

III Underconsumption and Managed Capitalism

As with Struve's *Critical Notes*, Tugan-Baranovsky's theory of proportionality was aimed at populism (see Chapter 9 above). However, there were underconsumptionist strands in *Capital* as well, and Tugan-Baranovsky did not exempt Marx from the implications which he believed followed from his theory. Marx, like the populist economists, was accused of 'Sismondianism',²¹ the notion that effective demand must always be deficient in a capitalist economy because the workers are too poor to buy back their entire net product. This was especially likely to produce a critical rejoinder from the orthodox, because social democratic theorists themselves often relied heavily upon underconsumptionism in explaining crises (see Chapters 4 and 6 above).

The orthodox response was not impressive. Plekhanov and Lenin alleged that Tugan-Baranovsky had drawn extreme and unwarranted conclusions from an essentially valid argument against populism. There was substance in this allegation (see Chapter 9 above) but it was asserted, not argued, and rested on nothing more substantial than quotations from Marx.²² True, Lenin did go beyond this by pointing out that underconsumptionism could be interpreted as a form of disproportionality, involving an imbalance between departments I and II, and was thus in principle consistent with Tugan-Baranovsky's crisis theory.²³ However, Lenin's point was not well-developed, as he offered no convincing reasons why this particular form of disproportionality was more likely than any other. Kautsky, and later Bukharin, added nothing to this.²⁴ Nor did Hilferding – in fact his work showed signs of being influenced by Tugan-Baranovsky.²⁵ Rosa Luxemb-

burg went a little deeper when she accused Tugan-Baranovsky of undertaking a mere 'arithmetical exercise', having failed to explain what motivated capitalists to invest endlessly.²⁶ But the basis of her criticism was her own theory of accumulation and, therefore, as we have seen in Chapter 6, lacked coherence. (Only in the light of Keynes were Marxists convincingly able to maintain that her erroneously-based critique did have a kernel of truth.)²⁷ This is not surprising; Chapter 9 indicates that the Marxists themselves lacked precisely what was needed to treat the problem of underconsumption – a coherent theory of effective demand.

In its absence came misrepresentation of Tugan-Baranovsky's position. He was accused of being a 'harmonist' and pointing toward the possibility of managed capitalism.²⁸ Neither charge is easily justified by an appeal to the texts of Tugan-Baranovsky. He had in fact argued that by the very nature of capitalism as a decentralised, anarchic system, it could not eradicate disproportionalities, which operated to generate persistent crises in a cyclical fashion.²⁹ But he did not attempt to substantiate this conclusion with a detailed analysis of the complexity of the disproportionalities in question or of the limitations placed upon the economic functions of the capitalist state. Furthermore, Tugan-Baranovsky did explicitly repudiate all breakdown theories.³⁰ He did not believe that crises of disproportionality had a tendency to become more severe, and he did attack other theories of breakdown, in particular Marx's theory of the falling rate of profit.

IV The Falling Rate of Profit and Immiseration of the Proletariat

The proportionality theory implicitly included a critique of Marx's theory of profit. If capitalism might become fully automated, yet continually accumulate, profit could not possibly originate solely in exploited labour. But Tugan-Baranovsky made nothing of this and his actual critique was focused on the law of the falling rate of profit. Here, he was one of the first to allege that Marx's theory contained a serious logical error.³¹ A rising organic composition of capital, he argued, reflected growing labour productivity and hence a reduction in the amount of necessary labour performed by the working class. If real wages did not rise, this entailed an increase in the rate of exploitation large enough to give a *rising* (or at the very least a constant) rate of profit.³² He assumes that technical progress involves the substitution of constant capital for direct labour. The value of the constant capital is equal to or less than that of the labour power it replaces, and Tugan-Baranovsky argued that 'the amount produced under the new technical conditions cannot on these assumptions decline, or there would be no economic sense in replacing hand production by machine labour'.³³ He concluded that the rate of profit either remains constant or rises.

There are deficiencies in Tugan-Baranovsky's treatment but his overall argument is sound. Marx had not ignored the 'counteracting tendency' of a rising rate of surplus value, as Tugan-Baranovsky rather implied, but he had clearly not regarded it as undermining the entire structure of his own theory.³⁴ This may have been the basis for Lenin's remark that Tugan-Baranovsky 'simply introduces at random an alteration . . . so as to refute Marx', the whole procedure being 'monstrously stupid and absurd'.³⁵ Also, Tugan-Baranovsky's criticism did not recognise the complexity of Marx's argument, which dealt with the matter in the context of a multicommodity economy, where an innovation raises both the organic composition and the rate of surplus value, so that at the initial prices it appears profitable; only when capitalists fully adopt the new technology does the new set of prices imply a reduced profit rate.

The logical structure of Tugan-Baranovsky's argument is confined to a world in which there is a single produced commodity, whose process of production includes itself and labour power (though he did not realise this himself and sometimes used a three-department model in which, however, the organic composition is uniform throughout).³⁶ Hence there are no relative prices that can change (assuming a constant wage), and Tugan-Baranovsky was unable to confront Marx's analysis. Nevertheless, to invalidate a supposed general law only one counter-example is required and Tugan-Baranovsky provided such a 'special case' refutation. His insight was a powerful one. It was fully vindicated by later generations of Marxists in the form of the celebrated 'Okishio Theorem' which states that cost-reducing innovations do indeed raise the rate of profit, so long as real wages are unchanged.³⁷

Tugan-Baranovsky's argument, however, made little impact on orthodox Marxists. Not until the publication of Henryk Grossmann's *The Law of Accumulation and Breakdown of the Capitalist System* in 1929 did the law of the falling rate of profit play a significant role in Marxist crisis theory (see Chapter 16 below).³⁸ But it is to Tugan-Baranovsky's credit that he was a pioneer in suggesting this line of development to be a blind alley. His argument was also relevant in the further evolution of Marxism, for it underpinned his belief that capitalism had no 'breakdown' tendencies. It was from this position that he argued that socialism required a non-economic basis, and in doing this he anticipated the later development of 'Western Marxism' (see section VII below).

Tugan-Baranovsky and the other legal Marxists were on equally firm ground in arguing that the maturation of capitalism involved a rise in real wages. Like Bernstein and the German revisionists, they believed that 'immiseration' was confined to the early stages of capitalist development; once capitalism was firmly established as the dominant mode, there was a tendency for wages to increase.³⁹ Of course, history was on their side; real wages have indeed risen in the long run of capitalist development. But this

is no substitute for an analytical explanation, which they failed to provide. Orthodox Marxism did no better. Plekhanov and Lenin interpreted Marx as arguing that immiseration would be relative, not necessarily absolute, and sought to show that the statistics from advanced capitalist societies were consistent with this.⁴⁰ This was broadly consistent with the tenor of Marx's many comments upon immiseration, which regard it as a matter of relative shares and, of course, it does not conflict with the substance of what the revisionists claimed.⁴¹ The problem is that, given Marx's theory of an ever-increasing reserve army of unemployed, and his own views on the limited capabilities of unions,⁴² no theoretical justification was provided as to why impoverishment may not be more severe. Neither orthodox nor revisionist writers provided a satisfactory theory of wages.

V The Theory of Value and Distribution

The Russian revisionists were severely critical of the labour theory of value. Both Tugan-Baranovsky and Bulgakov had seen a serious flaw in the transformation procedure of volume III, where (they argued) Marx had effectively treated the rate of profit as an exogenous, rather than an endogenous, variable. As Bulgakov put it:

Even if total prices in the economy coincide with total value, it does not mean that value is determined by labour and profit by surplus value . . . If it is not proved that in each individual instance profit consists of surplus value, then it is odd to define the average rate of profit by dividing total surplus value by total capital . . . This is a complete *petitio principii*, although it is the spiritual centre of the theory.⁴³

Tugan-Baranovsky identified what he believed to be an 'inner contradiction' in Marx's concept of value: 'According to Marx, value is objectified labour. But, as Marx expressly recognises, price does not equal labour value. And labour cannot objectify itself in anything, if not in price. Hence value is not objectified labour.' The consequence is that Marx 'lives in a fantasy world, which bears no relation to the real world. Real phenomena – like the price of land – are described as imaginary, while entirely imaginary concepts – like the "exchange value" which plays no part in exchange relations – are proclaimed as the key to the highest economic wisdom.'⁴⁴

However, there were problems with their own analysis of value. Tugan-Baranovsky's theory was a subtle and complicated one which drew upon a variety of Marxist and non-Marxist sources. He distinguished three variants of the labour theory of value, of which he rejected only the 'absolute' version defining labour as the substance of value. Tugan-Baranovsky endorsed both the 'idealistic' variant of Aquinas and Proudhon, in which

embodied labour served as an ethical norm and the basis of just prices; and the 'relative' labour theory associated with Ricardo, which made labour one of the two determinants of value (along with the length of the production process). Echoing both neoclassical analysis of the disutility of labour and the humanistic economics of Ruskin and Hobson, he defined labour as the basis of 'absolute cost', since human beings are the only subject of economic activity. Capitalists recognised only pecuniary or 'relative costs', Tugan-Baranovsky argued, and thus ignored the distinction between man as an end in himself and man as a means to other ends. The inevitable consequence of this was commodity fetishism, a state of consciousness in which human properties are attributed to inanimate objects.⁴⁵

Tugan-Baranovsky believed that to construct a satisfactory theory of value, the objectivism of the labour theory had to be supplemented with subjectivist utility theory. Since real economic life had both a subjective and an objective aspect, value theory must also be two-dimensional. Economic action involved both the (subjective) goal of utility maximisation and (objective) changes to the external world. Ricardo at least had recognised this, Tugan-Baranovsky argued, and had assumed maximising behaviour without being able to formulate the law of diminishing marginal utility. This same law, however, completes the Ricardian theory of value rather than contradicting it, in exactly the same way as utility theories of value required the objective element provided by labour cost. Tugan-Baranovsky concluded that equilibrium required (for each pair of commodities) equality between the ratio of their marginal utilities and the ratio of their labour costs. Labour was not the substance of value, as Marx had maintained, but the most important determinant of the average price of the majority of commodities.⁴⁶

A similar synthesis was proposed by the German conservative W. Mühlpfort and (in a rather different form) by Alfred Marshall, doyen of English liberal economics, as well as by Leif Johansen and Michio Morishima in recent years.⁴⁷ For Tugan-Baranovsky it proved to be a path full of pitfalls, and Bukharin showed little clemency in exposing them. Neoclassical value theory rested upon a liberal conception of the relation between society and the individual at odds with that of Marxism, Bukharin argued. Its concepts could not simply be appended to those of Marx without undermining the coherence of the whole.⁴⁸ The point was reinforced by some neoclassical critics, who argued that utility theory was sufficient unto itself; it needed no additional theory of costs provided by objectivism. Utility considerations underlay the supply side as much as that of demand.⁴⁹ Furthermore, Austrian neoclassicism, the principal influence upon Tugan-Baranovsky, was precisely that form of subjectivist theory which came most into conflict with his theory of accumulation. Austrian theory traced the value of capital equipment to the contribution it made to the production of consumption goods. Accumulation was thereby made depen-

dent upon consumption demand and, as Bukharin pointed out, this contradicted Tugan-Baranovsky's own position in the analysis of reproduction.⁵⁰ In addition, Bukharin might have noted – if he had not been equally confused on the issue – that the neoclassical conception of demand precluded the type of demand deficiencies that underlay Tugan-Baranovsky's theory of cyclical crises.⁵¹

There were further deficiencies in Tugan-Baranovsky's attempted reconciliation of utility theory with labour cost. Although he recognised that different capital intensities will mean that ratios of labour values cannot equal ratios of equilibrium prices, he did not incorporate this into his equations relating labour values to marginal utilities. Furthermore, he rejected Marx's own notion of value but provided no convincing justification for retaining concepts which stemmed from it. Instead he embraced an ill-defined eclecticism which confused the real issues dividing the 'objective' from the 'subjective' approaches in the formulation of economic theory.⁵²

On questions of distribution Tugan-Baranovsky was closer to Marxism than to neoclassicism. He rejected Marx's theory of surplus value on the grounds – derived from his critique of the falling rate of profit – that profit was affected by the amount of constant capital employed rather than by variable capital alone.⁵³ However, Tugan-Baranovsky retained the concept of surplus labour which, as he rightly noted, is a simple fact, 'too obvious to need a proof',⁵⁴ and logically independent of any theory of value. He considered the problem of distribution to be that of explaining the amount of, and beneficiaries from, the surplus labour performed by the working class. Tugan-Baranovsky was a severe (though qualified) critic of the neoclassical productivity and 'abstinence' theories of profit. Like Marx, he treated rent and profit as categories specific to class society and not as the inevitable (and ahistorical) consequences of the productivity of land and capital. Unlike Marx, Tugan-Baranovsky's theory of exploitation was explicitly ethical in nature: the appropriation of surplus labour by non-producers was immoral because it violated the fundamental socialist principle of human equality. Here Tugan-Baranovsky revealed the influence of both Kantian philosophy and pre-Marxian or 'Utopian' socialism, which he regarded as being in some respects even more 'scientific' than that of Marx himself.⁵⁵

Tugan-Baranovsky's theory of distribution in the narrower sense was not well-developed. He called for a synthesis of the Marxian and productivity analyses, both of which contained an element of truth, and embraced a bargaining power theory of wages in which capitalist power was expected generally to triumph.⁵⁶ All this, as with his theory of value, was unsatisfactorily eclectic, and his insistence on the independence of value and distribution theory is difficult to reconcile with his emphasis upon the fact that a capitalist economy is a highly integrated system, where a change in one sector necessarily has wide repercussions.⁵⁷ However, today it is

possible to see that he was, perhaps, trying to formulate the perspective made rigorous by Sraffa, in which the determination of distributional magnitudes is logically prior to that of commodity prices.⁵⁸

VI Agricultural Economics

If Russian revisionism could claim genuine originality in many branches of economic thought, it was heavily dependent upon the Germans on agricultural questions. This was a far more serious matter for Russian orthodoxy. The underdeveloped nature of tsarist capitalism and the importance of populism elevated it to the front rank. Naturally, given his prominence in the field, Lenin was the principal protagonist in countering its claims, but he did so, like the revisionist critics, by relying heavily upon German sources, particularly on Kautsky's *Die Agrarfrage*.⁵⁹

The German revisionists maintained that Marx's belief in the economic superiority of large-scale agriculture was incorrect, that peasants were in consequence able to survive the development of capitalism and that, therefore, the SPD must make concessions to ensure their political support.⁶⁰ Kautsky successfully resisted programmatic change, and sought in *Die Agrarfrage* to counter the revisionists theoretically. However, he did so by modifying the cruder position hitherto taken by orthodox Marxism, and admitted that agricultural development was significantly different from that of industry. He recognised that proletarianisation in agriculture was often impure, and that workers retained dwarf holdings which tied them to the land. Peasants could also resist the encroachment of capitalist agriculture through 'overwork' and 'underconsumption' (that is, they worked harder and consumed less than industrial workers).

Lenin used *Die Agrarfrage* against Bulgakov's revisionist treatment of agricultural economics, which was itself little more than a statement of the arguments developed by German revisionists.⁶¹ In doing so Lenin's position moved even further away from Marx's own treatment of primitive accumulation. His view that peasant *households*, not individuals, became differentiated was reinforced. And to it was added the recognition that 'underconsumption' and 'overwork' were mechanisms that allowed peasants to resist proletarianisation. However, he used these considerations to reinforce Russian Marxism, by arguing that they were *general*: that agriculture in Russia was very little different from that of Europe. Kautsky's arguments against the revisionists were thus employed by Lenin to hammer home the attack on populism. Moreover, unlike Kautsky who contented himself with a theoretical response, Lenin later modified Bolshevik agrarian policy, so as to minimise the effect of those peculiarities in agricultural production to which the revisionists had drawn attention (see Chapter 11 below).

VII The Significance of Russian Revisionism

The importance of the legal Marxist variant of Russian revisionism has been seriously underestimated. The most common mistake has been to identify it as a mere offshoot of its better-known German counterpart. Although no satisfactory account exists of the intellectual relationship between the two schools of revisionism, it is clear that the Russian was no clone of the German. The language barrier was one-sided, since the Russians all read German while the Germans seem to have known no Russian. One might thus expect any transfer of ideas to have been from West to East. Yet both Struve's and Tugan-Baranovsky's revisionism was firmly established as early as 1890, when Bernstein was still a loyal orthodox Marxist.⁶² In all likelihood the two streams of heterodoxy developed independently but along very similar lines, responding both to contemporary capitalist reality and to the challenge posed to Marxism by new streams of thought, including 'neoclassical' liberal economics. Once Tugan-Baranovsky's works became accessible, with the publication of translations after 1900, German theorists took him very seriously indeed. Among the revisionists, Bernstein praised his introduction of ethical issues as 'breathing life into the cool historicism' of Marxian materialism and placing Kant rather than Hegel at the centre of his socialism, while criticising him for rejecting the theory of surplus value out of hand.⁶³ For the orthodox, Karl Kautsky subjected Tugan-Baranovsky's major works to a detailed and lengthy criticism, regarding him as a theoretician superior to any German revisionist, if (in the last resort) equally mistaken.⁶⁴ The SPD's theoretical journal, *Die Neue Zeit*, and other socialist journals published serious critical pieces in similar vein; for example, from Conrad Schmidt, Otto Bauer, Anton Pannekoek, and Louis Boudin.⁶⁵

Kautsky's evaluation was essentially correct but did not go nearly far enough. The criticism of orthodoxy made by the Russian revisionists frequently went much deeper than that of the Germans, and only in the latter half of the twentieth century have Marxists themselves acknowledged many of the analytical problems which they brought to light. Moreover it can be argued that the Russian revisionists significantly influenced Russian orthodoxy from the start. Thus, as we have indicated in section II of this chapter, central elements of Struve's critique of dialectics and historical materialism find a place in Lenin's political economy after 1905, and at the same time Lenin seems to have modified the Bolshevik agrarian programme in the light of Bulgakov's critique of agricultural economics. Tugan-Baranovsky's work was even more important. His theory of disproportionality provided the strongest Marxian refutation of the populists' theory of stagnation, and a generation later analytically secured the arguments of those Soviet economists who favoured rapid industrialisation through curtailing the growth of consumption, rather than through consumption-

led growth. Not without reason did Bukharin accuse Trotsky, Preobrazhensky, and then Stalin of 'applied Tuganism' (see Chapter 15 below). Tugan-Baranovsky's economic analysis also became crucial for understanding the dynamics of the revolutionary process. His treatment of Russian history emphasised precisely those attributes which Trotsky made central to his theory of 'permanent revolution', and it was this theory which proved to be the most prescient forecast of the events of 1917 (see Chapter 9 above and Chapter 12 below).

Very little of all this has been recognised. Russian revisionists have, at best, been considered significant critics of Marxian theory, and not an influence upon its own development. The reasons for this appear to be twofold. First, as we have pointed out in section I of this chapter, the revisionist controversy within Russian Marxism was a muted affair because populism was viewed as the common foe. Second, the legal Marxists' departure from social democracy meant that revolutionary Marxists could not admit to any influence by the revisionists. To do so would have provided ammunition for their opponents within the orthodox wing of Marxism itself. Thus Lenin's discussion of Russian modernisation after 1905 in terms of the 'Prussian' model of bourgeois transformation is virtually identical to that of Struve. But by this time Struve was *persona non grata* in radical socialist circles, and it was natural that Lenin felt no desire to provide Menshevik critics with additional grounds for questioning the political economy of Bolshevism. Because of this it is impossible *textually* to substantiate the influence of the Russian revisionists upon the orthodox Marxists. However, even if it were the case that this influence was non-existent, it would remain true that crucially important elements in the theories of the leading Marxists were anticipated by the Russian revisionists.

Precisely because the legal Marxists broke with Russian orthodoxy, and their ideas were given no explicit recognition by the orthodox, it has also been assumed that they were actually insignificant in the development of Marxism in the West. This is a mistake which is again most pronounced in the case of Tugan-Baranovsky. While he did part company with Russian Marxism, he did not follow other other legal Marxists in ceasing to be a socialist. He remained highly critical of capitalism, and it was his economic theory, combined with his neo-Kantianism, which explains why.⁶⁶ As indicated in Chapter 9, he believed 'the production of machines by ever more machines' to be incompatible with human values. Nevertheless, Tugan-Baranovsky regarded it as an expression of the very essence of capitalism, and he was thus led to emphasise the themes of alienation and fetishism which he found in Marx, and which other Marxists devalued or simply ignored. Capitalism was condemned because it was inhuman, not because it would break down. If it was to be replaced, the rationale for doing so would have to be ethical, and the means by which it would be

accomplished could only be action based on choice. 'Humanity will not receive Socialism as the gift of blind, elemental economic forces. It must consciously work and struggle for the new social order.' Socialism ceased to be 'scientific'; its basis was a new form of Utopianism, but one informed by Marxism.⁶⁷

This was in many ways a more fruitful perspective than that of contemporary German revisionism, in which socialism was all too often seen as the inevitable culmination of bourgeois liberalism. Ideas similar to those of Tugan-Baranovsky became central to 'Western Marxism' during the second and third quarters of the twentieth century.⁶⁸ Increasingly Marxists like Lukács, Gramsci and the Frankfurt School thinkers repudiated the primacy of political economy and embraced superstructural analysis. Social philosophy, epistemology and aesthetics moved to centre stage, and the critique of capitalism was founded on these bases. The 'Young Marx,' not the 'Mature Marx' which had dominated the thought of the Second International, became the principal source of inspiration. Tugan-Baranovsky can legitimately claim to have led the way, even if this fact went unrecognised. Also, and somewhat ironically, it is here that Tugan-Baranovsky shares a position with Lenin. Although a classical Marxist in economic analysis, Lenin's theory of consciousness and party organisation pushed the voluntaristic element of Plekhanov's Marxism to the extreme. Shortly after the revolution in 1917, it began to be regarded as the very essence of 'Leninism' and was to make its impact on Western Marxism, contributing to its repudiation of orthodoxy as it was understood before 1914.

Notes*

* References to Plekhanov's *Selected Philosophical Works* (Moscow: Progress Publishers, 1974–81) are indicated by *SPW*, followed by volume number. References to Lenin's *Collected Works* (Moscow: Progress Publishers, 1960–70) are indicated by *CW*, followed by volume number.

1. On this see R. Kindersley, *The First Russian Revisionists* (Oxford: Clarendon Press, 1962); L. Kolakowski, *Main Currents of Marxism* (Oxford: Oxford University Press, 1981) vol. 2, pp. 362–73; R. Pipes, *Struve: Liberal on the Left* (Cambridge, Mass.: Harvard University Press, 1970); A. P. Mendel, *Dilemmas of Progress in Tsarist Russia* (Cambridge, Mass.: Harvard University Press, 1961); G. Fischer, *Russian Liberalism* (Cambridge, Mass.: Harvard University Press, 1958).
2. J. Frankel (ed.) *Vladimir Akimov on the Dilemmas of Russian Marxism, 1895–1903* (Cambridge: Cambridge University Press, 1969) p. 42. For a general account of economism see also N. Harding, *Lenin's Political Thought* (London: Macmillan, 1977) vol. I, ch. 6. See also R. Larsson, *Theories of Revolution* (Stockholm: Almqvist & Wiksell, 1970) pp. 177–95.
3. *CW*, V, pp. 349–520.

4. Kindersley, *First Russian Revisionists*, pp. 112, 204; Pipes, *Struve*, p. 107.
5. P. B. Struve, *Kriticheskie Zametki k Voprosu ob Ekonomicheskom Razvitiu Rossii* (St Petersburg: I. Skorochodov, 1894).
6. In fact Struve's revisionism can be detected in earlier publications. See Kindersley, *First Russian Revisionists*, pp. 47, 124.
7. P. B. Struve, 'Die Marxsche Theorie der Sozialen Entwicklung: ein Kritischer Versuch', *Archiv für Sozialwissenschaft und Sozialpolitik*, XIV, 1899, pp. 658–704; Kindersley, *First Russian Revisionists*, pp. 131–4.
8. A. Walicki, *The Controversy Over Capitalism* (Oxford: Oxford University Press, 1969), pp. 172ff.; G. Plekhanov, *SPW*, II, pp. 477ff.
9. Kindersley, *First Russian Revisionists*, p. 176.
10. G. Plekhanov, 'A Critique of Our Critics' in *SPW*, II, pp. 474–595.
11. Plekhanov also criticised Struve's Kantianism and described dialectical materialism as an 'impregnable fortress', *SPW*, II, p. 317.
12. In a sense, this is also true of Plekhanov and the Mensheviks; see Chapter 8, section IV above, and Chapter 11 below.
13. This is very clear from both volumes of Struve's biography by R. Pipes, *Struve: Liberal on the Left, 1870–1905* (Cambridge, Mass.: Harvard University Press, 1970) and *Struve: Liberal on the Right, 1905–1944* (Cambridge, Mass.: Harvard University Press, 1980) although Pipes himself does not point to the parallel. Like other commentators he appears to be misled by the different language used to describe the same process and by the opposing *political* stances of Struve and Lenin.
14. E. M. Hill and D. Mudie (eds) *The Letters of Lenin* (Westport, Connecticut: Hyperion Press, 1973) p. 91.
15. *CW*, I, pp. 395, 400; IV, p. 74.
16. K. Marx and F. Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1965) p. 463.
17. *CW*, I, pp. 44, 171, 400, 407, 446, 483; II, pp. 187, 215; III, pp. 172, 233, 272, 313, 317, 415, 424, 430, 447, 490, 516, 544, 595, 599; IV, p. 312.
18. P. Gatrell, *The Tsarist Economy, 1850–1917* (London: Batsford, 1986) pp. 48–97.
19. R. L. Meek (ed.) *Marx and Engels on Malthus* (New York: International Publishers, 1954).
20. See R. Brenner, 'Agrarian Class Structure and Economic Development in Pre-Industrial Europe', *Past and Present*, 70, 1976, pp. 30–75; P. Anderson, *Passages from Antiquity to Feudalism* (London: Verso, 1978) pp. 182–209.
21. M. Tugan-Baranovsky, *Studien zur Theorie und Geschichte der Handelskrisen in England* (Jena: G. Fischer, 1901) p. 203; L. M. Kowal, 'The Market and Business Cycle Theories of M. I. Tugan-Baranovsky', *Rivista Internazionale di Scienze Economiche e Commerciali*, 4, 1973, p. 308; S. Amato, 'Tugan[stic]-Baranovsky's Theories of Markets, Accumulation and Industrialisation' in I. S. Koropeckyj (ed.) *Selected Contributions of Ukrainian Scholars to Economics* (Cambridge, Mass.: Harvard University Press, 1984) pp. 15–16.
22. *SPW*, II, pp. 491, 552; *CW*, I, p. 187; II, p. 166; III, pp. 45, 54; IV, p. 46.
23. A similar interpretation appeared thirty years later in the writings of Natalie Moszkowska.
24. K. Kautsky, 'Krisentheorien', *Die Neue Zeit*, XX, 1901–2, p. 117; N. Bukharin, *Imperialism and the Accumulation of Capital* (New York: Monthly Review Press, 1972).
25. R. Hilferding, *Finance Capital* (London: Routledge & Kegan Paul, 1981) pp. 243, 285, 420, 421.
26. R. Luxemburg, *The Accumulation of Capital* (London: Routledge & Kegan

- Paul, 1951) p. 315. Also see R. Luxemburg, *The Accumulation of Capital – An Anti-Critique* (New York: Monthly Review, 1972).
27. M. Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy, 1933–1970* (Cambridge: Cambridge University Press, 1971) pp. 146–55. See also J. Robinson, 'Introduction' in Luxemburg, *Accumulation of Capital*, pp. 13–28; and P. M. Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1968) ch. X.
 28. Luxemburg, *Accumulation of Capital*, pp. 311–26; see also Chapter 16, section II, below.
 29. For an account of Tugan's theory of cycles in English see his 'Periodic Industrial Crises', *Annals of the Ukrainian Academy of Arts and Sciences in the United States*, 1954, pp. 745–802.
 30. Tugan-Baranovsky, *Studien*, pp. 230–1 and *Theoretische Grundlagen des Marxismus* (Leipzig: Dunker & Humblot, 1905) ch. 9.
 31. Simultaneously with Tugan this point was made by B. Croce, 'A Critique of the Marxian Law of the Fall in the Rate of Profit', in Croce, *Historical Materialism and the Economics of Karl Marx* (London: Cass, 1966; article first published in 1899).
 32. *Studien*, ch. 7: *Theoretische Grundlagen*, pp. 174–85.
 33. Tugan-Baranovsky, *Studien*, p. 212.
 34. K. Marx, *Capital* (Moscow: Foreign Language Publishing House, 1962) vol. III, ch. 14; M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn pp. 200–5.
 35. Hill and Mudie, *Letters of Lenin*, p. 86.
 36. See P. Garegnani, 'Heterogeneous Capital, the Production Function and the Theory of Distribution'; *Review of Economic Studies*, vol. 37, 1970, pp. 407–36.
 37. N. Okishio, 'A Mathematical Note on Marxian Theorems', *Weltwirtschaftliches Archiv*, 91, 1963, pp. 287–98; Okishio was anticipated by K. Shibata, 'On the Law of Decline in the Rate of Profit', *Kyoto University Economic Review*, July 1934, pp. 61–75 and 'On the General Profit Rate', *ibid.*, January 1939, pp. 40–66; and, much less rigorously, by N. Moszkowska, *Das Marxsche System: ein Beitrag zu dessen Aufbau* (Berlin: Verlag Hans Robert Engelmann, 1929) ch. II, both owing much to L. von Bortkiewicz, 'Value and Price in the Marxian System', *International Economic Papers*, 2, pp. 36–51 (first published, in German, in 1907).
 38. H. Grossman, *Das Akkumulations- und Zusammenbruchsgesetz des kapitalistischen Systems (Zugleich Eine Krisentheorie)* (Leipzig: C. L. Hirschfeld, 1929; reprinted 1970, Verlag Neue Kritik, Frankfurt am Main).
 39. M. I. Tugan-Baranovsky, *The Russian Factory in the Nineteenth Century* (Homewood, Illinois: Irwin, 1970) pp. 251–2; cf. Chapter 4 above.
 40. *SPW*, II, p. 537; *CW*, I, p. 470; IV, pp. 106, 201, 233, 310.
 41. R. L. Meek, *Economics and Ideology and Other Essays* (London: Chapman & Hall, 1967) pp. 113–28.
 42. Howard and King, *Political Economy* pp. 119–23, 197–9.
 43. S. N. Bulgakov, 'Trety tom "Kapitala" k. Marksa', *Russkaya Mysl*, 3, 1895, p. 12, quoted in Kindersley, *First Russian Revisionists*, pp. 157–8. There is an indication that this worried Lenin, see *CW*, IV, p. 197.
 44. *Theoretische Grundlagen*, pp. 140, 142; cf. *ibid.*, pp. 166–74.
 45. *Ibid.*, pp. 133–54.
 46. M. Tugan-Baranovsky, 'Subjektivismus und Objektivismus in der Wertlehre', *Archiv für Sozialwissenschaft und Sozialpolitik*, 22, 1906, pp. 557–64; *Theoretische Grundlagen*, pp. 154–65. For neoclassical influences on other legal Marxists see Kindersley, *First Russian Revisionists*, pp. 154–72.

47. Chapter 3, section IV, above; A. Marshall, *Principles of Economics* (London: Macmillan, 1890) Appendix I; L. Johansen, 'Labour Theory of Value and Marginal Utilities', *Economics of Planning*, 3, 1963, pp. 89–103; M. Morishima, *Marx's Economics: A Dual Theory of Value and Growth* (Cambridge, Cambridge University Press, 1973) ch. 4.
48. N. Bukharin, 'Tugan-Baranovsky's Theory of Value' in his *The Economic Theory of the Leisure Class* (New York: Monthly Review Press, 1972) pp. 169–72. Much the same point was made by Hilferding against Böhm Bawerk (see Chapter 3 above).
49. V. P. Timoshenko, 'M. I. Tugan-Baranovsky and Western European Economic Thought', *Annals of the Ukrainian Academy of Arts and Sciences in the United States*, 1954, pp. 803–823.
50. Bukharin, *Imperialism*, pp. 218–19; see M. C. Howard, 'Austrian Capital Theory: An Evaluation in Terms of Piero Sraffa's "Production of Commodities by Means of Commodities"', *Metroeconomica*, 32, 1980, pp. 1–23.
51. See M. C. Howard, *Profits in Economic Theory* (London: Macmillan, 1983) pp. 164–77.
52. Howard, *Profits*, pp. 143–4, 153–5.
53. *Studien*, p. 225; *Theoretische Grundlagen*, pp. 186–8. Tugan-Baranovsky regarded this as yet another expression of commodity fetishism.
54. *Theoretische Grundlagen*, p. 190.
55. *Ibid*, pp. 190–206; *Modern Socialism*, pp. vi, 14, 57–62.
56. *Theoretische Grundlagen*, pp. 202–3.
57. Tugan-Baranovsky, *Modern Socialism*, pp. 57–62; D. Ricardo, *The Works and Correspondence of David Ricardo* edited by P. Sraffa (Cambridge: Cambridge University Press, 1952) vol. VIII, p. 194; Tugan-Baranovsky, 'Periodic Industrial Crises'.
58. P. Sraffa, *The Production of Commodities by Means of Commodities* (Cambridge: Cambridge University Press, 1960).
59. K. Kautsky, *Die Agrarfrage* (Stuttgart: Dietz, 1899).
60. A. Hussain and K. Tribe, *Marxism and the Agrarian Question*, (New Jersey: Humanities Press, 1981) vol. 1; see also Chapter 4 above.
61. Kindersley, *First Russian Revisionists*, pp. 172–5. *CW*, IV, pp. 109–59; V, pp. 107–223; VI, pp. 341–7; XIII, pp. 171–216.
62. Kindersley, *First Russian Revisionists*, pp. 112, 204; Pipes, *Struve*, vol. I, p. 107; L. I. Kowal, 'Economic Doctrines of M. I. Tugan-Baranovsky' (unpublished Ph.D. thesis, University of Illinois, 1965) ch. IV.
63. E. Bernstein, 'Tugan-Baranovsky's Marx-Kritik', *Dokumente des Sozialismus, Hefte für Geschichte, Urkunde und Bibliographie des Sozialismus*, 5, 1905, pp. 418–21; Bernstein, 'Tugan-Baranovsky als Sozialist', *Archiv für Sozialwissenschaft und Sozialpolitik*, 28, 1909, pp. 786–96.
64. K. Kautsky, 'Krisentheorien', *Die Neue Zeit*, 20, 1901–2, pp. 37–47, 76–81, 110–18 and 133–43; Kautsky, 'Verelendung und Zusammenbruch: die Neueste Phase des Revisionismus', *Die Neue Zeit*, 26, 1908, pp. 540–51 and 607–12; see also Chapter 4, section III, above.
65. C. Schmidt, 'Zur Theorie der Handelskrisen und der Überproduktion', *Sozialistische Monatshefte*, 9, 1901, pp. 669–882; O. Bauer, 'Mathematische Formeln Gegen Tugan-Baranovsky', *Die Neue Zeit*, 26, 1906–7, pp. 822–3; L. S. Boudin, 'Mathematische Formeln Gegen Karl Marx', *Die Neue Zeit*, 26, 1907, pp. 524–35, 557–67 and 603–10; A. Pannekoek, 'Herrn Tugan-Baranovsky's Marx-Kritik', *Die Neue Zeit*, 28, 1910, pp. 772–83.
66. Tugan-Baranovsky, *Studien*, pp. 228–31. On neo-Kantianism see Chapter 4 above.

67. Tugan-Baranovsky, *Theoretische Grundlagen*, pp. 236–9; see also *Modern Socialism*.
68. P. Anderson, *Considerations on Western Marxism* (London: New Left Books, 1976); L. Kolakowski, *Main Currents of Marxism* (Oxford: Oxford University Press, 1978) vol. 3; D. McLellan, *Marxism After Marx* (London: Macmillan, 1979); J. G. Merquior, *Western Marxism* (London: Paladin, 1986).

11

Lenin's Political Economy, 1905–14

I The Periodisation of Lenin's Economic Thought

Prior to 1900 Lenin's political economy was not marked by originality. As we have seen in Chapter 9, some novel features are evident but the overall framework was that provided by Plekhanov. Similarly, the economic theory which Lenin fashioned during the First World War rested upon the work of others, notably Hilferding and Bukharin (see Chapter 13 below). This latter stage in Lenin's thought is undoubtedly the most important since it provided the theory underlying the Bolshevik revolution. Between these two periods, however, Lenin himself created a new and imaginative political economy, and one which provided a fresh perspective upon the whole development of Russian history and the problems facing revolutionary Marxism. Furthermore, many of its themes are crucial for an understanding of his actions in the last decade of his life, even though the themes of his *Imperialism*,¹ written in 1916, remained dominant.

The second stage of Lenin's political economy followed the split from Menshevism. Initially no issue of economic theory was perceived by social democrats to lie at the root of the division. From his *Development of Capitalism in Russia*² Lenin drew conclusions which were not shared by other theorists. In particular, he maintained that capitalism was the dominant mode within the tsarist social formation,³ and this caused some friction in the drafting of the party programme.⁴ Nevertheless, the issue was regarded as a difference of emphasis, and certainly Lenin did not seek to depart radically from Plekhanov's strategy: although predominant, capitalist relations were exceedingly backward, and the appropriateness of two-stage revolution remained unquestioned. Indeed, Lenin was not to jettison this 'algebra' until the beginning of 1917.⁵ In 1903–4, the fundamental reason for the break with Menshevism was unclear to him (and others). His explanation focused upon the foothold which erstwhile 'economists' had

gained in the ranks of the party, which generated resistance to the implementation of the organisational programme, outlined in *What is to be Done?*,⁶ which had previously been accepted by all *Iskraists*.⁷

From a Marxist standpoint, both Lenin's own position and his explanation of that taken by the Mensheviks were clearly unsatisfactory. Both the theoretical content of *What is to be Done?*, and the account of opportunism, lacked a materialist foundation and it was not until 1905 that Lenin was able to fill the void. How he came to do so is best understood by considering the agrarian programme of Russian social democracy.

II The Agrarian Programme of Russian Marxism

From its inception, Russian social democracy recognised that a revolution against tsarism would be greatly aided if it could tap peasant support, and also that successful revolution would involve changes in agricultural relations so as to facilitate the further development of capitalism.⁸ Nevertheless, until the late 1890s the agrarian programme was phrased in very general terms, and there was no analysis of what specific economic measures would best promote the modernisation of agriculture, or of how pre-capitalist relations had managed to survive. Nor did the party provide a precise manifesto geared to channelling peasant discontent behind social democracy. Only with Lenin's agrarian analysis did a concrete policy begin to emerge.

It was brought to completion in 1899 and it hinged upon the so-called 'cut-off' lands (*otrezki*).⁹ In addition to demanding the abolition of estate status, and other measures designed to create the new bourgeois order, the manifesto included the specific economic demand that the *otrezki* be confiscated from landlords and reallocated to the peasantry. The rationale for this was provided by Lenin's researches into agrarian capitalism during the 1890s, in which he had traced the preservation of feudal relations to the fact that the settlement of 1861 deprived the peasantry of part of its land-holdings, and assigned them to landlords in compensation for loss of seigniorial rights. These 'cut-offs' meant that the peasant economy became non-viable. In order to survive peasants were forced to gain access to the confiscated lands and this, in turn, resulted in labour service on the estates, or the performance of other essentially feudal requirements. Consequently, the elimination of these remnants of the old order could be accomplished most thoroughly by returning the *otrezki* to the peasantry, for it would destroy their economic base. Politically, this policy could also be expected to satisfy the peasants' land-hunger and thus bring rural support for proletarian hegemony in the bourgeois-democratic revolution.¹⁰

Clearly this programme was seriously flawed, at least in its political dimension. Both in 1905 and 1917 the peasants seized the estates *in toto*;

they did not limit their action to partial confiscations. In this light the 'cut-off' proposal appears artificial in the extreme.¹¹ Nonetheless, the policy clearly followed from Lenin's economic analysis, and was also concordant with other ideas generally accepted by social democrats. There were a number of factors which made it difficult for Russian Marxism to justify a general land seizure. This was after all the policy of revolutionary populism, and Plekhanov's emphasis on maintaining the distinct purity of Marxist orthodoxy against the populists was widely shared. Then, too, there was the belief that large-scale agriculture, which was identified with estate farming, was historically progressive. Coupled with these views was an ill-defined fear of the backwardness and barbarism of the Russian peasantry (see Chapter 8 above). At the level of economic analysis Lenin had indicated that the peasantry was internally differentiated, and this was thought to place limits on the class struggle in the countryside (see Chapter 9 above). The peasant bourgeoisie, it was believed, could never be brought over to an all-out attack upon landed property; its allegiance would be limited to measures that eradicated pre-capitalist exploitation.¹² There were thus strong theoretical grounds for limiting the agrarian programme to its *otrezki* dimensions.

The rural unrest which began in 1902 put the policy under increasingly severe strain, and after 1905 it was abandoned by both wings of the party. Mensheviks and Bolsheviks alike altered their positions and supported a general confiscation (although their policies were very different). Nevertheless, it was only the Bolsheviks who provided an economic foundation for this change. Lenin's political ideas after 1905 were not particularly original; before him, many others had suggested an alliance between the proletariat and peasantry.¹³ However, only Lenin provided a sophisticated economic theory to underpin this strategy for achieving a bourgeois-democratic revolution. Just as his economic analysis underlay the *otrezki* programme, so he alone developed a political economy to rationalise its replacement. The Mensheviks, by contrast, changed their policy on purely political grounds. From the standpoint of historical materialism their position was superficial and, despite the Menshevik claim to orthodoxy, it was the Bolsheviks who remained closer to the method of classical Marxism.

The analysis of capitalist development undertaken by Lenin in the 1890s clearly had to be modified, and he was better placed to do so than other Marxists. He was advantaged not only by his extensive knowledge of conditions in agriculture, but also by his keen awareness of the nature of Russian liberalism and the content of revisionism. From the very beginning, Lenin's works manifest an exceptionally critical stance in relation to liberalism. Emotionally, this stemmed from bitter personal experience,¹⁴ but it was reinforced by his insight that the radical nature of the revolution required in Russia was likely to alienate bourgeois support. This caused friction with Plekhanov and his associates in the 1890s and had been

resolved by Lenin's toning down of his more uncomplimentary depictions of liberals.¹⁵ There is, however, no firm evidence that he genuinely changed his views. Thus, in modifying the economic theory of revolution after his break with Menshevism, Lenin had no further need to pull his punches and he was under a weakened constraint to find a functional role for the liberal bourgeoisie.

In addition, as the acknowledged expert on agriculture it had fallen to Lenin to counter the revisionists' claims that the Marxian 'laws of motion' were inoperative in this sector. He had done so without making any explicit concessions, but like Kautsky he had adduced reasons for believing that petty producers could more easily survive in agriculture than in industry. Consequently, Lenin was made especially sensitive to the importance of any means by which the development of capitalism could be reinforced institutionally (see Chapter 10 above).

These two matters proved to be connected. The first allowed Lenin to contemplate the creation of a bourgeois order without an alliance with the bourgeoisie. Revolutionary state power in the hands of the social democrats could then provide a solution to the second problem by nationalizing the land. However, both these elements were but parts of a new and original perspective on the whole development of capitalism in Russia, one in which it was seen as comprising two tendencies, partially complementary, but essentially in deep conflict.

III A Political Economy for Bolshevism

The radicalism of the peasants in 1905 confirmed Lenin's growing suspicion that his political economy was seriously deficient. He came to view what he had previously written as not only underestimating the weight of feudal survivals in agriculture, but also as wrongly locating their economic base. It was not the 'cut-offs' from which they derived, he now argued, but rather the very nature of the landlord economy.¹⁶ Consequently, a thorough bourgeois revolution could not limit itself to a surgical strike against the estates; it must expropriate the landlords as a class.¹⁷ Only this drastic measure would enable the full flowering of agrarian capitalism, and only if social democracy unreservedly supported peasant seizures could rural petty producers be allied to proletarian hegemony.¹⁸

Lenin did not, however, pose the issue as a simple conflict of vibrant peasant capitalism struggling against a moribund feudalism. Matters were far more complex. As he had shown in *The Development of Capitalism in Russia*, both landlord and peasant economies were becoming increasingly capitalistic,¹⁹ and he did not reverse his views on this. Instead he argued that the modernisation of the estates had been overestimated and, more importantly, represented an aspect of a particular type of bourgeois

transformation which had not been revealed in his work of 1899, and one that could only be partial. Capitalisation of the estates was a feature of a 'reconstruction from above', in which tsarism and the dominant landed class sought accommodation with those elements of a bourgeois order necessary to their own survival. Important attributes of the *ancien régime* would remain, since its own forces were directing the very process of change. In particular, since semi-feudal relations between the peasantry and the estates were economically rooted in the latter, the full-scale development of capitalism was inhibited.²⁰ A broad and deep capitalisation of agriculture therefore required that tsarist-instigated modernisation be countered by peasant revolution, whose objective economic content could now be perceived according to Lenin as part of a syndrome of forces working for a more complete bourgeois order.²¹

The revolution of 1905 also allowed Lenin to locate the role of the urban bourgeoisie and social democracy in these two antagonistic forms of bourgeois transformation. The conciliatory behaviour of the Octobrists and Cadets confirmed his previous suspicions of their liberal credentials, and indicated that the bourgeoisie was itself an actor in the process of revolution 'from above', rather than 'from below':²² it sought an accommodation with modernising tsarism, not its overthrow. The bourgeoisie's support for the forces of popular revolution was but a means to increase its power within an established ruling stratum. Moreover, Lenin argued that the revolutionary strength of the proletariat had heightened bourgeois conservatism.²³ Peasant revolution reinforced this, for elements of the bourgeoisie had become 'territorialised' through land purchases, just as sections of the landlord class had become industrial investors.²⁴ All this pointed to the bourgeoisie as an enemy of radical revolution, and demonstrated that the experience of 1905 had reduced the friction between the middle class and the feudal superstructure.²⁵ If an unadulterated bourgeois order was to be achieved, Lenin concluded, it would involve bourgeois revolution *against* the bourgeoisie.²⁶

This meant a break with Plekhanov's 'arithmetic' of revolution (see Chapter 8 above). The more abstract 'algebra' which specified the need for two-stage revolution was still correct,²⁷ Lenin argued, but an alliance of proletariat and bourgeoisie was impossible if the original aim of orthodoxy was to be achieved. Indeed, the Menshevik adherence to Plekhanov's tactics was reactionary. It implied the abandonment of proletarian hegemony, deference to the bourgeois aim of gaining concessions from above, and thus a defence of tsarist reconstruction. It was with ever-increasing alarm that Lenin detected this logic working itself out in the evolution of Menshevism,²⁸ and his original unwillingness to compromise for the sake of party unity was reinforced. It was no longer just a matter of opposing reformism, or arguing for a particular type of party organisation, for he had now found an economic basis for his political position (see section VI

of this chapter). Viewed objectively, and irrespective of the Mensheviks' own intentions,²⁹ they were players in a drama that might integrate the working class into a reconstituted *ancien régime*.³⁰ To view Lenin's battle within social democracy as only a struggle for personal dominance is therefore facile. After 1905 Bolshevism was based upon a materialist analysis of the complex nature of capitalist development and bourgeois revolutions.³¹

In Lenin's eyes, Russian social democracy faced a stark choice. It could either accept a very minor role in influencing a 'Prussian' path to capitalist development, or it could keep to the essentials of orthodoxy and seek to lead the proletariat and peasantry in a revolution that would thoroughly eradicate the old (albeit modernising) tsarist regime. Each strategy involved support for bourgeois revolution, but they are of different types, and antagonistic.³² Plekhanov was wrong to believe that bourgeois revolutions constituted a unity, Lenin argued, exhibiting only peripheral historical variations. They could be of radically different types, depending on which classes became dominant agents, and which path of capitalist development was secured.³³

IV Russian History and the 'Prussian Path'

Lenin believed the dominant force in modern Russian history to be the 'Prussian path'.³⁴ This involves a reconstruction from above, in which elements of a bourgeois system are incorporated into the *ancien régime*³⁵ so as to ensure its survival in the context of a hostile international environment.³⁶ After the reforms of Peter the Great, the major step was the settlement of 1861.³⁷ As an element in the primitive accumulation of agrarian capital, Lenin realised that the Russian emancipation had features diametrically opposite to those of the English form of primitive accumulation, upon which Marx focused.³⁸ Instead of separating agricultural producers from the land, in Russia they were tied to it. Coupled with the subsidisation of the landlord class, this brought minimal disruption of traditional exploitive relationships, yet facilitated the evolution of the large estates toward capitalist organisation.³⁹ The Emancipation, however, also provided a basis for the capitalist development of peasant agriculture.⁴⁰ Nevertheless, subordinated as it was to the requirements of the 'Prussian path', the vitality of peasant capitalism was constrained.⁴¹ Subsequent events can be regarded, Lenin argued, as a struggle waged by a peasant-based capitalism to oust that founded upon the transformation of the estates.

The agrarian revolution between 1905 and 1907 was the most dramatic manifestation of this antagonism according to Lenin. It was crushed by repression, but it also provided a further discontinuity in the evolution of

the 'Prussian path'.⁴² The regime, especially its leading minister, Stolypin, recognised that its long-term survival depended on generating stronger social support.⁴³ Hence a privileged place was found for both the rural and urban bourgeoisie. Laws protecting the commune were repealed and incentives were provided for richer peasants to consolidate their lands.⁴⁴ The cost was borne by the peasant masses,⁴⁵ whose impoverished conditions thus continued to sustain the large estates in their slow passage to more capitalised forms. This could continue relatively smoothly as the bulk of the peasantry were ruined,⁴⁶ but a broader class of rural property-owners of some substance, represented by the peasant bourgeoisie, would constitute an extended basis of security.

Tsarism also incorporated the urban bourgeoisie into the structure of political power, albeit with inferior status, Lenin argued.⁴⁷ The regime thus modified its feudal absolutist character,⁴⁸ and the new parliament (*Duma*) provided the institutionalised forum for working out future compromises between the bureaucracy, the landed class and the bourgeoisie.⁴⁹ The concessions did not satisfy all elements of the middle class, for the Cadets wanted a dominant position.⁵⁰ Unwilling to support popular revolution, however, they were forced to settle for a redivision of privileges,⁵¹ and attempt to acquire further advantages by constitutional means in the future. This was to engender friction with the bureaucracy and landlords which the social democrats could use to their advantage,⁵² Lenin believed, but it was fundamentally incorrect to expect (as the Mensheviks did) that this was the axis on which the bourgeois–democratic revolution could be satisfactorily completed.⁵³

Although the proletariat had gained little from the aborted revolution, Lenin argued, it was possible that the regime might subsequently grant both economic and political reforms in an endeavour to incorporate the working class, as in Western Europe.⁵⁴ The majority of advanced capitalist countries had followed 'Prussian' forms of modernisation, and had indeed secured this form of bourgeois revolution. The process could succeed in Russia as well.⁵⁵ But the task of Bolshevism was to work against its consummation,⁵⁶ and replace it by an energised 'American path' through a revolution establishing a 'democratic dictatorship of the proletariat and peasantry'.

V Bolshevik Tactics and the 'American Path'

In *The Development of Capitalism in Russia* Lenin concentrated upon the 'logic of commodity production' as it impinged upon the peasant economy, and he did not jettison this perspective in his new political economy; indeed, he elevated it to a preeminent position. However, he did so by modifying the analysis of the 1890s in three crucial respects. First, it is the landed estates, and more generally the 'Prussian path' of which they are a central

element, which are now regarded as the constraint upon the modernisation of the peasant economy, and not just the specific from which Emancipation had taken in 1861. Second, there is an enhanced recognition that the development of capitalism is significantly affected by the type of land tenure in operation, and that the nationalisation of land is the most favourable form. Third, Lenin maintained that agrarian capitalism can be developed most rapidly through the revolutionary tactic of the 'democratic dictatorship of the proletariat and peasantry'.

From 1905 on, Lenin tended to regard the landed estates as predominantly feudal, rather than capitalist. Although constituting substantial landholdings, they did not represent 'large scale' agriculture. Their production processes were usually aggregates of small-scale husbandry carried out by peasants using their own means of production in the traditional manner, and enveloped in a set of semi-feudal relations. Buttressed by state subsidies, they were only slowly approaching capitalist forms and would do so through the simultaneous impoverishment of the peasant masses.⁵⁷ This is a reversal of the view Lenin had taken in the 1890s. No longer does he see capitalism in the peasant economy as flowering parallel to that in the estates. Instead it is significantly inhibited by them.

It follows, Lenin maintained, that the secure establishment of peasant-based capitalism requires the expropriation of the estates. This would end feudalised exploitation and provide increased resources for the development of the means of production. True, as Lenin realised, there would initially be some negative effects, since the more capitalised estates would be lost together with the backward, and the rural proletariat might be reduced.⁵⁸ But these features are offset by the overall rationality of what he described as the 'American road', in which capitalism develops from a class of free farmers occupying extensive areas of land.⁵⁹ Consequently, any retardation would be no more than a step backwards so as to allow a larger leap forward.⁶⁰

Lenin realised that more is involved in this than a release from feudal relations. The 'Prussian path' is brought about, and requires the bulk of the peasantry to be maintained in a downtrodden state, in which general backwardness and barbarism are maintained. By contrast the increased resources available from confiscation would raise peasant horizons; needs would be increased, market penetration enhanced, cultural differences with the city reduced, the demand for industrial products extended and the relative size of the agricultural sector diminished. In short, 'the idiocy of rural life' would be undermined by creating a virtuous circle of a free, broad and rapid development of capitalism akin to that in North America.⁶¹

Nevertheless, during the controversy with revisionists Lenin had recognised that areas of advanced capitalism in Europe sometimes coexisted with a relatively backward peasantry, which through 'underconsumption' and 'overwork' could retard its incorporation into capitalist relations.⁶² Hence-

forth he tended to explain this by the domination of 'Prussian' forms in European modernisation.⁶³ But his writings also reveal an increasing emphasis upon land nationalisation as the means by which Russia will overcome all resistances of traditionalism.⁶⁴ Lenin does not envisage this as a socialist measure; it will not be accompanied by the socialisation of production, and indeed it enhances exchange and commodity circulation.⁶⁵ The leasing of land was to be based upon commercial principles in accord with the theory of differential rent which Marx outlined in *Capital*.⁶⁶

Following Marx and Kautsky,⁶⁷ Lenin claims as the principal advantage of land nationalisation the abolition of absolute rent which it allows.⁶⁸ Unlike differential rent, which arises in all forms of commodity production, absolute rent in Marx's economics requires the private ownership of land,⁶⁹ and can therefore be eradicated by nationalisation. This would be beneficial, for absolute rent deprives agricultural capitalists of resources and thus impedes accumulation. However, Marx's theory is defective. What he called absolute rent is in truth but a particular form of differential rent, and Marx's explanation of its magnitude rests upon a faulty argument.⁷⁰ Lenin's application of Marx's theory is therefore without merit. But this does not destroy the substance of his argument. Like Marx he supplements his analysis with other considerations, which are valid. State ownership of land provides flexibility by facilitating the recombination of inputs in the face of changing economies of scale due to technical progress. It also more easily allows the efficient location of different, but interacting, production processes, together with appropriate management of common resources. Finally, the public authority, as the recipient of (differential) rents is provided with the means to finance any investments that are required.⁷¹

Lenin's support for land nationalisation can be regarded as an attempt to better the 'classical' solution to the 'clearing of the estates' as presented by Marx in his analysis of primitive accumulation.⁷² Within Lenin's overall scheme it makes perfect sense. The tripartite class structure of English agriculture was for Marx the historical example best adapted to the penetration of capital. It did not have absolute status and, indeed, was deficient in that it involved the existence of a technically superfluous landed class.⁷³ Lenin recognised this and sought an even more thorough 'clearing of the estates', which he also rightly conceived to be the more appropriate, the less advanced is agriculture.⁷⁴

Appropriateness, however, is not the sole issue involved; in addition there is the question of how land nationalisation will be achieved. It is unlikely to be opposed by the proletariat.⁷⁵ But what about the peasants; would they regard their interest to be served by nationalising *all* the land? Lenin had serious doubts that they would, and accepted that confiscation of the estates might be the limit to which the agrarian revolution could be pushed. Nonetheless, examination of the programmes adopted by political representatives of the peasantry convinced him that there was some rural

support for comprehensive land nationalisation.⁷⁶ This of course fitted the general Marxian panorama, in which the ascendant class demands measures concordant with the objective requirements of progressive development. Taken together, these factors form the basis of Lenin's reinterpretation of revolutionary populism as a bourgeois ideology. As noted in Chapter 9, he had never regarded populist ideas as wholly utopian, even less reactionary. But after 1905 they are elevated to a less ambiguous position and, in contrast to Menshevism, are claimed to be the subjective perception of the historical requirement to realise the 'American path' of capitalist development.⁷⁷

Lenin envisaged the achievement of land nationalisation in terms of an alliance of the proletariat and peasantry, combining an urban revolution of the proletariat and an agrarian revolution of the peasants.⁷⁸ Both forces are needed.⁷⁹ The peasants' role is to eradicate the economic basis of the *ancien régime* in the countryside in an effective, 'plebeian', manner.⁸⁰ The proletariat would neutralise the urban centres and provide overall leadership of the revolutionary forces, something difficult for the peasants to undertake themselves.⁸¹ The bourgeoisie is at best an irrelevance, and at worst a counter-revolutionary force to be crushed by a 'democratic dictatorship',⁸² in the Marxian sense of that term: class rule uninhibited by law.⁸³ Organised in soviet form,⁸⁴ its function is to secure the revolution: to suppress opponents, establish the ground for future legal equality and radical democracy, institute measures limiting exploitation and, if possible, nationalise the land.⁸⁵

But for Lenin the dictatorship is limited to the requirements of democratic revolution. All measures are compatible with the continuance of a bourgeois order, if not the current members of the bourgeois class.⁸⁶ Objective conditions preclude the completion of a socialist revolution, and the peasantry will constrain it from beginning.⁸⁷ There is a dictatorship of two forces, not the dictatorship of the proletariat. Success will bring the stabilisation of conditions through the convening of a Constituent Assembly,⁸⁸ from which bourgeois rule in some unspecified sense will emerge.⁸⁹ The task of the proletariat from that point on is to solidify as a socialist force, and the measures instituted under the democratic dictatorship allow this to the highest possible degree.⁹⁰ Plekhanov's two-stage theory of revolution is thus preserved, but in a novel form, and one which the 'Father of Russian Marxism' found wholly unconvincing.

VI The Strengths of Leninism

As we will see, Plekhanov was wise to remain sceptical, although the arguments he brought forward in defence of Menshevism were often weak in the face of the real problems. For the moment, however, it is necessary to

recognise that Lenin's theorising between 1905 and 1914 did represent a genuine advance in Russian Marxism. In this period Lenin provided a political economy intimately connected with the revolutionary problem, a quality which had hitherto been absent from social democracy in Russia. Neither his own economic theory of the 1890s, nor that of others, had provided clear implications for either strategy or tactics. They had focused upon the development of *agrarian* capitalism and thus failed to dovetail with the political structure of Plekhanov's system, which concentrated on an alliance with the *urban* bourgeoisie. Orthodoxy took this stand in the light of Marx's own work, and its attempt to show that capitalism was developing in Russia was itself not connected with the logistics of achieving bourgeois-democratic revolution.⁹¹ By providing a new perspective which distinguished between different types of capitalism, Lenin closed this gap. He linked the forms of capitalist development with varieties of bourgeois-democratic revolution, and correctly charged Plekhanov with having only an 'abstract' conception of the Russian revolution.⁹²

In itself this is sufficient ground for regarding classical Marxism as central to Leninism. Methodologically, he remained closer to the founders of historical materialism than did the Mensheviks. Of course, his work also involved distinctive elements, particularly his emphasis upon the difference between spontaneous proletarian consciousness and the social democratic counterpart, together with the related matter of appropriate party organisation. But the political economy which Lenin developed after 1905 provided an economic base for these ideas, and thus secured them to a Marxian perspective. Blanquist-Jacobin currents and militarised organisation were made relevant because there were two different paths to capitalist development vying for domination, and the key to supplanting the Prussian path was to disrupt and capture the instruments of state power.⁹³ Menshevik criticisms of Bolshevism in this respect are therefore beside the point. They would become relevant only *after* the success of the first stage of revolution, when socialism itself was placed on the agenda.

Paradoxically, even some of the apparent confusions exhibited in Lenin's work take on a rational character in the light of his post-1905 theory. As we have noted in Chapter 7, for example, Lenin's designation of the character of the tsarist state was unstable. He had sometimes regarded it as Asiatic and at other moments feudal, even on occasion calling it bourgeois.⁹⁴ This instability recurs in his later works.⁹⁵ However, it now makes sense because his theory emphasises the transitional, and hence ambiguous, nature of tsarism: the 'Prussian path' is precisely one in which absolutist, feudal and bourgeois characteristics are combined, and its culmination occurs when they achieve a new unity.

There is also much to be said in favour of Lenin's notion of the 'Prussian path'. Applied to tsarist history, it clearly overcomes the difficulties in Plekhanov's different perspective which concentrated upon the fusion of

Asiatic and European forms (see Chapter 8 above). Furthermore, it countered the latter's criticism of land nationalisation as laying the basis for an Asiatic restoration.⁹⁶ In addition, Lenin exposed the inefficiency of the Prussian form of modernisation, evidenced by the parlous condition of the landed estates.⁹⁷ The Russian nobility were less able to master the transition to capitalist agriculture than the Junkers in Eastern Germany. This reflected both their service orientation in the tsarist state,⁹⁸ and the mammoth proportions of the larger holdings. Lenin was quite correct to maintain that large size *per se* did not connote efficiency and that it was secondary to capitalist relations.⁹⁹ For all its backwardness, the peasant economy clearly embodied a vitality,¹⁰⁰ and it was frequently more profitable for the estate owners to lease land to the peasants, than to manage it directly as part of a commercial enterprise.¹⁰¹ Yet the burden of taxation fell upon the small producer in agriculture, and much of the revenue was frittered away in direct or indirect support for the bureaucratised landed nobility.¹⁰² Lenin was also able to appeal to Marx's writings on the 1848 revolution to counter his Menshevik critics of the 'democratic dictatorship'. Although Plekhanov too had been greatly influenced by this aspect of Marx's thinking (see Chapters 7 and 8 above), Lenin's interpretation was modified less by considerations drawn from Marx's later work.¹⁰³

As for the political economy of the 'American path', it is true that Lenin's analysis after 1905 no more relates to the key problem than does his earlier work, in that the absence of economies of scale represented a barrier to the emergence of large-scale capitalised agriculture (see Chapter 9 above). But Lenin's new emphasis upon land nationalisation was entirely appropriate and partially mitigates the error. Had his scheme been realised, it would have been an effective, and relatively humane, device for eliminating a traditional peasantry. Not only does the absence of private property rights undermine resistance to the penetration of capital; control of differential rents can also be used to regulate the flow of labour power into the cities. Furthermore, the accrual of revenue to the state eliminates consumption by landlords, which would otherwise retard accumulation. Thus, although technical conditions would have preserved the small farmer, their numbers would have contracted at a faster pace and those remaining would have been more prosperous than under private landlords.¹⁰⁴ The fact that Marx's theory of absolute rent would not bear the weight placed upon it – a point made by the Menshevik agrarian expert, Maslov¹⁰⁵ – does not detract from the rational kernel of Lenin's plan. And in criticising the Menshevik alternative for the municipalisation of the estates as not only historically artificial, but lacking any economic foundation, Lenin pointed to the central limitations of his critics.¹⁰⁶

More generally, leaving aside the specifics of the Russian situation, Lenin's explicit distinction between different types of bourgeois transformation anticipated a major theme in modern historiography.¹⁰⁷ It has been

increasingly realised that 'Prussian' forms have been crucially important in the ascendancy of capitalism, and the survival of pre-capitalist elements in modified form has powerfully affected the politics of the twentieth century, indicating that 'the costs of moderation have been at least as atrocious as those of revolution, perhaps a great deal more'.¹⁰⁸ Even the French revolution of the late eighteenth century – the model of bourgeois revolution for Marx – has been shown to be ambiguous. It fits less neatly into the pattern of classical (some would say, vulgar) Marxism than was hitherto believed.¹⁰⁹ Moreover, Lenin's emphasis upon the counter-revolutionary nature of the bourgeois class in realising an idealised bourgeois order has tended to be seen as the typical case, rather than the exception.¹¹⁰ In this sense it is Lenin's work, not that of Marx or the Mensheviks, which has proved to be the more general.

However, Lenin did not conclude from this that Marxism was inadequate as an overall theory, only that radical bourgeois revolution must be made by non-bourgeois classes. There is more than a semantic tension here: the proposition embodies a real contradiction. And since it is derived from his political economy, there are deep theoretical problems in this form of Leninism.

VII Contradictions and Difficulties in Lenin's Political Economy

Lenin's political economy in the period 1905–14 originated in a perverse logic. The politics of the peasantry provide the main evidence used by Lenin in support of his belief that feudal relations had previously been underestimated.¹¹¹ Events of the superstructure thus occasion a change in the assessment of the base. He did not formulate his refurbished economics by independently re-analysing the nature of the agrarian economy. No attempt was made to locate precisely the origin of mistakes that underlay the different conclusions which he derived in the 1890s. Instead, the estates were simply reclassified as overwhelmingly feudal. The procedure was however camouflaged by the very nature of his earlier work. In identifying capitalism with the process of its emergence, Lenin could appeal to a multitude of indices (see Chapter 9 above), and the significance of each was disguised by the fact that no rank order of importance was provided.¹¹² Lenin's Marxism thus approximated a circular system immune to falsification.

The same type of 'logic' is evident *within* the political economy. Following Marx and Plekhanov, Lenin treats the peasantry as a composite of bourgeois and proletarian elements, and not as a category *sui generis*. This provided immense flexibility in the explanation of both its actions and its beliefs. Lenin took full advantage of this general quality of Marxism to explain populism as a radical bourgeois ideology, and agrarian revolution

as the expression of an 'American path' to capitalist development. Since no criterion was available by which these interpretations might be definitively questioned, his theses were protected from Menshevik criticism.¹¹³

However, a weakness in Lenin's position with regard to the peasantry could have been identified from a different angle: his treatment of primitive accumulation was most certainly peculiar. As we have seen in section V, he rightly favoured the nationalisation of land on the ground that it maximised capitalist development by removing the petty producers from control over their means of production. Nevertheless, he realised that the peasantry might simply confiscate the estates and redivide them as their own property. Although this would be less beneficial than nationalisation, Lenin did maintain that it too was highly progressive, since it would destroy landlord property; this for him was the central issue.¹¹⁴ But he also buttressed his position by arguing that 'the more land . . . the peasants have received from the feudalists . . . the more rapidly has capitalism developed'.¹¹⁵ This may have made sense in the context of the 1861 settlement but in general it was clearly suspect, and this was highlighted by Lenin's argument for nationalisation. The Mensheviks, though, missed the point. Instead they levelled the charge that Lenin had appropriated the populists' revolutionary strategy.¹¹⁶ This could carry critical weight only if they had then maintained that populism represented a viable position, and that Lenin was wrong to believe that simple confiscation would engender capitalism. But this the Mensheviks could not do. No less than Lenin, they believed in the 'logic of a commodity economy'. Lenin was therefore allowed to have matters both ways. Whether totally deprived of land ownership, or as sole owners, the peasantry would establish favourable conditions for primitive accumulation.

It was left to events to show that there was historical substance in populist ideas. In 1917 (and also in 1905) peasant revolution was most forceful where the *obshchina* was strongest.¹¹⁷ Bourgeois elements were totally swamped; the richer peasants who had consolidated their land, or separated from the commune altogether, were forced back into membership and their lands made subject to redivision together with those of the estates. In Marxist terms the agrarian revolution was reactionary: it re-established the importance and vitality of traditional institutions (unambiguous feudal remnants in Lenin's analysis).¹¹⁸ Menshevik suspicions of peasant radicalism proved to be well-founded,¹¹⁹ but this does not detract from the fact that they could not justify them theoretically in Marxian terms.

This, in turn, suggests two further problems in Leninism. It indicates that the relevant agrarian force for the achievement of Lenin's goal was the richer peasantry, and that the appropriate revolutionary tactic was an alliance with the peasant bourgeoisie.¹²⁰ Moreover, such an alliance would

necessarily have been opposed to the poor and middle peasantry, who would have been the chief beneficiaries from any revival of the commune. But this would have meant that the two class struggles – against feudalism and against the bourgeoisie – could not have been fought simultaneously; in the countryside they would have had to be sequential. Yet Lenin, in common with all Russian Marxists, was adamant that they must be fought in tandem. And with good reason: this position alone was consistent with regarding the peasantry as a *petite-bourgeoisie* (so that the bulk were destined to become proletarianised), and only on this basis could social democracy counter the populist charge that it was, objectively speaking, a bourgeois force.

In addition, the empirical evidence on the nature of the revolutions in 1905 and 1917 indicates that the 'Prussian' and 'American' paths were not as antagonistic as Lenin maintained. A prerequisite for establishing the latter was the existence of an embryonic bourgeois class sufficiently strong to dominate the process of agrarian revolution. Thus, while it is sensible to see Stolypin and Lenin as competitors,¹²¹ there was also an element of shared interest. To achieve his own objectives, Lenin required that Stolypin achieve his on a significant scale, so that the ties of the *obshchina* were thoroughly broken and the peasant bourgeoisie more securely established.

Lenin's Marxism, therefore, required the partial success of the Prussian path. But the very recognition of this possibility – and Lenin went beyond this to imagine total success – raises deep problems for any Marxian political economy. It implies that 'contradictions' do not necessarily have the force typically assigned to them, since they can be 'blunted' in the way that Peter Struve suggested. Thus Lenin's own analysis after 1905 accepts the legitimacy of a central element in revisionism (see Chapter 10 above). This was not the only point on which he had done so. In *What is to be Done?*, reformism was recognised as a real threat to revolutionary Marxism precisely because it expressed the 'spontaneous' consciousness of the working class itself.¹²² And in later works Lenin repeatedly pointed to the equilibrating and integration mechanisms of capitalist society.¹²³

There is here yet another problem for Marxism. At the heart of the 'Prussian path' is the transformation of a feudal nobility into a landed class functioning on bourgeois economic principles. By what criterion, then, is its class interest defined: by the structure of the old mode, by the requirements of the newly emerging, by some variable weighted average appropriate to the changing moments of the transition, or by irreducible properties of the transition itself? Analogously, the 'Prussian path' is seen to involve the incorporation of the bourgeoisie into a modernised *ancien régime*. As Lenin noted, this is a second-best solution for the bourgeois class itself, but one grudgingly accepted in the face of popular radicalism. However, if this is the case we also have a separation of class interest from class action. Not

only may economic structure fail to define clearly class interests; there is now joined to this problem the recognition that a structurally defined class interest may not be the principal basis of class action.

Faced with this situation, Lenin drew the obvious conclusion: if a radical bourgeois–democratic revolution was to be realised, it would have to be achieved by classes other than the bourgeoisie.¹²⁴ And he recognised that this might involve the proletariat’s moving against the bourgeoisie itself. He did not believe that this posed a contradiction. The revolution was to establish a bourgeois *order*, not the rule of the bourgeoisie, let alone the domination of a particular generation of bourgeois individuals. In other words, bourgeois revolution was conceived in terms of the outcome, not in terms of its protagonists.¹²⁵ Nevertheless, Lenin was blind to the problem that counter-revolutionary action by the bourgeoisie could derail the revolution, not because it might succeed, but precisely because it would fail.¹²⁶ A victorious revolution in such circumstances would involve the expropriation of the bourgeoisie and proletarian control of industry. With the working class in command, by what medium were bourgeois principles of organisation and allocation to be maintained in the urban economy? The peasantry would be unable to restrict the revolution to a bourgeois stage in the urban areas. Nor, in the long run, could they – on Marx’s own analogy of a ‘sack of potatoes’ – provide much resistance to an organised urban force which decided to move against them too. Thus no more than that of Plekhanov did Lenin’s political economy overcome the contradiction inherent in any theory that assigns the proletariat hegemony in a non-socialist revolution (see Chapter 8 above).

Prior to the First World War Trotsky alone among Russian Social Democrats recognised this problem. It became the fulcrum of his ‘revolution in permanence’, whereby a bourgeois–democratic revolution necessarily became telescoped into the socialist revolution. In 1917 Lenin too was to adopt a similar stand in the case of Russia. His route to it was different from that of Trotsky, but an examination of the latter’s position sheds light on its substance. Consequently, before returning to Lenin’s political economy in Chapter 13, we will consider the notion of permanent revolution and its theoretical basis in Trotsky’s work, the political economy of uneven and combined development.

Notes*

* References to Lenin’s *Collected Works* (Moscow: Progress Publishers, 1960–70) are indicated by *CW*, followed by volume number.

1. *CW*, XXII, pp. 185–304.
2. *CW*, III.

3. *Ibid.*, pp. 172, 177, 186, 187, 310. This view is also evident in his earlier work; see, for example, *CW*, I, pp. 144, 160, 191.
4. *CW*, VI, pp. 17, 58-9; R. Service, *Lenin: A Political Life* (London: Macmillan, 1985) vol. 1, pp. 54, 98; J. Frankel, *Vladimir Akimov on the Dilemmas of Russian Marxism 1895-1903* (Cambridge: Cambridge University Press, 1969) p. 62.
5. See *CW*, III, p. 32; VII, p. 232; IX, pp. 28, 49, 81; X, pp. 135, 424; XII, p. 333; XIII, p. 352; XV, pp. 371, 374; XVII, p. 416; see also Chapter 13 below.
6. *CW*, V, pp. 349-520.
7. *CW*, VII. For an outline of Menshevik criticisms of Lenin at this stage see R. Larsson, *Theories of Revolution* (Stockholm: Almqvist & Wiksell, 1970) pp. 230-51.
8. See *CW*, X, p. 169; XIII, p. 255.
9. *CW*, II, p. 98; III, p. 194.
10. *CW*, I, pp. 289, 426, 456; III, pp. 177, 186; IV, p. 245; VI, pp. 77, 109, 117, 122, 129, 138, 380, 409, 420, 438, 444, 494.
11. In fact it always had critics, but they stressed other issues. See A. Ascher, *Pavel Axelrod and the Development of Menshevism* (Cambridge, Mass.: Harvard University Press, 1972) p. 173; *CW*, VI, pp. 438-53 and T. Dan, *The Origins of Bolshevism* (London: Secker & Warburg, 1964) pp. 310-16.
12. *CW*, VI, pp. 444-6. This was also in accord with historical precedent. In the French Revolution the peasantry had unified behind the demand for the abolition of feudal survivals, but their heterogeneity had precluded the expropriation of the estates. See T. Skocpol, *States and Social Revolutions* (Cambridge.: Cambridge University Press, 1979) pp. 126-8.
13. See Larsson, *Theories*, pp. 143-4, 148-50, 177-95, 256-304, 307-8, 311, 320-1, 357-8.
14. N. K. Krupskaya, *Reminiscences of Lenin* (New York: International Publishers, 1970) p. 13.
15. T. Cliff, *Lenin* (London: Pluto Press, 1975) vol. 1, p. 37.
16. *CW*, IX, p. 444; X, p. 176; XI, p. 393; XII, pp. 153, 269, 294; XIII, pp. 225, 239, 243, 421; XV, pp. 80, 137, 143, 160; XVIII, pp. 74, 76, 581; XIX, p. 194; XX, p. 133.
17. *CW*, VIII, pp. 188, 233, 235.
18. Prior to the 'mini-revolution' of 1902, Lenin had doubts as to the revolutionary potential of the peasantry. See *CW*, IV, pp. 244, 423; V, pp. 85, 93, 275, 396; VI, p. 149. Coupled with his suspicion of the bourgeoisie he therefore emphasised the importance of the proletariat leading a grand alliance of *all* democratic forces, whatever their origin. See *CW*, V, pp. 301, 317, 339.
19. *CW*, III, ch. III.
20. *CW*, V, pp. 95, 97; VI, pp. 254, 401; XIII, pp. 239, 243; XV, pp. 80, 90, 139; XVI, p. 434.
21. Lenin now interpreted chs II and III of *The Development of Capitalism in Russia* as describing two forms of capitalism which, although partially complementary, are essentially in conflict. See section VI of this chapter.
22. *CW*, II, p. 33; VIII, pp. 488, 492; X, p. 374; XI, pp. 51, 147, 229; XII, p. 212.
23. *CW*, VIII, pp. 511, 526; XII, p. 254.
24. *CW*, XII, pp. 153, 179, 374; XIII, p. 321; XVII, p. 551; XX, p. 284.
25. *CW*, XI, pp. 229, 380; XII, p. 245; XIII, p. 374.
26. *CW*, III, p. 31.
27. See note 5 above.
28. *CW*, VII, pp. 384, 403, 505; IX, p. 34; X, p. 473; XI, pp. 197, 356, 373, 449; XII, p. 106; XVI, p. 263; XVII, pp. 225, 232, 241, 260.

29. *CW*, XII, p. 263; XVI, p. 309.
30. *CW*, XVII, pp. 232, 241, 260.
31. This supports Harding's thesis on the nature of Leninism. See N. Harding, *Lenin's Political Thought* (London: Macmillan, 1983). Nevertheless, it simultaneously indicates a weakness in his otherwise excellent exposition of Lenin's position. Harding sees Lenin's thought basically as a unity prior to the First World War, whereas here the emphasis is upon the break which occurs around 1905.
32. *CW*, XII, pp. 256, 289; XIII, pp. 28, 243, 276, 368, 456; XV, p. 265; XVI, p. 330.
33. *CW*, IX, p. 55.
34. *CW*, IV, p. 145.
35. *CW*, III, p. 32; IX, p. 17; XII, p. 854; XIII, p. 422; XV, p. 350.
36. *CW*, XV, p. 337; XVII, p. 121.
37. *CW*, XIII, p. 276; XVI, p. 330; XVII, pp. 68, 113.
38. *CW*, XVII, pp. 27, 112, 121; XX, pp. 117, 242.
39. *CW*, VI, p. 401; XIII, pp. 239, 243.
40. *CW*, XIII, p. 239; XV, p. 161.
41. *CW*, XV, pp. 80–9.
42. *CW*, XV, pp. 267, 349; XVI, p. 330.
43. *CW*, XI, p. 187; XIII, p. 442.
44. *CW*, XII, p. 211; XIX, pp. 104, 180.
45. *CW*, XIII, p. 422.
46. *CW*, XV, pp. 42, 90.
47. *CW*, IX, p. 399; XVII, p. 250.
48. *CW*, XIII, p. 456; XVIII, pp. 151, 494.
49. *CW*, XI, pp. 79, 211; XV, pp. 337, 399; XVI, pp. 16, 99, 199, 290; XVIII, p. 130.
50. *CW*, XI, p. 208; XVII, p. 212.
51. *CW*, VIII, pp. 492, 511, 526; IX, pp. 50, 124; X, p. 464; XI, pp. 51, 147.
52. *CW*, IX, pp. 50, 124; XIII, p. 124; XVI, p. 165; XVIII, pp. 67, 342, 495, 525; XIX, pp. 222, 260.
53. *CW*, XIII, p. 142; XVII, p. 287.
54. *CW*, IX, p. 43; XV, p. 21; XVI, p. 88; XVIII, pp. 535, 591. See also *CW*, XVII, pp. 241, 260; and Dan, *Origins*, p. 222.
55. *CW*, XII, pp. 212, 234, 387; XVI, pp. 93, 117; XVII, pp. 117, 124.
56. *CW*, XVII, pp. 282, 320.
57. See notes 16 and 46 above.
58. *CW*, VIII, p. 318; IX, pp. 236, 311; XIII, pp. 236, 292, 345.
59. *CW*, III, p. 32; V, p. 99; XII, p. 354; XIII, pp. 236, 423.
60. *CW*, II, p. 339. This parallels Tugan-Baranovsky's analysis of the abolition of serfdom as it affected the industrial sector of the economy. See Chapter 9, section V, above.
61. *CW*, VI, p. 144; XII, pp. 279, 465; XIII, pp. 240, 250, 423; Krupskaya, *Reminiscences*, p. 256.
62. *CW*, XIX, p. 210, see also Chapter 10 above.
63. *CW*, XIII, pp. 171–216.
64. Before 1905, Lenin had realised some of the advantages of land nationalisation, but had deferred to Plekhanov's opposition: *CW*, V, p. 125; VI, pp. 109, 138, 144, 346. Furthermore, prior to 1905 Lenin's economic analysis indicated no way in which nationalisation might be achieved.
65. *CW*, X, p. 42; XIII, p. 288; XV, p. 138; XVIII, pp. 144, 148; XX, p. 300.

66. Marx, *Capital* (London, Lawrence & Wishart, 1972) vol. III, part VI; *CW*, VI, p. 144; X, p. 282; XIII, p. 425; XV, pp. 170, 249.
67. K. Marx and F. Engels, *Selected Works* (Moscow: Progress Publishers, 1969) vol. 2, pp. 288–90; K. Marx and F. Engels, *Selected Correspondence* (Moscow: Progress Publishers, 1965) pp. 342–3; K. Kautsky, *Die Agrarfrage* (Stuttgart: Dietz, 1899); *CW*, IV, pp. 97, 147, 156.
68. *CW*, XIII, pp. 294–325, 390.
69. M. C. Howard and J. E. King *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 103–7.
70. *Ibid*, pp. 147–8.
71. *CW*, VI, p. 346; XIII, pp. 81, 272, 290, 318; XV, pp. 256, 260; XVIII, pp. 144, 148. It is possible to construct an impeccable case for land nationalisation on the basis of the neoclassical theory of externalities, public goods and indivisibilities.
72. K. Marx, *Capital* (London, Lawrence & Wishart, 1970) vol. I, part VIII; R. Brenner, 'Agrarian Class Structure and Economic Development in Pre-Industrial Europe', *Past and Present*, 70, 1976, pp. 30–75; R. Brenner, 'The Agrarian Roots of European Capitalism', *Past and Present*, 97, 1982, pp. 16–113; *CW*, IV, p. 118.
73. This causes certain difficulties for Marx's model of capitalism: see K. Tribe, 'Economic Property and the Theorisation of Ground Rent', *Economy and Society*, 6, 1977, pp. 66–88.
74. *CW*, XIX, p. 291.
75. *CW*, X, p. 41; XI, p. 197; XIII, p. 142; XV, p. 139.
76. *CW*, X, pp. 178, 287; XII, p. 202; XIII, pp. 234, 236, 261, 271, 279, 284, 290, 292, 323, 331, 383, 394, 400, 421, 424, 457; XV, pp. 66, 141, 164, 167, 176, 311, 314, 341, 400; XVI, p. 93; XVIII, p. 146.
77. *CW*, X, p. 410; XII, p. 354; XIII, p. 392; XV, p. 160; XVII, p. 117.
78. *CW*, VIII, pp. 293, 368, 463, 534; IX, p. 17.
79. *CW*, X, p. 24; XV, p. 367.
80. *CW*, VIII, pp. 248, 312, 393.
81. *CW*, XII, pp. 101, 167.
82. *CW*, X, p. 91; XI, pp. 53, 164.
83. *CW*, VIII, p. 385; IX, p. 131; X, p. 216.
84. *CW*, X, pp. 21, 154, 219, 243; XI, p. 124.
85. *CW*, IX, pp. 130, 336, 412; X, pp. 25, 54; XI, pp. 27, 368; XII, p. 163; XVII, p. 199; XVIII, p. 293; XX, pp. 19, 217.
86. *CW*, IX, pp. 39, 48; X, pp. 76, 373; XI, p. 53; XII, pp. 25, 182, 333, 490; XV, p. 375; XVII, p. 101.
87. *CW*, VIII, p. 297; XV, p. 374; see also note 5 above and L. Trotsky, *The Permanent Revolution* (New York: Pathfinder Press, 1969) pp. 189–205.
88. *CW*, X, p. 67; XI, p. 123.
89. *CW*, VIII, pp. 396, 433; XI, p. 227.
90. *CW*, IX, p. 87; XII, p. 139; XVIII, p. 335.
91. Tugan-Baranovsky had concentrated upon industry but drew no political conclusions, and as a legal Marxist he had an ambiguous connection with orthodoxy. Not until the work of Trotsky were the issues he raised clearly related to revolutionary politics. See Chapter 9, section V above, and Chapter 12 below.
92. *CW*, III, p. 32.
93. Skocpol, *States and Social Revolutions*.
94. See Chapter 7, note 33, above.

95. *CW*, V, p. 81; VI, pp. 45, 56, 164, 225, 350, 368; VII, p. 46; IX, pp. 193, 314, 399; XI, pp. 139, 229, 390; XII, pp. 112, 129, 138, 193, 227, 504; XIII, pp. 124, 251; XVI, pp. 21, 26; XVII, p. 146; XVIII, pp. 25, 46, 65, 151, 494; XIX, p. 33.
96. S. Baron, 'Plekhanov's Russia: The Impact of the West Upon an "Oriental" Society', *Journal of the History of Ideas*, 19, 1958, pp. 388–404; M. Sawer, *Marxism and the Question of the Asiatic Mode of Production* (The Hague: Martinus Nijhoff, 1977) pp. 173–8. However, Lenin did qualify his support for the nationalisation of land in the light of Plekhanov's criticism. See *CW*, VII, p. 249; IX, p. 312; X, pp. 279, 286, 330, 336; XIII, p. 427.
97. G. T. Robinson, *Rural Russia Under the Old Regime* (Berkeley: University of California Press, 1967) pp. 52, 129, 229.
98. P. Anderson, *Lineages of the Absolutist State* (London: Verso, 1979), p. 132; Skocpol, *States and Social Revolutions*, p. 109.
99. Brenner, 'Agrarian Class Structure', *Past and Present*, p. 70; Brenner, 'Agrarian Roots', *Past and Present*, p. 97.
100. A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1966) pp. 52–71; P. Gatrell, *The Tsarist Economy, 1850–1917* (London: Batsford, 1986) pp. 119–40.
101. C. de Crisenoy, 'Capitalism and Agriculture', *Economy and Society*, 8, 1979, pp. 9–25.
102. Gerschenkron, *Economic Backwardness*, pp. 119–51.
103. *CW*, IX, pp. 33, 43, 57, 87, 113, 131, 136.
104. W. F. Owen, 'The Double Development Squeeze on Agriculture', *American Economic Review*, 56, 1966, pp. 43–70, is relevant on these matters. See also Brenner, 'Agrarian Class Structure', *Past and Present*, p. 70, and Brenner, 'Agrarian Roots', *Past and Present*, p. 97.
105. *CW*, XV, p. 281.
106. *CW*, X, pp. 174, 312, 329; XII, p. 325; XV, pp. 161, 165.
107. Barrington Moore, Jr, *Social Origins of Dictatorship and Democracy* (Harmondsworth: Penguin, 1966); A. Mayer, *The Persistence of the Old Regime* (New York: Pantheon, 1981); R. Dahrendorf, *Society and Democracy in Germany* (New York: Doubleday, 1967); Anderson, *Lineages*; E. Kamenka and R. D. Neale, *Feudalism, Capitalism and Beyond* (London: Arnold, 1975).
108. Moore, *Social Origins*, p. 505.
109. Skocpol, *States and Social Revolutions*, pp. 40, 141, 162, 174–9, 233.
110. J. Merrington, 'Town and Country in the Transition to Capitalism' in R. Hilton, *The Transition from Feudalism to Capitalism* (London: Verso, 1978); A. Brewer, *Marxist Theories of Imperialism* (London: Routledge & Kegan Paul, 1980).
111. *CW*, X, p. 176; XII, p. 64; XIII, pp. 257, 291; XV, p. 179.
112. *CW*, XV, p. 102.
113. *CW*, X, p. 323; XV, p. 314. See also Howard and King, *Political Economy*, p. 37.
114. *CW*, IX, pp. 235, 314; XII, pp. 269–80; XV, pp. 143, 160.
115. *CW*, XX, p. 117. See also *CW*, IX, pp. 48, 112, 234, 314, 442; X, pp. 42, 77, 344, 437; XII, pp. 269–80; XIII, pp. 236, 259; XV, p. 35; XVII, p. 381; XIX, p. 377.
116. *CW*, X, pp. 340, 348. On his own terms, Lenin had no difficulty refuting this charge; see *CW*, VI, pp. 76, 124, 167, 176; VIII, pp. 83, 86, 280; IX, pp. 237, 311; XV, p. 378; XVI, pp. 93, 119; XII, p. 138.
117. M. Perrie 'The Russian Peasant Movement of 1905–7: Its Social Composition and Revolutionary Significance', *Past and Present*, 57, 1972, pp. 123–55; T. Shanin, *The Awkward Class* (Oxford: Oxford University Press, 1972); D.

Atkinson, *The End of the Russian Land Commune, 1905–1930* (Stanford: Stanford University Press, 1983); Skocpol, *States and Social Revolution*, pp. 133–140.

118. *CW*, 15, p. 424.
119. See Chapter 8, section III, above; *CW*, X, p. 119; XI, p. 343; XII, p. 482; XIII, p. 354; XV, pp. 314, 341.
120. Lenin's own view as to what section of the peasantry would identify most strongly with the 'minimum programme' is not clear. Sometimes it is the poor peasantry which is claimed to be most revolutionary, sometimes it is the peasant bourgeoisie. See *CW*, VIII, pp. 233, 320; X, p. 412; XI, pp. 255, 469; XIII, pp. 219, 271, 279, 284; XV, p. 108.
121. B. D. Wolfe, 'Lenin, Stolypin and the Russian Village', *Russian Review*, 6, 1947, pp. 44–54.
122. *CW*, V, pp. 349–520.
123. *CW*, XIII, pp. 98, 112; 112; XVI, pp. 62, 347; XVII, pp. 225, 229; XVIII, p. 44; XIX, p. 372; XX, p. 455. See also M. Leibman, *Leninism Under Lenin* (London: Merlin Press, 1975) pp. 30, 71; Krupskaya, *Reminiscences*, p. 186.
124. The Mensheviks attacked the idea of a 'democratic dictatorship of the proletariat and peasantry' as 'Millerandism', but Lenin had no difficulty in exposing the emptiness of this charge. See *CW*, VIII, pp. 279, 380, 474.
125. *CW*, XI, pp. 53, 373; XV, p. 375; XVII, p. 101.
126. Although the way in which Kautsky expressed his *support* for Lenin *against* Menshevism should have alerted Lenin's attention to the problem. See *CW*, XI, p. 368.

12

Trotsky on Uneven and Combined Development

I Introduction

In the preface to the first volume of *Capital*, Marx had written: ‘The country that is more developed industrially only shows, to the less developed, the image of its own future.’¹ Both Plekhanov and Lenin adhered to this perspective, as we have seen in Chapters 8 and 11. Their economics focused upon the development of Russian capitalism from the relations of commodity production – thereby following the structure of *Capital* itself – and their political strategies were each geared to accelerating the Westernisation of Russia. By contrast, Leon Trotsky denied Marx’s claim.² He did so by formulating a political economy which brought him closer than any other theorist to understanding the structure and contradictions of tsarist modernisation, and thus the nature of the Russian revolutionary process. Trotsky integrated ideas which had first made their appearance in populism with the concepts of Marxism to argue that neither the past nor the future path of Russia could follow the tracks of the advanced West.

Trotsky first outlined his theory of the Russian revolutionary process in 1904–6,³ and for the remainder of his life never repudiated it. But over time the theory matured so that, despite our concern here with the development of Russian Marxism prior to the revolution, Trotsky’s later writings will be used whenever they provide a clearer formulation of his original ideas. The need for this is reinforced by the fact that there is no edition of Trotsky’s collected works similar to those of Lenin and Stalin. In addition, since Trotsky’s post-1917 position is closely associated with his earlier views, the generalisation of his theory from Russia to all backward capitalisms during the 1920s will also be considered here. This provides the most secure basis for understanding the economic debates in the Soviet Union prior to the triumph of Stalinism, which are dealt with in Chapter 15 below.

The next section focuses on Trotsky’s theory of permanent revolution as

**Biography of
L. D. Trotsky**

Leon Trotsky (pseudonym of Lev Davidovich Bronstein) was born in 1879 at Yanovka in the Ukraine, the son of relatively wealthy Jewish farmers. He joined the revolutionary movement in the late 1890s, was quickly arrested and sent into internal exile from which he escaped, and collaborated with Lenin as an émigré in 1902. He broke with Lenin in 1903 and became one of Bolshevism's severest critics. Until 1917, when he joined the Bolshevik party, he worked for a reconciliation between the two wings of Russian social democracy. During the 1905 revolution he was elected leader of the St Petersburg Soviet, a position he regained in 1917. Trotsky, rather than Lenin, was the chief organiser of the actual seizure of power in October. In the Bolshevik government he was initially Commissar of Foreign Affairs but became Commissar of War in 1918, a post he retained until 1925. Under his direction of military affairs the Red Army was created and the civil war won. From the end of 1923 he led the Left Opposition against the ruling factions in the party. Expelled from the party in 1927, sent into internal exile in 1928 and finally expelled from the Soviet Union in the following year, he continued to be the chief Marxist critic of Stalinism in the 1930s. He founded the Fourth International in 1938 and was assassinated in Mexico on Stalin's orders in August 1940.

it was first developed in relation to Russia. This is followed in section III by an examination of the economic analysis which he provided to underpin it. Section IV considers Trotsky's revisionism, and section V indicates how he subsequently brought to the fore elements which not only harmonised with classical Marxism, but also provided a foundation for unity with Lenin in 1917 and after the revolution facilitated the integration of Bolshevik ideas into his own analysis. Section VI summarises the strengths of Trotsky's Marxism, and its weaknesses form the subject of the conclusion.

II The Politics of Permanent Revolution in Russia

Trotsky's *Results and Prospects* represents the most radical statement of revolutionary socialism hitherto to be found in Russian Marxism.⁴ Written in prison during the defeat of the 1905–7 revolution, the book argued that a

further mass uprising would succeed only if it took the form of a socialist revolution. There could be no victorious democratic revolution unless it became telescoped into the dictatorship of the proletariat. Trotsky claimed that both the Menshevik and Bolshevik versions of 'two-stage' revolution reflected incorrect specifications of the class dynamics which would be unleashed by any reactivation of radical forces. Proletarian hegemony must be permanent and not, as orthodoxy maintained, limited to the defeat of tsarism. Backward Russia would not, and could not, experience a period as a bourgeois republic.⁵

Trotsky did not deny that the problems facing Russia were those of democratic revolution. He had an acute awareness of Russian backwardness and nowhere maintained that the material preconditions for the consummation of socialist revolution were present in Russia itself. Eradicating agrarian medievalism, overthrowing tsarist despotism, and instituting measures to regulate exploitation were both the motive forces of revolution and central historical tasks. However, their achievement was dependent upon establishing a revolutionary workers' government. The bourgeoisie was incapable of leading a democratic revolution, or of cooperating with proletarian hegemony. Its resistance would force the proletariat to take power and use it to implement collectivist economic measures.⁶ Successful democratic revolution would therefore 'grow over' into the socialist revolution as an uninterrupted or 'permanent' process. Russia would not achieve socialism via democracy; instead democratic tasks could be realised only through socialist revolution. Thus Trotsky reversed the sequence of both Plekhanov's and Lenin's Marxism.

The peasantry could only choose to follow the proletariat or to support reaction, Trotsky argued; it was incapable of taking an independent position.⁷ The very backwardness of Russian agriculture, however, ultimately favoured peasant acceptance of proletarian hegemony. The agrarian problem, necessarily left unresolved by tsarism and capable of radical solution only by a proletarian regime, would secure peasant support against the landlords and the state.⁸ The agrarian basis of the dictatorship of the proletariat was the *absence* of extensive capitalist relations, and did not depend upon their maturation, as both the Bolsheviks and Mensheviks believed.

Thus it was possible for the working class of backward Russia to attain power before the proletariat of the advanced industrial countries.⁹ Nevertheless, in Trotsky's view, it could not retain that power in conditions of isolation. Ultimately there must come a conflict with the peasantry, whose support for the dictatorship of the proletariat was necessarily limited to the completion of the agrarian revolution. The collectivist measures required to maintain proletarian dominance would ensure a parting of the ways,¹⁰ so that attempts by the working class to secure its power would simultaneously undercut the non-proletarian basis of its rule. In this sense, while

the agrarian problem is the greatest aid to the socialist revolution in Russia, it is also its major challenge.¹¹

Permanent revolution is in consequence locked into a contradiction, which can be transcended only if the revolution extends beyond national boundaries and becomes uninterrupted or 'permanent' in the international sphere.¹² But again the Russian proletariat's alternatives are limited. Just as it entered the revolution within Russia as a protagonist of democratic aims but was propelled beyond them, so too the national revolution would be forced to ferment revolution beyond its borders because the European powers would seek to roll back revolution in Russia. In defence of its national conquests, the Russian proletariat would have to extend the class struggle to the West, and its revolution would 'grow over' into a call for world revolution.¹³ Here Trotsky attempted to reconcile his analysis with orthodox Marxism. The material preconditions for socialism existed in the advanced industrial countries, and the fate of the Russian revolution would pose the issue of the need for proletarian power in unmistakable terms. Orthodoxy was right about the end of the historical process, Trotsky argued, but wrong about the way in which it would be realised: revolution would move from the East to the West, not vice versa. Successful revolution in the West, by ending military threats to the Russian revolution, would then allow Western resources to be used in the building of socialism in Russia.¹⁴

This, in a nutshell, is the politics of permanent revolution. However, Trotsky did not limit his analysis to this level, nor could he have done so. As he envisaged it, permanent revolution was a necessary process; whatever the programmes of the revolutionary parties, the logic of historical events would either by-pass or engulf them. The task of bringing the Russian revolution to a successful conclusion would of course be aided by Russian Marxists' appreciation of its true nature. But the process itself was beyond their control since it was rooted in material conditions. As much as Kautsky or Plekhanov, Trotsky's Marxism was deterministic to its core.¹⁵ We therefore turn to Trotsky's political economy, which provides the theoretical foundation for his idiosyncratic political perspective.

III Uneven and Combined Development in Russia

Important aspects of Trotsky's overall viewpoint on Russian history are clearly within the orthodox Marxist tradition. In designating traditional Russia as 'semi-Asiatic',¹⁶ he follows Marx, Engels and Plekhanov, while by no means sharply distinguishing himself from Lenin. Similarly, in outlining the forces propelling modernisation in Russia Trotsky's treatment is not unique, as he stresses the military impact of the West. True, climatic factors play a more pronounced explanatory role; he explicitly recognises the

emergence of feudal relations; and he sees the impact of the West as accelerating and modifying development, rather than being wholly responsible for it.¹⁷ But none of these differences is especially significant. Instead, it is Trotsky's specific focus within a generally accepted historical process which principally accounts for his distinctive political conclusions.

He considers the nature of contemporary Russian industry and the institutions which brought it into being, together with their effects upon the social structure of the cities, to be of paramount importance.¹⁸ Rural economic conditions receive little attention, and agrarian capitalism is regarded as being hardly in evidence even on the eve of the 1905 revolution.¹⁹ This makes Trotsky's analysis of the development of Russian industry far closer to that of Tugan-Baranovsky than to Lenin (see Chapter 9 above). He shares with Lenin, however, a concern with the revolutionary potential generated by the form of capitalist development. As with Lenin, and unlike Tugan-Baranovsky, Trotsky's economic analysis is subordinated to the solution of political problems.

For Trotsky, geographical conditions held to account for Russia's Asiatic characteristics meant that the traditional Russian city was a predominantly administrative and military centre. Urban commercial activities were sparse and manufacturing was even less concentrated, being spread through the countryside as an adjunct to agriculture. Hence Russian cities were quite different from those of late medieval or early modern Europe. Nor did the development of Russian capitalism tend to bring about a convergence. Rather, in conjunction with the earlier differences, it made twentieth-century Russian cities overwhelmingly proletarian, and certainly much more so than those of Europe, where bourgeois and petty-bourgeois strata remained important. The plebeian character of Russian cities reflected the 'late start' of tsarist industrialisation, the extensive use of foreign capital, and the state's magnified role in the process. This minimised the development of an indigenous bourgeoisie; the ownership of capital was in large part held either by the state or by foreigners. While this elevated the bourgeois character of Western cities, it shrank that of Russia. At the same time, industrialisation failed significantly to increase the size of the urban *petite-bourgeoisie*. Factory production tended to be large-scale and bypassed the earlier stages of industrial development still much in evidence in Europe. In turn, this meant that not only was a sizeable proletariat created, but it was one that had distinctly modern attributes.

Trotsky recognised that the urban population was a small minority, but he argued that its size did not reflect its economic and political weight. It produced a disproportionately large percentage of national income, and the nerves of the state structure ran through the cities.²⁰ Trotsky also maintained that all modern revolutions had been, and necessarily were, urban-led.²¹ Like Marx, and much more clearly than Lenin, Trotsky consistently viewed the peasantry's relations of production and life-style as denying it

an independent political role.²² It followed that any revolution in Russia would be a revolution of the proletariat, which despite its minority status had the power to paralyse the existing state machine and replace it with one of its own design.

In itself this conclusion resembled that of other Russian Marxists. After all, proletarian hegemony had been a principle enunciated by Plekhanov in the 1880s, and it was constantly stressed by Lenin. Where Trotsky broke new ground was in his emphasis upon the unique power of the proletariat and the importance of the issues it would have to resolve in the revolutionary process itself, and his devaluation of constraints posed by the bourgeoisie, the peasantry and the overall level of economic development. All these issues were tied to his view of the peculiarities in Russian industrialisation.

We have already considered the peasantry, and Trotsky's argument as to why a proletarian revolution could tap popular discontent in the countryside. So far as the Russian bourgeoisie was concerned, it not only represented a small fraction of the urban population, but its interests tied it to the established order. The bourgeoisie was economically integrated with both the landlords and the state, and needed an authoritarian government as protector in conflict with the working class.²³ Consequently it would resist those democratic demands most favoured by the proletariat and peasantry (the eight-hour day and seizure of the landed estates).²⁴ This would prevent the bourgeoisie from leading the revolution, and would force the proletariat to extend the revolution beyond bourgeois limits. In other words, the conservatism of the capitalist class acted not as a restraining influence, but as a catalyst for socialist revolution.

Trotsky never denied that the material conditions in Russia were insufficiently mature to allow the consummation of such a revolution. But he did argue that this did not undermine the ability to begin it. What was critical in this regard was not an overall index of economic development in Russia, but the constellation of class forces generated by that development which his analysis had uncovered.²⁵ Moreover, he believed that an international extension of the revolution was extremely probable. Linked as it was to foreign capital, the fate of Russian industry was of European concern. A proletarian expropriation, forced by bourgeois opposition to revolution, would ensure intervention by Western states and so dramatically raise the issue of working-class power on a continental scale. The proletariat of Western Europe would then come to the aid of the Russian workers. Although Trotsky never specified precisely how the resources of other countries were linked to socialism in Russia, their association allowed him to maintain his claim to a bond with Marxian orthodoxy. It could be claimed that the class struggle in Russia would not ultimately be out of accord with those productive forces generally assumed to be a prerequisite for socialist development.

Running through all these arguments is Trotsky's master concept: the

notion of 'uneven and combined development'. For him Russian modernisation was an unbalanced process. Some sectors not only leaped ahead of others; they did so by absorbing the most advanced attributes, measured on a world scale. At the same time they were combined in a single social formation whose other sectors moved to different historical rhythms. This was not accidental: there were aspects of functional integration. Thus the intensified exploitation of backward agriculture retarded its own development but facilitated the creation of a modern capitalist industrial enclave. And the exacerbation of the traditional agrarian problems aligned the peasantry behind the proletariat in revolution. Proletarian leadership, in turn, would ensure the success of a traditional peasant revolt. Similarity of conditions is not always necessary for solidarity between classes; class alliances may result from interdependence in conditions of disparity.²⁶

Although Plekhanov and Lenin are complex theorists, and aspects of these ideas can be detected in their writings, on the whole their perspectives were markedly different. Lenin, for example, sought to show both the broadness and underdeveloped nature of Russian capitalism; Trotsky instead emphasised its concentrated and advanced form in a context of pre-capitalist agriculture. While, for Lenin, the alliance of the proletariat and peasantry was based on a shared condition of backwardness, Trotsky considered the very opposite to be true. One consequence of this is that the very idea of 'backwardness' itself becomes suspect. Although Trotsky himself frequently used the term to describe Russia, and the revolution he envisaged has been regarded as a 'revolution of backwardness',²⁷ the logic of his analysis indicates that these definitions are inappropriate.²⁸ The core of his argument is that a belatedly modernising Russia develops economic structures which are simultaneously the most modern and the most retarded in Europe. And it is this unbalanced form which provides the clue to its history and future.

For Trotsky, that future was permanent revolution. He did, however, recognise implicitly that uneven and combined development has qualities which work against it. In particular, the modernisation of the state machine in Russia makes it far stronger than traditional absolutism. As a central agency of change it subordinates the propertied classes to an extreme degree, and borrows knowledge and technology permitting it to perfect its means of domination.²⁹ In this sense, revolution in Russia was a contest between a modernising state and a modern proletariat. Although Trotsky never states the issue in these terms, they follow from his analysis and should have qualified his faith in permanent revolution as the only future possible for Russia. This indeterminacy was in fact destined to play a much larger role in his later thought, which we consider in section VII. Prior to 1917, however, Trotsky shared the determinism of Second International Marxism, even if his loyalty to its other features was problematic.

IV Trotsky's Marxism and the Marxian Heritage

In outlining a special path of socialist development for Russia based upon the logic of uneven development, Trotsky's Marxism obviously suggests the influence of populism. But although Trotsky recognised that this doctrine was not without its insights,³⁰ there is no evidence that it was a significant factor in leading him to his own conclusions. Like many other Russian Marxists he passed through a phase of sympathy for populist ideas, and as was also typical, once having embraced Marxism he never returned to them. Indeed, his views on the peasantry's revolutionary capabilities make his own theory distinctly anti-populist. So, in accounting for the specific characteristics of Trotsky's Marxism, we must look for other influences.

The principal ones were twofold: the ideas of Alexander Helphand (better known by his pseudonym, Parvus) and the events of 1905 which, Trotsky believed, confirmed those ideas, and pointed beyond them. Parvus was a Russian Jew who spent most of his adult life in Germany, became a member of the SPD and displayed a variety of maverick tendencies until his death in 1924.³¹ He sketched many of the themes that were to be incorporated into Trotsky's Marxism,³² and there is no doubt that he deeply affected Trotsky's thinking.³³ The magnitude of the debt is, nonetheless, unclear. Between 1904 and 1906 Parvus and Trotsky were close associates and discussed all the issues of the Russian revolution at length. Given the quality of Trotsky's intellect, it is doubtful that the influence was unidirectional. Furthermore, it was Trotsky who developed the insights into an integrated system. And in doing so he went beyond Parvus, who had drawn back from believing that a workers' government in Russia could constitute the first stage of socialist revolution, rather than just a means for achieving a radical solution of the democratic tasks. There were also elements in Parvus's position which Trotsky did not immediately take up, especially the idea that capitalist economic development had made the nation-state obsolete, and that this would result in an era of imperialist wars. He did so subsequently, as we will see in the next section, and this brought his Marxism closer to the mainstream. Even then, though, Trotsky was continually criticised for departing radically from orthodoxy.

Undoubtedly there were also a host of other influences at work upon Trotsky. Commitment to a notion of 'revolution *in permanentia*' as relevant to Russian circumstances had first been made by David Ryazanov in 1903,³⁴ primarily on the grounds that the revolutionary socialist movement was exceptionally well developed in Russia and that a Russian revolution would be joined by a European socialist revolution. Ryazanov also supported the pertinence of the idea of permanent revolution by analysing the development of Marx's own tactics between 1848 and 1850 (see Chapter 7 above). How far Trotsky (or Parvus) was actually influenced by Ryazanov is not

known, but less precisely formulated views as to the radical nature of a Russian revolution and the need for proletarian hegemony were elements of the milieu Trotsky inhabited in the early years of the twentieth century. So too was the absence of a satisfactory account in orthodox Marxism of how proletarian dominance in a bourgeois revolutionary process itself would be limited (see Chapters 8 and 11 above). When revolution broke out in 1905, the rising curve of proletarian radicalism indicated to Trotsky that the actual restraints could be overcome.³⁵

The underlying idea of uneven and combined development also was not brought into Russian Marxism by Trotsky, either alone or in cooperation with Parvus. There were fleeting anticipations of this concept in the early works of Plekhanov and Lenin (see Chapters 8 and 9 above). More importantly, Ryazanov had perceived that tsarism was not simply a remnant of the old society; it had, he claimed, adapted to the needs of capitalism. He also recognised that agrarian conditions could support proletarian revolution in Russia.³⁶ Kautsky too had pointed to the social and political consequences of foreign investment in Russia, and coupled with it the view that a Russian revolution was bound to show historically unique features.³⁷ There was above all the work of Tugan-Baranovsky, which focused upon exactly those aspects of tsarist industrialisation which provided much of Trotsky's materialist base (see Chapter 9 above). However, while Kautsky was quoted extensively in *Results and Prospects*, Trotsky never once indicated any intellectual debt to Tugan-Baranovsky. This is not surprising given the legal Marxist's departure from the ranks of social democracy, but it is inconceivable that Trotsky had not read *The Russian Factory*, or, given its quality, been impressed by it.

Nonetheless, Trotsky's ideas were seen by his contemporaries as an extreme break with orthodoxy, and there can be little doubt that this was a correct assessment at the time of their first formulation. But before we consider Trotsky's own defence against his critics, it is useful to note two characteristics of Marx's work to which he could have appealed for support. They do not undermine the charge that Trotsky significantly deviated from orthodox Marxism, but they do allow the claim that this was in the nature of a generalisation. On this basis it can be argued that, although Trotsky was a radical innovator, he was highlighting a deeper structure in Marx's own thought.

As outlined in the *Critique of Political Economy*,³⁸ historical materialism implicitly involves a notion of uneven and combined development. Epochs of transition are those in which two modes of production are combined in a single social formation. Their uneven development, whereby the progressive mode forges ahead and the other stagnates, ultimately brings a crisis that can be solved only through social revolution. In the *Grundrisse*, Marx maintained that this facilitated the formation of a new organic unity based on a single mode of production.³⁹ But elsewhere he recognised uneven and

combined development to be a more pervasive phenomenon: for example, he saw Western feudalism as arising from an interpenetration of the slave mode of antiquity and the social organisation of the Germanic barbarians who overran the Roman Empire. Marx also noted that in the case of nineteenth-century England this 'classical' model of capitalist development did not require that the aristocracy lost its predominant political position. At the other extreme, he described the French peasantry as representing 'barbarism in the midst of civilisation'. This was symptomatic of his contempt for the backwardness of all rural life, which reflected the delay in capitalist penetration of the countryside.⁴⁰

These examples could easily be multiplied, and they are in tension with Marx's more general expositions of historical materialism, where the notion of uneven and combined development is implicit and limited. Trotsky's Marxism can thus be interpreted as the first conscious attempt to provide a more general framework, in which the complexity of uneven and combined development as recognised by Marx is made consistent with the central ideas of historical materialism. Trotsky never explicitly claimed this himself, but it would not have been unreasonable for him to have done so, especially after he had extended his analysis to the level of the world economy and non-Russian peripheral capitalisms (which we discuss in the next section).

As it was, Trotsky's defence against more orthodox critics involved arguments of a different sort. He claimed that Marxism represented a science of social relations, not the exegesis of texts, so that his ideas should be evaluated on the basis of whether they accurately located the class dynamics of the Russian revolution.⁴¹ To that end Trotsky clarified certain elements of these ideas. He denied asserting that Russia could leap straight from absolutism to socialism, or that permanent revolution implied skipping over the democratic revolution. The concept of permanent revolution did not reflect a confusion as to the necessary stages in the revolutionary process.⁴² It was not that the theory mixed up the different types of development, as the critics alleged; rather it was the Russian historical process itself that had done so.⁴³ Socio-economic progress was less rational than orthodoxy portrayed it, and this created genuine problems for revolutionaries which could not be avoided.⁴⁴

However, Trotsky did claim that permanent revolution had a clear Marxian lineage, as the idea had originated with Marx himself during the 1848 revolution.⁴⁵ Nor was it adventurist: although premature in the middle of the nineteenth century, it was possible to see, by examining the structure of revolutions in 1789, 1848 and 1905, that telescoping the bourgeois revolution into the socialist was an immanent property of the epoch.⁴⁶ This had been partially recognised by Lassalle, Kautsky, Luxemburg and even Plekhanov.⁴⁷ Trotsky coupled this with a devastating critique of Menshevik theory and an only slightly less unfavourable evaluation of the Bolshevik

position. Menshevism based itself on formal historical analogies that were made irrelevant by the specific nature of Russian development. Bourgeois democracy was unrealisable because no independent revolutionary middle class existed. Commitment to Menshevism therefore implied the taking of an objectively counter-revolutionary stance. So too with Bolshevism, but with the difference that its conservatism would be manifest only after a successful revolution. Once committed to the proletariat, the peasants cannot by themselves put a brake on its radicalism. And no revolution which recognises the need for anti-bourgeois measures can subsequently passively make way for the rule of the bourgeoisie.⁴⁸

Between 1906 and 1917 Trotsky also strengthened his claim to have formulated a legitimate Marxism. His original statement in *Results and Prospects* had been from a Russian standpoint, and did not locate Russian modernisation within the structure of international capitalism. Nor did it connect revolution in Russia with European revolution in any rigorous fashion, providing no reason to suppose that, when the Russian revolution succeeded, European conditions would be favourable to its extension. Trotsky had argued that the material prerequisites for socialism did exist in the advanced countries, but as he had also noted in the case of Russia it was the class struggle that was of paramount importance in determining the onset of revolution; and he had little to say on the progress of class conflict in the West. However, by 1917 Trotsky had done much to deflect the force of these points, and in doing so had moved closer both to orthodox Marxism, and to the ideas of Bukharin and Lenin (see Chapter 13 below). Further additions and refinements of his theory were made after 1917, and by the early 1930s Trotsky could claim to have forged a theory of world history relevant to the final stage of capitalist development.

V Imperialism and World Economy

Trotsky interpreted the outbreak of the First World War as signalling the end of an epoch. The progressive role of capitalism was finished, and capitalist nation-states had become a fetter upon the further development of the productive forces. The result of this had been European imperialism, which, in turn, had brought about an integrated world economy. But, in completing the unification of the world under the domination of capital, Trotsky argued, the leading powers had been forced to turn on each other in a struggle for hegemony.⁴⁹ After 1914 the only choice was socialism or barbarism,⁵⁰ at the level of world history. This had been claimed earlier by Luxemburg (who had also been greatly influenced by Parvus) and was the conclusion that both Bukharin and Lenin reached at much the same time as Trotsky (see Chapters 6 above and 13 below). The era of purely national revolutions had passed. Capitalism was a global system in which all the

national units had become linked, and were dominated by the overall structure of which they were parts. For Trotsky this was as true for the advanced countries as it was for the backward. Fully to break free of these relations was a task that no isolated socialist revolution could accomplish. The only salvation of revolution in one country lay in its extension to other parts of the world economy, progressively weakening international capital.⁵¹ It was in terms of their effect upon the system as a whole that revolutionaries should measure their actions, Trotsky now argued. To appeal to the level of economic development in any particular country was anachronistic. It was the productive forces of the globe and their constraint by the relations of national states which was now relevant. These forces would be employed increasingly as the means of warfare and threatened to destroy the progressive advances of the past.⁵²

Thus, while the Russian revolution had always been of world-historic significance for Trotsky, by 1917 it dovetailed with a more comprehensive vision, in which he could counter the strongest orthodox criticism of his ideas: Russia was economically ripe for socialism in the sense that the world economy was ripe, and there was no other relevant criterion because of the nature of capitalism as a global system.⁵³ Indeed, Trotsky's explicit incorporation of capitalism as a world economy into his analysis meant that all the basic propositions of historical materialism could now be affirmed. To the objection that they were not formulated with such an application in mind, the rejoinder could be made that Marx himself had not specified their exact reference point. Thus, theorists of the Second International – including Kautsky, Hilferding, Plekhanov and Lenin (but not Luxemburg) – tended to think that Marx's model of capitalism related to individual national capitalisms, but this could not be supported by reference to *Capital* itself. There Marx had treated 'capital in general', not a particular national capitalism, nor a set of capitalisms separated into national units. Moreover, the *Communist Manifesto* had explicitly viewed capitalism as a global system. In addition, historical materialism was a theory of world history, not just of capitalism. How, then, could it be confined to a historically-specific institution such as the nation-state?

The 'privilege of backwardness', however, did still apply, Trotsky claimed. The imperialist war represented a general crisis of capitalism and thus inaugurated the era of general socialist transformation. Precisely where this began was not of fundamental importance. But permanent revolution in Russia was well-placed to lead the way, for the disruptive effects of war would be felt more acutely in a structure riddled with uneven and combined development. Moreover, since Russia was a semi-colonial country as well as an imperialist power, proletarian revolution would seriously weaken the Western economies by cutting off an area of exploitation, and so intensify the international class struggle.⁵⁴

None of this contradicted Trotsky's earlier views, but rather provided a

more secure foundation for them. He had located Russian capitalism as part of an international system of imperialist relations, and his belief in the contagious effects of revolution was reinforced. The development of Trotsky's views also brought into account another consideration relevant to this latter issue. He realised that the advanced countries themselves displayed important elements of uneven and combined development. Only the USA was close to being a purely bourgeois society. Elsewhere in the West, there were still aspects of the democratic revolution which had never been realised (see Chapters 4, 9 and 11 above).⁵⁵ Socialist revolution in Europe would, therefore, have to complete the democratic tasks and would not be altogether different from permanent revolution in Russia. In consequence, a Russian revolution could be expected to have a very powerful symbolic effect, even on the advanced countries.

Trotsky, however, stressed the similarity of Russia to peripheral capitalist areas: before 1917 the Balkans, and in the 1920s colonial and semi-colonial territories generally. Thus he saw Russian economic development as typical of backward capitalisms, to all of which the model of permanent revolution could be applied.⁵⁶ This meant that nationalist, anti-imperialist movements were part of the struggle for socialism, for exactly the same reasons as in Russia; they could succeed only under proletarian leadership. And victory anywhere would extend working-class power geographically, and strike a blow against international capitalism by reducing its arena of exploitation, thereby hastening the spread of revolution to the metropolitan imperialist countries themselves.⁵⁷ Not surprisingly, Trotsky came to view the twentieth century as the age of permanent revolution.⁵⁸

VI The Strengths of Trotsky's Marxism

Trotsky's major intellectual achievement was undoubtedly his perception of the political developments generated by tsarist industrialisation. He came closer than any other Marxist to correctly predicting the sequence of events that would be set in motion by the overthrow of the autocracy: the history of 1917 was broadly in accordance with his forecast of a decade earlier. In addition, Trotsky had a more acute understanding than most radical Bolsheviks of the difficulties such a revolution would encounter and was therefore less prone to minimise problems when they arose in the 1920s even if, in the last resort, he was no better equipped to engage them. For all his errors and reversals in the post-revolutionary years he could rightly claim a theoretical depth and consistency which far exceeded that of Bukharin and Stalin.

Broad support for Trotsky's political economy comes from the most theoretically inclined of all Western economic historians, Alexander Gers-

chenkron,⁵⁹ whose detailed analysis of the industrial development of tsarist Russia is organised like Trotsky's. Gerschenkron's description of the logic of industrialisation under the autocracy is similar to that of Trotsky. And in locating the peculiarities of Russian development as part of a continental pattern, he complements Trotsky's analysis of the sequence of European revolutions between 1789 and 1905. Moreover, by stressing the overriding importance of uneven and combined development for understanding backwardness, Gerschenkron provides support for Trotsky's generalisation of his theory to areas west of Russia. This generalisation, of course, introduces a major qualification to Marx's own analysis. While capitalism represents a mode of production which universalises itself, for Trotsky it is less powerful as an engine of transformation than Marx himself suggested. On this the empirical evidence clearly supports him: in Britain and France – for Marx, the classic examples of capitalist revolution – major elements of the *ancien régimes* persisted throughout the nineteenth century. This has become a major theme of modern European historiography.⁶⁰

Further support can be provided for Trotsky's generalisation of uneven and combined development to the areas east of Russia. During the nineteenth century the European bourgeoisie begat a global economy dominated by capital, but it did not create 'a world after its own image' as the *Communist Manifesto* had claimed.⁶¹ Instead, as Trotsky understood, it produced a complex hierarchical division of labour in which pre-capitalist economic forms were often adapted to the needs of capital, rather than eradicated by it. Trotsky's work can therefore be seen as one of the earliest examples of a major strand in Marxism since 1945.⁶²

His own more specific 'conception of the epoch' is obviously of questionable validity: 1914 did not inaugurate a series of imperialist wars between the great powers; sustained accumulation in areas of advanced capitalism was not finished as Trotsky believed, and the formal colonial empires have been dismantled. Capitalism has proved adaptable to a transnational form and its resilience has been greater than Trotsky expected. Nevertheless, for the first half of the twentieth century Trotsky's perspective was consistent with the economic and political history of Western capitalism, which saw the longest and deepest series of crises experienced by the system. Nor is this easily dismissed as a product of purely contingent circumstances. There was a structural problem of the form envisaged by Trotsky. To function productively, capitalism requires an international organisation akin to that provided by a nation-state over its own territory. For much of the nineteenth century the rudiments of this were furnished by the predominance of British sea power. Since the mid-twentieth century a more comprehensive American dominance has been evident. But between these two dates there was no economic basis by which international hegemony could be exercised through the medium of a national state, and no

substitute was provided. In consequence there was an upsurge of European militarism, massive disruption of the international economy and two world wars in which imperialist ambitions were prominent.⁶³

Furthermore, almost despite himself, Trotsky provided a basis during the 1920s for understanding why this intervening period proved transitory. He recognised that European war undermined the economic and military might of the principal belligerents relative to the USA; that the USA was by the 1920s already exercising its economic power in relation to Europe; and that its long-term interests lay in dismantling all colonial empires in favour of an 'open door' policy.⁶⁴ Trotsky failed to see that this posed a problem for his insistence that Western capitalism was locked into a crisis from which it had no exit. Instead he held fast to the belief that repeated imperialist wars between advanced capitalisms were the only alternative to socialist revolution on a world scale. But compared with most other Marxists who shared the same overall vision, he indicated at isolated points a less deterministic view of the future.

VII The Weaknesses of Trotsky's Marxism

This indeterminacy in Trotsky's thinking was also a potential source of weakness, when set against the standards of orthodox Marxism in the era of the Second International. The concepts of uneven and combined development, and permanent revolution, originated in the notion of historical 'peculiarities', and Trotsky never ceased to affirm their importance.⁶⁵ The claims of Marxism to scientific status necessarily became attenuated. Thus the central difficulty of Trotsky's system is the attempt to develop general laws of historical development while recognising the dominance of specific peculiarities, although Trotsky's parallel tendency to cut short explanation at crucial points in his argument disguises the extent to which this is true.⁶⁶

We can see this in many features of his work. Trotsky's initial formulation of permanent revolution presented it as an inevitable series of events. However, at the moment of apparent triumph in 1917, Trotsky weakened it through his adoption of Bolshevik voluntarism. This was a dramatic reversal of his previous position, which had been essentially Menshevik in its disposition to favour a loosely structured mass party. He was not unaware of the opportunistic dangers that Menshevism involved, but he believed that the force of objective events would itself compel the adoption of permanent revolution when a new mass uprising occurred. In consequence the threat of 'substitution', whereby the Bolshevik party could replace the class as the agent of revolutionary struggle, was seen as the greater danger. The class conciliationist policies adopted by most Mensheviks after the February revolution finally convinced him that Lenin's intransigence on questions of ideological purity and centralised party

organisation had been right after all. If only by implication, Trotsky now had to accept that permanent revolution was not the inevitable result of Russian economic development. Instead, what Lenin had described as a 'Prussian' path to the completion of Russia's modernisation was distinctly possible. Trotsky's 'solution' to this problem was to stress, henceforth, that the 'subjective' element was an essential prerequisite of revolutionary success.⁶⁷ Indeed, he was reduced to the view that the failure of non-Russian revolutionary forces was the result of inadequate leadership, and had it not been for Lenin's presence the Russian revolution itself would have been stillborn.⁶⁸ This was voluntarism with a vengeance.

There are similar weaknesses with Trotsky's generalisation of his theory of permanent revolution, which had originated in a profound analysis of Russia's economic development. In applying it to a wider arena, he provided the theory with no analogous support, setting aside real national peculiarities on the grounds that imperialism had reproduced those of Russia throughout the East. No doubt there were elements in the Marxian heritage which facilitated this, in particular the view that, prior to capitalist penetration, the Asiatic mode of production had characterised the whole of the non-Western world. But whatever the reason, the superficiality of Trotsky's generalisation has become blatantly apparent in the actual revolutions that have swept through the world since 1945: none has followed the model of permanent revolution. Eastern Europe was Sovietised via the occupation of the Red Army; the Chinese revolution was a giant peasant *jacquerie* organised by urban intellectuals; and the revolutions in Cuba, Vietnam, Ethiopia and elsewhere have shown few signs of proletarian leadership.⁶⁹

Furthermore, through the very concepts which Trotsky first made explicit, Marxists have revealed how diverse are the structures and history of non-European countries. By following Trotsky's methods here more closely than he himself was wont to do, they have revealed the non-deterministic features inherent in the very best of his work. In their hands the world economy becomes a patchwork of modal articulations, and Marxism itself is reduced to the 'box of tools' required to understand them. Continuity with the original themes of the founders of historical materialism is achieved, if at all, through an appeal to the alleged powers of authoritarian parties which seek to duplicate Soviet history without its past. Marxism therefore also becomes an apology for the political structures of Eastern Europe and Third World nationalist movements.

There is another clear link with Trotsky in all this. The most significant weakness in his early work is the manner in which he connected permanent revolution and socialism. He claimed that permanent revolution in Russia could succeed as the first step in the building of socialism, if only the revolution was extended internationally. But he never provided convincing arguments for this, and the 'oversight' is especially troublesome in the light

of Plekhanov's very clear expression of the contrary view (see Chapter 8 above). This omission is related to Trotsky's position on post-revolutionary society. Although he was not averse to humanistic depictions of future communist society,⁷⁰ this humanism is generally absent from his treatment of the socialist transition, in which fundamental changes in the relations of production are equated with the abolition of private property and the ending of commodity production, while the authoritarian management of production might remain unchanged.⁷¹ Thus until the end of his life in 1940 Trotsky continued to depict the Soviet Union under Stalin as a 'worker's state' (albeit a degenerate one), precisely because private property had not been restored.⁷²

Trotsky's attempt to revitalise Marxism by extending revolution internationally also suffered from his tendency to truncate explanation on central matters at issue. The economic basis of the contradiction between capitalist nation-states and the further development of the productive forces was left unspecified. Whether it is a matter of economies of scale, of underconsumption, of surplus capital generated by monopoly superprofits, or some other factor, was never precisely indicated. In one respect Trotsky's perspective seems to have resembled that of Rosa Luxemburg. He sometimes implied that the central problem facing any capitalist economy was a chronic shortage of markets. If this was Trotsky's position, it would be easily understandable; Parvus had taken this view before the First World War and also influenced Luxemburg and Kautsky (see Chapters 4 and 5 above).⁷³ But Trotsky never explicitly stated the economic mechanism which he believed to lie behind imperialist rivalry. Thus his treatment of crisis tends to be circular: war is the only evidence for the contradiction, while the contradiction is adduced to explain war.

This also has some bearing upon his post-revolutionary positions. Trotsky did not differentiate between the various imperialist economies; in particular, notions of uneven and combined development were absent from his account of international relations in the War. Instead, he suggested that all the 'great powers' faced much the same problem of finding sufficient markets for the effective utilisation of their productive forces. This meant that his perspective was very different from that of Lenin, who stressed that imperialist powers were unevenly developed and made it the foundation of his theory of war. During the 1920s this contrast underlay the debates that raged in the Bolshevik party, since perceptions of the international economy became determinants of policy positions (see Chapter 15 below).

Not surprisingly, a world revolutionary programme based upon such a weak foundation is not likely to be effective. In contrast Trotsky's strategy for Russia was vindicated in 1917. But it succeeded through the medium of the Bolshevik party and, as we have noted, Trotsky did not underestimate the significance of this. However, he did claim that Lenin had come to accept the validity of permanent revolution, and had made it Bolshevik

doctrine at the crucial moment. This is an exaggerated claim, since Lenin was much more influenced by Bukharin who had arrived at conclusions concordant with those of Trotsky, but via a different theoretical development. In the next chapter we consider Bukharin's work before returning to the momentous shift in Lenin's own perspective prior to the October revolution.

Notes

1. K. Marx, *Capital* (London: Lawrence & Wishart, 1970) vol. I, pp. 8–9.
2. For explicit denials see L. Trotsky, *The Challenge of the Left Opposition (1923–5)* (New York: Pathfinder Press, 1975) pp. 96–7, 205–6; *The History of the Russian Revolution* (London: Pluto, 1977; written in 1930) p. 1219; *The Living Thoughts of Karl Marx* (Greenwich, Conn.: Fawcett, 1963; first published in 1939) p. 46.
3. See L. Trotsky, *1905* (New York: Random House, 1971; first published in 1909) p. v; and L. Trotsky, *Our Revolution* (Westport, Conn.: Hyperion Press, 1973; composed of articles written between 1904 and 1917).
4. L. Trotsky, *Results and Prospects* (New York: Pathfinder Press, 1969; written in 1906) in L. Trotsky, *The Permanent Revolution and Results and Prospects* (New York: Pathfinder Press, 1969) pp. 29–122.
5. Summaries of Trotsky's basic idea can be found in his following works: *1905*, p. v; *Permanent Revolution* (first published in 1930) pp. 276–81; *My Life* (New York: Pathfinder Press, 1970; first published in 1930) pp. 171–2, 221–2, 370; and *Stalin* (New York: Stein & Day, 1967; unfinished at the time of Trotsky's death in 1940) pp. 439–4.
6. *Results and Prospects*, pp. 78, 101, 129; *1905*, p. 315.
7. *Permanent Revolution*, p. 193; *History*, p. 331.
8. Trotsky attributed the defeat of the 1905 revolution to the loyalty of the (peasant) army to the state; see *Our Revolution*, p. 156; *1905* pp. 55, 98, 255, 263, 295, 325.
9. *Results and Prospects*, p. 63.
10. *Ibid*, pp. 76, 105, 115.
11. *1905*, pp. 35, 76; *History*, p. 402.
12. *Results and Prospects*, pp. 30, 105.
13. *Ibid*, p. 108.
14. R. B. Day, *Leon Trotsky and the Politics of Economic Isolation* (Cambridge University Press, 1973), claims that Trotsky's main argument on the need to extend the revolution to the West was political, rather than economic. According to Day, Trotsky considered the chief constraint upon building socialism in Russia to be the proletariat's inability to dominate the peasantry completely, and not that the central problem was the underdevelopment of the productive forces. There is some evidence that this may have been Trotsky's view in 1906; see *Results and Prospects*, pp. 82–99, and R. Larsson, *Theories of Revolution* (Stockholm: Almqvist and Wiksell, 1970), pp. 290–2, 338. However, the evidence is by no means conclusive, and, even if Day's interpretation is accepted, it is difficult to believe his related claim that Trotsky first provided an economic argument against 'socialism in one country' only in the mid-1920s. He did so in 1914, and his position in the 1920s follows logically from his analysis

of the world economy at the outbreak of the First World War (see section V of this chapter, and Chapter 15 below).

15. As with most other theorists, Trotsky sometimes entertained a more flexible attitude to future possibilities; see, for example, *1905*, pp. 279–83.
16. *1905*, p. 8.
17. *Our Revolution*, pp. 69–72; *Results and Prospects*, pp. 37–45; *1905*, pp. 3–11; M. Sawer, *Marxism and the Question of the Asiatic Mode of Production* (The Hague: Martinus Nijhoff, 1977) pp. 179–81.
18. *Results and Prospects*, pp. 37–51; *1905*, pp. 3–22; *History*, pp. 25–37.
19. *1905*, pp. 31, 177; *History*, pp. 67–8, 858.
20. *1905*, pp. 43, 236, 294, 390; *Our Revolution*, p. 153.
21. *Results and Prospects*, pp. 52–61, 72, 193; *1905*, pp. 98, 103, 187, 277; *History*, p. 30.
22. *Results and Prospects*, p. 72.
23. *Our Revolution*, pp. 173, 175, 201; *1905*, p. 40; *History*, pp. 872, 1174.
24. *1905*, pp. 73, 110, 158, 179, 214, 261.
25. *Results and Prospects*, p. 63; *Permanent Revolution*, pp. 180–1; *My Life*, p. 223.
26. *Results and Prospects*, p. 76; *History*, pp. 65–6, 71–2; M. Sawer, *Marxism*, pp. 184–5.
27. B. Knei-Paz, 'Trotsky, Marxism and the Revolution of Backwardness', in S. Avineri (ed.) *The Varieties of Marxism* (The Hague: Martinus Nijhoff, 1977) pp. 65–81.
28. For Trotsky's own recognition of this, see *History*, pp. 30, 472, 906.
29. *Results and Prospects*, pp. 37f, 62ff; *1905*, pp. 3f, 332ff.
30. *History*, pp. 471, 1175.
31. See Z. A. B. Zeman and W. B. Scharlau, *The Merchant of Revolution* (Oxford: Oxford University Press, 1965); A. I. Solzhenitsyn, *Lenin in Zurich* (New York: Farrar, Straus & Giroux, 1976).
32. For an account of Parvus's ideas see Zeman and Scharlau, *Merchant*; I. Deutscher, *The Prophet Armed* (Oxford: Oxford University Press, 1954) pp. 98–116, and H. Schurer, 'The Permanent Revolution: Lev Trotsky', in L. Labedz (ed.) *Revisionism* (London: Allen & Unwin, 1962) pp. 67–76.
33. Deutscher, *Prophet Armed*, pp. 219–20.
34. R. Larsson, *Theories of Revolution*, pp. 182–95, 303–4.
35. *Our Revolution; 1905*.
36. Larsson, *Theories*.
37. *Ibid.*, pp. 256–68, 301, 311, 319–21.
38. K. Marx, *Critique of Political Economy* (London: Lawrence & Wishart, 1971) pp. 19–23.
39. K. Marx, *Grundrisse* (Harmondsworth: Penguin, 1973) p. 278.
40. K. Marx, *Pre-Capitalist Economic Formations* (London: Lawrence & Wishart, 1964) edited by E. J. Hobsbawm; P. Anderson, *Passages from Antiquity to Feudalism* (London: Verso, 1974); K. Marx, 'The British Constitution' in K. Marx and F. Engels, *Collected Works* (London: Lawrence & Wishart, 1980) vol. 14, pp. 53–4; D. Mitrany, *Marx Against the Peasant* (London: Weidenfeld & Nicolson, 1951); M. Duggett, 'Marx on Peasants', *Journal of Peasant Studies*, 2, 1975, pp. 159–82.
41. *Results and Prospects*, pp. 34, 64, 80.
42. *1905*, p. 302; *Permanent Revolution*, pp. 168, 178, 208.
43. *Permanent Revolution*, pp. 230, 239.
44. *1905*, p. 317; *Permanent Revolution*, p. 254; *History*, p. 334.
45. K. Marx, *The Revolutions of 1848* (Harmondsworth: Penguin, 1973) p. 330;

- Results and Prospects*, p. 85; *Permanent Revolution*, p. 130; Larsson, *Theories*, pp. 17–107.
46. *Results and Prospects*, pp. 52–61.
 47. 1905, pp. viii, 55; *Results and Prospects*, pp. 65, 105, 110; *Permanent Revolution*, p. 179; Deutscher, *op. cit.*, p. 178; Larsson, *op. cit.*, pp. 256–76; B. Knei-Paz *The Social and Political Thought of Leon Trotsky* (Oxford: Oxford University Press, 1978), pp. 171–2. Trotsky could also have found some support in Lenin; see V. I. Lenin, *Collected Works* (Moscow: Progress Publishers, 1960–70), Vol. IX, p. 236. See also Larsson, *op. cit.*, pp. 252–304.
 48. *Results and Prospects*, pp. 29, 73, 77, 116; 1905, pp. 275, 286, 302, 322, 336; *Permanent Revolution*, pp. 126, 189. See also *History*, pp. 323, 1025 and *Stalin*, pp. 422–434.
 49. L. Trotsky, *The Age of Permanent Revolution* (New York: Dell, 1964) edited and introduced by I. Deutscher, pp. 71–83; L. Trotsky, *The Bolsheviks and World Peace* (Westport, Conn.: Hyperion, 1973) (written in 1914 under the title *The War and the International*).
 50. *Age*, pp. 79, 81, 187; *Bolsheviks*, p. 236; *Living Thoughts*, p. 49.
 51. 1905, p. 322; *Permanent Revolution*, p. 146; *History*, pp. 1219–1257; *Living Thoughts*, p. 47.
 52. *Permanent Revolution*, p. 255; *History*, pp. 907, 1025; *Age*, pp. 167, 186.
 53. *Permanent Revolution*, pp. 129, 133, 254; *History*, p. 991; *Age*, pp. 127, 145, 252.
 54. L. Trotsky, *Political Profiles* (London: New Park Publications, 1972) (composed very largely of essays written before 1917) pp. 28–9; *Bolsheviks*, p. 213; *Age*, pp. 119, 128, 130, 167, 196, 230, 248; *History*, pp. 39, 63, 269, 477, 507, 1025; *Living Thoughts*, p. 48.
 55. *Political Profiles*, pp. 8, 31, 77, 125; *Age*, pp. 73, 123, 181; *Bolsheviks*, pp. 24, 42, 80, 101, 103, 183, 212; *Living Thoughts*, p. 43.
 56. *Permanent Revolution*, pp. 148, 194, 196, 205, 246, 276; *Age*, pp. 192, 229, 241, 293; *History*, pp. 19, 35, 889, 899, 906, 909, 912. Trotsky's tendency to generalise his theory of permanent revolution is evident before the later 1920s; see L. Trotsky, *The First Five Years of the Communist International* (New York: Monad Press, 1972) vol. 1, pp. 222, 236–7; vol. 2, p. 284.
 57. *Age*, pp. 129, 236.
 58. *History*, p. 907.
 59. See especially, A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1966).
 60. A. J. Mayer, *The Persistence of the Old Regime* (New York: Pantheon, 1981); B. Moore, *Social Origins of Dictatorship and Democracy* (Harmondsworth: Penguin, 1967); P. Anderson, *Arguments Within English Marxism* (London: New Left Books, 1980); P. Anderson 'The Figures of Descent', *New Left Review*, 161, January/February 1987, pp. 20–77; G. Ingham, *Capitalism Divided? The City and Industry in British Social Development* (London: Macmillan, 1984). Also see Chapter 11 above.
 61. K. Marx and F. Engels, *Selected Works I* (Moscow: Progress Publishers, 1969) p. 112.
 62. A. Brewer, *Marxist Theories of Imperialism* (London: Routledge & Kegan Paul, 1980).
 63. On these matters see G. Barraclough, *An Introduction to Contemporary History* (Harmondsworth: Penguin, 1967) pp. 31–3, 110, 115–17; G. Lichtheim, *Imperialism* (London: Allen Lane, 1971) pp. 29, 66, 71–9, 86, 88, 90–1, 93, 120; J. A. Moses, *The Politics of Illusion* (London: Prior, 1975); M. Wight, *Power Politics* (Harmondsworth: Penguin, 1986) pp. 42–3, 55–6, 73, 75, 84, 101–4, 137–8, 144,

- 184, 200, 280, 290, 293, 297; V Kiernan, *Marxism and Imperialism* (London: Edward Arnold, 1974) ch. 3.
64. L. Trotsky, *Europe and America* (Colombo: Lanka Samasamaja, 1951) (written in the mid-1920s); see also *Communist International*, vol. 1, pp. 104, 181–4, 193–6; vol. 2, p. 328.
65. 1905, pp. 327–45; *History*.
66. For a different criticism of Trotsky's thought along similar lines see P. Beilharz, *Trotsky, Trotskyism and the Transition to Socialism* (London: Croom Helm, 1987).
67. L. Trotsky, *Our Political Tasks* (London: New Park, n.d.) (written in 1904); *Political Profiles; Results and Prospects*, pp. 30, 114; *Permanent Revolution*, p. 173; 1905, pp. 104, 251; *Age*, p. 87; *My Life*, pp. 148, 161, 204, 218, 333; M. Liebman, *Leninism Under Lenin* (London: Merlin, 1975) p. 78. However, during 1917 Lenin himself apparently departed from his earlier views on the organisation of the party; see Chapter 13 below. Trotsky's commitment to Bolshevism clearly emerges only during the civil war.
68. *Challenge (1923–25)*, pp. 164–258; *My Life*, pp. xxxi, 176, 330. See also I. Deutscher, *The Prophet Outcast* (Oxford: Oxford University Press, 1963) pp. 240–51.
69. T. Cliff, *Permanent Revolution* (London: Bookmarks, 1983); M. Löwy, *The Politics of Combined and Uneven Development* (London: Verso, 1981); I. Deutscher, 'Introduction', in L. Trotsky, *The Age of Permanent Revolution* (New York: Dell, 1964) pp. 13–40; J. Molyneux, *Leon Trotsky's Theory of Revolution* (Brighton: Harvester, 1981) pp. 44–6.
70. See, for example, *Age*, pp. 360–5.
71. Molyneux, *Trotsky's Theory; Results and Prospects*, p. 88; *Permanent Revolution*, p. 132.
72. L. Trotsky, *The Revolution Betrayed* (New York: Pathfinder, 1972; first published in 1937).
73. R. B. Day, *Leon Trotsky and the Politics of Economic Isolation* (Cambridge: Cambridge University Press, 1973) pp. 12–14, 128–9; R. B. Day, *The 'Crisis' and the 'Crash': Soviet Studies of the West (1917–1939)* (London: New Left Books, 1981) pp. 43–4; Zeman and Scharlau, *Merchant*. Also see Chapter 15, section VIII, below.

13

Imperialism and War: Bukharin and Lenin on Monopoly Capitalism, 1914–17

I The Impact of War on Russian Marxism

The outbreak of the First World War in August 1914 did not immediately bring a fundamental change in Lenin's analysis of capitalism, or in his view that Russian backwardness precluded anything other than a democratic revolution in that country. Although the nature of capitalism as a world system figured much more prominently in his work of the war years, most elements of his *Imperialism*,¹ written in 1916, can be found in his pre-war writings,² and he retained allegiance to his formula of the 'democratic dictatorship' until the early months of 1917.³ Equally Plekhanov and the Mensheviks remained committed to their pre-war economic analysis and to an alliance with the liberal bourgeoisie. Trotsky alone introduced a significant change into his theory of permanent revolution, but as we have seen in Chapter 12 this reinforced rather than modified his previous conclusions.

However, the war did transform political alignments. Most Mensheviks, including Plekhanov, supported national defence. Only the Menshevik Internationalists headed by Martov, and Trotsky's supporters, totally repudiated 'defencism' to work for the reconciliation of all Marxists on a pacifist platform. This brought them closer to many Bolsheviks, but Lenin's own position was far more extreme. He adopted a stand of 'revolutionary defeatism' aimed at transforming the imperialist conflict into a series of civil wars prompted by military defeats. Coupled with this was a thoroughgoing hostility to all who gave credence to any reason for defending the 'great powers'; a condemnation of the Second International; and the demand for a new organisation of socialists committed to revolution and revolutionary wars. Lenin regarded the break-up of international socialism

as akin to the Russian schism in 1903, but this time he immediately took an uncompromising stand which embraced Marxism as a whole, not just its Russian detachment.⁴ In all this he was frequently at odds with other radicals, including some Bolsheviks.

Throughout the war years Lenin remained committed to these principles, and as the war dragged on he progressively revised his economics and revolutionary strategy. While taken by surprise at the onset of hostilities,⁵ and then sometimes prone to stress their political causes,⁶ he quickly came to regard the war as reflecting the fundamental economic changes he had observed prior to 1914. The war was neither accidental nor of transitory significance; instead, it marked a new epoch in the development of international capitalism, which opened up the era of proletarian revolution in Europe.⁷ These issues were no longer treated as subsidiary themes, as they had been before 1914: the specific problems of Russian society ceased to dominate his thinking.

At first Lenin took Hilferding's analysis of finance capital (outlined in Chapter 5 above) as the key to understanding the new epoch,⁸ even though he believed its author did not appreciate its revolutionary consequences.⁹ Over time, however, Lenin began to modify his economics, interpreting its political implications in an even more radical manner. Undoubtedly the intellectual catalyst here was Nikolai Bukharin, who even before the First

Biography of N. I. Bukharin

Nikolai Ivanovich Bukharin was born in Moscow of middle-class parents in 1888. He joined the Bolsheviks in 1906 while still a student at Moscow University. Arrested a number of times, he became an émigré in 1911. Bukharin first met Lenin in 1912 and studied economics at the University of Vienna in 1913 (attending Böhm-Bawerk's lectures). During 1917, as a leader of the Moscow Bolsheviks, he played an important role in the seizure of power in the capital. Subsequently, although he held many high positions, including the editorship of *Pravda* and chairmanship of the Comintern, he never became a member of the government. His great prestige in the party derived almost wholly from theoretical work, and his ideas were prominent in the formation of Soviet internal policy between 1923 and 1928. Deprived of any real influence after 1929 he was executed on Stalin's orders in 1938 after being a defendant in the infamous 'show trial' of the same year.

World War had begun to fashion a new political economy which implied that the only revolution possible in Russia was a socialist one. By 1915 Bukharin had perfected its theoretical base, and during the next two years Lenin was to incorporate much of it into his own analysis. He did not do so uncritically, and he always viewed Bukharin's work with some suspicion, but by 1917 his own views as to the form of revolution desirable in Russia and its likely consequences had taken a qualitative leap. This was due largely to Bukharin's influence.

II Bukharin on World Economy and the Imperialist State

The war found Bukharin analysing the higher reaches of the superstructure. He categorised marginalist economic theory, particularly its Austrian version, as the ideology of a 'leisure class' stemming from the changes in property relations of finance capital, and he sought to expose its shallow contradictory reasoning.¹⁰ His methodological and substantive critique followed in the footsteps of Hilferding, Bortkiewicz and Parvus (see Chapter 3 above), but his ideological designation of neoclassicism was original and clearly dovetailed with the separation of ownership and control associated with the centralisation of capital. The new Austrian economics which had originated in the 1870s was individualistic, subjectivist and orientated towards consumption which, Bukharin argued, benefited the '*rentiers*' or parasitic shareholding classes.¹¹ Nonetheless, he failed to overcome the central difficulty of all ideological analysis, and provided no criterion by which his alleged material basis could be judged more correct than any proposed alternatives.¹² Bukharin also glossed over the problem posed by other forms of marginalism, especially its American version, which concentrated upon production and distribution.¹³ The whole issue may indeed have been of secondary significance; Marx's own view that the important break in bourgeois economic theory had occurred in the 1830s, not in the late nineteenth century, is still defensible, and neoclassical analysis has continued to evolve new forms.¹⁴

Bukharin remained committed to his argument,¹⁵ but the war itself led him to reconsider the capitalist economic system rather than continue with his studies of bourgeois consciousness. He continued to draw heavily upon Hilferding's *Finance Capital*, albeit with a significant shift in emphasis. *Imperialism and World Economy*,¹⁶ the bulk of which was written in 1915, conceptualised modern capitalism as a world system. Whereas Hilferding had concentrated upon the structure of advanced national economies, Bukharin followed Rosa Luxemburg – although not her underconsumptionist economics – in locating all national economies as units of a world market, to whose laws they were subject.¹⁷ These laws were those of capitalist commodity production as analysed in Marx's *Capital*.¹⁸ The

'great powers' had each become 'organised' entities in which the law of value was inoperative internally. The 'anarchy of production' had been transferred to the world economy, and it was to this that Marx's categories applied. They bore upon the individual economies of each state, but only through international relations. Unlike Hilferding, Bukharin argued that the purely internal basis for crises had been eradicated through the further development of 'organisation' within 'state capitalism'.¹⁹

This meant that economic units were increasingly politicised; their separation had become a matter of state boundaries and their competition was mediated by the system of states. This competition was inevitable. Like Trotsky (see Chapter 12 above), Bukharin believed that the productive forces had developed beyond the point where they could be operated efficiently within the confines of any nation-state.²⁰ Modern capitalist enterprises were forced to become international by the requirements of mass production and falling rates of profit, both of which reflected the rising organic composition of capital.²¹ This took various forms, including imperialist annexations.²² Simultaneously, however, there was a national consolidation of capital, in which concentration and centralisation engendered monopolisation; the development of finance capital was followed by 'state capitalist trusts', and then by even purer forms of state capitalism.²³ The relevant units of the world market thus came to coincide with the system of states, and competition was expressed in rivalry between different states.²⁴ So, while Bukharin might have agreed with Clausewitz that war represented 'the continuation of politics by other means', he would have added that politics itself had become fused with economics.²⁵

For Bukharin these two forces, which operated simultaneously both to 'nationalise' and 'internationalise' capital, defined the central contradiction of modern capitalism. They provided the perspective into which he integrated the phenomena documented by Hilferding. His intellectual debts to Hilferding are obvious in *Imperialism*, and it is in the reorganisation of Hilferding's ideas that Bukharin makes one of his three principal contributions. The second original quality of his argument lies in his claim that the national centralisation of capital has moved beyond finance capital²⁶ to form a set of 'new Leviathans', or quasi-totalitarian state capitalisms.²⁷ The war, itself a product of the new structures, also accelerated their maturation.²⁸ Each national bourgeoisie therefore represented a qualitative new unity.²⁹ Parliaments had become anachronistic because there was no longer a pressing need for a forum in which the sectional interests of different bourgeois groups could be reconciled. For the same reason, Bukharin argued, liberal freedoms had become shadows of their former substance.³⁰ Consequently bourgeois revolutions were no longer relevant; democratic aims could not be realised under capitalism, and the parliamentary road to socialism was closed.³¹

Furthermore, according to Bukharin, all domestic institutions came

under state management, including organised labour and backward agrarian capitalism.³² With regard to the former, working-class leaders had in general proved only too willing to be integrated because they identified the growth of the state with the progress of socialism.³³ They had substituted the cause of their own national state capitalism for revolutionary Marxism, Bukharin maintained; the collapse of the Second International was a necessary consequence.³⁴ The process also had its own specific material basis, since the swollen profits of monopoly capital had been used to finance the privileges of a 'labour aristocracy' and bureaucratised political functionaries.³⁵ However, the days of opportunism were numbered. The contradiction inherent in world capitalism had brought the first of what could only be a series of world wars. Increasing misery for the masses would eventually burst the bubble of reformist illusions and lead to revolution.³⁶ Crises, for Bukharin, became synonymous with war. The choice, as he saw it, was the same as for Luxemburg and Trotsky: socialism or barbarism.

The foundations for both possibilities had been laid by the twin tendencies to 'nationalise' and 'internationalise' capital. For Bukharin, even more than for Hilferding, war was endemic: it was not so much a 'policy', which could be implemented or abandoned as circumstances dictated, as the inevitable result of the very structure of modern capitalism.³⁷ Simultaneously, however, and again far more so than Hilferding had imagined, the 'organisation' of national capitalist relations had laid the groundwork for socialist economic planning, which existed on a world scale.³⁸ Purely national indices of economic development were irrelevant for assessing the possibility of socialism; capitalism was a world economy which encompassed the whole globe. But it could not realise the potential for further organisation because of its division into state capitalist units. Kautsky's notion of ultra-imperialism in which advanced capitalist nations coordinate their imperial exploitation (outlined in Chapter 6 above), Bukharin admitted, was theoretically imaginable, but it was actually impossible to achieve because the variety of economic conditions in different segments of international capitalism precluded agreements. In particular, the producers with the more developed productive forces and lower costs of production, or with a stronger state power under their influence, lacked a long-term interest in submitting to the discipline of an international cartel. Thus the ultra-imperialism of Kautsky, practically speaking, was incapable of being realised.³⁹

Lenin used a similar argument against Kautsky (see section IV below), and with even more force. One pervading quality of Bukharin's theory was its devaluation of unevenness in the economic development of the different segments of the world economy (see section III below).⁴⁰ Lenin, by contrast, built his theory of imperialist war squarely upon the uneven development of national capitalisms. There is therefore an artificial quality in Bukharin's critique of Kautsky's 'ultra-imperialism', which carries over to his claim

that only proletarian internationalism and socialism can lay the basis for a further development of the productive forces. Taken in isolation, Bukharin's critique of Kautsky was reasonable enough, but stated as part of his own theory of imperialism it came into contradiction with the general thrust of his economics. Consequently, while Lenin may have been less original in his treatment of ultra-imperialism, his criticism dovetailed with his overall vision of imperialism in a way that was absent from Bukharin's own argument.⁴¹

Bukharin's third original development of Marxism was to recognise that the specific nature of the system determines the form of its overthrow. Here he broke completely with Hilferding, and argued that there could be no question of simply taking over the existing state machine in order to use it as an instrument of proletarian power. For Bukharin, this was the erroneous 'Bernsteinism' which had infected German Social Democracy (see Chapter 4 above and Chapter 14 below).⁴² Since the organisation of the state had become fused with that of the capitalist economy, the existing state was inherently incapable of being utilised to suit the needs of a new mode of production. The 'imperialist state' was a historically specific form appropriate only to the latest phase of capitalism. Rather than seizing control of it, the proletariat must instead smash all existing political forms and exercise its dictatorship through a structure appropriate to the new society.⁴³

Here Bukharin recovered Marx's own hostility to the state, and provided an economic theory in which the similar political ideas held by Pannekoek and other 'left communists' could be grounded.⁴⁴ In doing so he injected an element of clarity into the distinction between reformism and revolution. At the same time, however, he implicitly repudiated any direct causal relation between the 'economic base' and the 'superstructure'. Under state capitalism the 'political' was an integral part of the 'economic', and vice versa. The active, organising 'subject' of each national unit in the capitalist world market was the imperialist state, and the relations of the world market were coterminous with those of the system of states.⁴⁵

III Bukharin, Trotsky and Lenin

As we have seen in Chapter 12, Trotsky's theory of Russian capitalist development implied a similar recognition that historical materialism was in need of serious revision. The conclusion of his theory of imperialism, if not of his underconsumptionism, was also compatible with that of Bukharin. Beyond this, however, the perspectives of the two theorists were very different. Bukharin emphasised the purity of modern capitalism; he had no notion of 'combined development' as Trotsky understood it. Nor did Bukharin stress uneven development other than in an argument against

Kautsky. He was of course aware that some units of the world economy were more advanced than others and that different conditions prevailed within national economies. But he placed no explanatory value upon these matters. Instead he pointed to the modernising impact of imperialism, and argued that the organisation of metropolitan centres devalued the significance of economic backwardness. Thus primitive agriculture was integrated with advanced industry through both imperial annexations and organised state capitalist structures.⁴⁶ For Bukharin the contradictions of contemporary capitalism stemmed from its modernity, not its imperfect and partial development. The 'peculiarities' of Russian capitalism therefore play no role in his conviction that the revolution against tsarism must become socialist.⁴⁷

Lenin's position in relation to that of Bukharin was more complex, not least because it changed over time. He agreed with Bukharin on three fundamental issues. Lenin too believed that war was rooted in the nature of modern capitalism; that capitalism had achieved its 'highest' stage and generated a revolutionary situation which could culminate in socialism in the advanced West; and that the opportunism of the Second International was no accident, but instead stemmed from the very nature of imperialism. Nevertheless for the first two years of the war he had equally fundamental reservations, and they bore upon exactly those points where Bukharin departed from Hilferding. They are evident both in his introduction to Bukharin's *Imperialism and World Economy*,⁴⁸ and especially in his own *Imperialism*⁴⁹ written in the following year. In the latter work, Lenin emphasised the importance of Hilferding and Hobson, claiming that 'others have scarcely gone beyond them'.⁵⁰

Lenin undoubtedly believed Bukharin to have presented an exaggerated and over-simplified picture of contemporary capitalism.⁵¹ Until at least the middle of 1916 he did not accept 'state capitalism' as an appropriate characterisation of the metropolitan centres, and he never considered that monopolisation had eradicated the internal contradictions of individual capitalist economies. Indeed, he maintained quite the opposite: since monopolisation was only partial, conflicts of interest existed between monopolistic and competitive sectors, while monopolisation hindered the market mechanism in reaching a new equilibrium once crisis had occurred.⁵² Furthermore, Lenin considered the uneven development of national capitalisms to be of pivotal importance. It was precisely the overall backwardness of Russia which precluded socialist revolution there, and the changing relative positions of different individual capitalist economies which accounted for war. Coupled with the completed division of the world between the 'great powers', uneven development was for Lenin the economic basis of military rivalry. It was not the result of competition being eradicated from national economies and wholly transferred to the interrelations of states, as it was for Bukharin.

In addition, Lenin regarded Bukharin's theory of the state as bordering upon anarchism. At the time his own view of the dictatorship of the proletariat was much closer to that of Kautsky, who saw the goal of the socialist proletariat as capturing control of the existing state apparatus.⁵³ Before 1917, too, Lenin denied that socialist revolution was possible in Russia, and he severely criticised Bukharin's more general argument that democratic issues, especially the right of oppressed nationalities to self-determination, had been made redundant by economic development. Furthermore, he objected to Bukharin's dismissal of the peasantry as an ally of the proletariat, as well as believing Bukharin to have erred on a host of secondary matters.⁵⁴

Consequently, despite their mutual respect, relations between Lenin and Bukharin during the war years were difficult. During late 1916 and early 1917, however, there was a significant degree of reconciliation between the two theorists, and it was Lenin who moved toward Bukharin rather than the reverse. This was remarkable: not since the 1890s had Lenin deferred to the views of others on central matters of theory, and in these earlier years his flexibility had been short-lived (see Chapter 11 above). After the split from Menshevism in 1903 he had taken an extremely dictatorial line in matters of Bolshevik doctrine, forcing the expulsion of many of his opponents.⁵⁵ Now he began to depart from Bolshevik doctrine himself, and at absolutely crucial points. Before we consider this, however, we must examine Lenin's *Imperialism*, which was written during 1916 when he was still fully at odds with Bukharin.

IV Lenin's *Imperialism* and His Move Toward Bukharin

Subtitled 'A Popular Outline', Lenin's *Imperialism* made no claim to originality and represented little more than a sketch of the main institutions and relationships which he believed at the time to characterise the 'highest stage of capitalism'.⁵⁶ Behind it lay much study,⁵⁷ but the pamphlet was really nothing more than a systematisation of his previous views, expressed in a vague fashion which makes their evaluation difficult (see section VI below). Hilferding's *Finance Capital* was Lenin's guide along with, to a lesser extent, the work of the English liberal J. A. Hobson.⁵⁸ There is but one passing reference to Bukharin.⁵⁹ Lenin's notebooks make it clear where he thought Hilferding to be deficient,⁶⁰ and indicate that the only idea for which he may have been indebted to Bukharin at this time was his notion of modern capitalism being uniquely parasitical.⁶¹ Nevertheless, this would have reflected the influence of the *Economic Theory of the Leisure Class*, not *Imperialism and the World Economy*. The major changes in Lenin's political economy really post-date his *Imperialism*, and the canonical status which

the work has achieved since its author's death belies its secondary importance in the intellectual evolution of Lenin's thought.

Imperialism is defined by Lenin to be synonymous with 'monopoly capitalism' (although the term is also sometimes employed in a less inclusive manner). Seen in terms of 'purely economic concepts' it has five characteristics:

- (1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life;
- (2) the merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital', of a financial oligarchy;
- (3) the export of capital as distinguished from the export of commodities acquires exceptional importance;
- (4) the formation of international monopolist capitalist associations which share the world among themselves, and
- (5) the territorial division of the whole world among the biggest capitalist powers is completed.⁶²

The bulk of Lenin's text is devoted to the empirical documentation of each facet of this definition, criticism of Kautsky's theory of ultra-imperialism,⁶³ and enunciation of the belief that the root of reformism lay in the 'aristocracy of labour' created by imperialism.⁶⁴

This 'highest stage of capitalism', Lenin argues, emerges no earlier than at the beginning of the twentieth century.⁶⁵ However, neither its relationship with competitive capitalism, nor the interrelationships between the various elements of imperialism, are very clearly specified by Lenin, and the causal mechanisms lying behind particular features are often imprecisely treated. On the crucial matter of capital exports, for example, Lenin refers to the 'surplus of capital' that accrues in metropolitan centres but does not explain why internal investment opportunities are lacking. His favourable reference to Hobson suggests commitment to a chronic underconsumptionism, but Lenin had exposed the difficulties with such a theory in his conflict with populism during the 1890s (see Chapter 9 above). He makes no statement in *Imperialism*, or in his other war-time writings, to indicate that he had revised his earlier views, and Hilferding had also dealt with capital exports while neglecting underconsumption (see Chapter 5 above). Both Hilferding and Bukharin had appealed to Marx's theory of the falling rate of profit, but this makes no appearance in Lenin's exposition.⁶⁶

Where Lenin is relatively clear is on the consequences of imperialism. In particular he emphasised that the completed partition of the world and the uneven development of national capitalisms made recurrent wars of redivision inevitable. He was much more decisive on this than Hilferding in his *Finance Capital*. In explaining the origins of the First World War, Lenin maintained that by the early twentieth century the empires of Britain and

France were much larger than their economic strength now justified. Germany, whose capitalist development had dramatically accelerated in the preceding half-century, found itself deficient. In order to acquire sufficient markets, and to secure access to raw materials and spheres of protected investment abroad, Germany was forced to resort to military aggression so as to redivide the imperial possessions of other powers.⁶⁷ Whatever the outcome of the war, Lenin argued, continued uneven development in the context of a completed division will act to destabilise peace.

As noted in the previous section, the importance which Lenin gave to these phenomena made his critique of Kautsky's ultra-imperialism far stronger than that of Bukharin. He accepted, like Bukharin and Hilferding, that the centralisation of capital was a continuing force which raised the theoretical possibility of a joint exploitation of the world by the advanced capitalist nations. Like Bukharin and Hilferding, Lenin also recognised the existence of international cartels, which implied that Kautsky's idea was not without foundation.⁶⁸ But, Lenin argued, any ultra-imperialist arrangement could only be temporary, for the uneven development of different parts of the world economy must destabilise it and bring further wars of redivision.⁶⁹

Both Bukharin and Lenin also rejected Kautsky's belief that the expansion of economic territory was confined to the formal colonisation of agrarian areas.⁷⁰ Lenin's data on the destination of capital exports indicated no preeminent status for colonies.⁷¹ Furthermore, he recognised explicitly that imperial domination can dispense with formal political control, and that annexations need not be limited to areas of agricultural production, or to regions lying outside the European continent.⁷² And he was quite right to note the complexity. At the centre of his vision is monopolisation in the context of unevenly developed capitalisms, and its requirements can be satisfied in ways that do not involve direct political control, dominance of agrarian territories, or colonisation of areas outside Europe. Elsewhere Lenin also noted that many actual imperialist powers were not purely capitalist. Passages which could have come from the pen of Trotsky point to the importance of non-bourgeois interests that had become incorporated into imperialism.⁷³ This of course is perfectly consistent with the importance ascribed to the 'Prussian' form of modernisation in Lenin's earlier work (see Chapter 11 above).

Regarding the effect of monopolisation and imperial expansion upon the labour movements of Europe, however, Lenin's treatment was inferior to that of Bukharin.⁷⁴ Although the substance of their ideas here is the same, stemming from Engels (see Chapter 1 above), Lenin's treatment is less sophisticated than Bukharin's. This is not just a matter of Lenin's cruder terminology. Having failed to embrace Bukharin's view of the imperialist state as the active 'subject' of advanced national capitalisms, Lenin's 'economism' is more pronounced. There is no place in his imperialism for

mediation by a state whose 'relative autonomy' might, on Bukharin's analysis, be very considerable.⁷⁵ As we will see in section VI neither formulation is especially convincing, but Bukharin's treatment is the superior.

Lenin's writings between *Imperialism* and October 1917 indicate that this was a judgement he made himself with regard to at least three other features of Bukharin's work. First Lenin accepted the development of state monopoly capitalism clearly, if without much elaboration. Second, and with more amplification, he recognised that Bukharin had been correct in his treatment of the dictatorship of the proletariat. And, finally, Lenin began to argue that a Russian revolution must transcend bourgeois-democratic limits. This brought him into conflict with the bulk of his own party, and it was only with Herculean efforts, supported by the followers of Bukharin and of Trotsky, that he was able to overcome the resistance of 'old Bolshevism'. Even then he faced a continual rearguard action by the Bolshevik right headed by Kamenev.⁷⁶

This shift in Lenin's perspective can be partially explained by certain tensions in the position which he occupied during the first two years of the war. Most fundamentally, there was a contradiction between his view of modern capitalism and his politics. Lenin made clear his belief that the most developed forms of capitalism, already present in Russia,⁷⁷ were parasitic and reactionary, and that their warfare threatened civilisation itself.⁷⁸ In what sense, then, could a revolution which strengthened the basis for capitalism be regarded as progressive? In addition, the logic of his 'revolutionary defeatism' held that revolution was aided by the military failure of established powers. How then could the proletariat secure its own dictatorship via a state apparatus which had already begun a process of collapse? Furthermore, as we have seen in Chapter 11 above, Lenin envisaged the 'democratic dictatorship' as taking on a soviet structure, thereby implying the destruction of the tsarist state apparatus. Why then would soviets be precluded from 'smashing' the existing state – which, whatever its class nature, could not itself be of a soviet form – in the same way during the proletariat's own socialist revolution?

Thus between 1914 and 1916 Leninism was a highly unstable compound. But so too were the belligerent regimes in the First World War, and actual developments brought Lenin to appreciate that the concepts of *Imperialism* lagged behind historical development. Government regulation and central planning did accelerate, making it clear that Bukharin's theoretical extremism at least pointed in the correct direction.⁷⁹ Lenin's writings begin to use the term 'state capitalism', which he now regarded as appropriate to bourgeois societies in their latest phase.⁸⁰ Coupled with this was his belief that even these new means of control had proved incapable of maintaining material reproduction. The heavy demands of total war and the disruption of an interconnected world economy had brought many countries to the

brink of ruin. The crisis was particularly marked in the case of Russia, Lenin argued, and from the beginning of 1917 he maintained that only socialist revolution could reverse the spiral towards chaos. Bourgeois-democratic measures were insufficient: the management apparatus of state capitalism had to be totally severed from the rule of capital and placed in the service of the masses.⁸¹

A further consequence of the war, Lenin believed, was that the exploited had become more unified against capitalism. Not only the Russian proletariat, but also poorer sections of the peasantry and the subjugated nationalities, had come to perceive that a revolution which stopped short of enacting socialist policies could not satisfy their most pressing needs. Modern capitalism, for Lenin, had both united diverse forms of property, and on the other hand forged a new solidarity among the oppressed. In the epoch of imperialism it was only under the leadership of the proletariat, through a revolution initiating the transition to socialism, that the bulk of the *petite bourgeoisie* could realise their own interests.⁸²

This Bakuninist theme in Lenin's thought was joined by another anarchist current which arose from a purely intellectual process.⁸³ Being both perturbed by and hostile to Bukharin's theory of the state as it related to the dictatorship of the proletariat, Lenin began an intense study of the issue. The ultimate result was the *State and Revolution*,⁸⁴ which was written in the months preceding the October revolution, but its conclusions had already been reached before the overthrow of tsarism in February 1917, and they went beyond those of Bukharin. Not only must the capitalist state be 'smashed', Lenin maintained; it must also be replaced by institutions of mass participatory democracy analogous to those of the Paris Commune in 1871. The socialist order was to be forged through a union of the management apparatus developed from above by state capitalism and the organs of popular democracy emerging from below.⁸⁵

No sooner had Lenin made his break from orthodoxy as he had previously understood it, than his new idea received apparent empirical confirmation. Soviets and factory committees mushroomed in 1917 and placed Russia at the forefront of revolutionary Europe. Socialist initiative in Russia, Lenin now argued, could provide the trigger for world revolution. As a concrete embodiment of proletarian power, serving as the home base for a new International, and by marshalling the means of revolutionary warfare, the Russian revolution could be extended internationally. This would be made all the easier by the fact that such a revolution would deprive Britain and France of a major source of exploitation, as well as a wartime ally.

Essential elements of Bukharin's political economy thus came to be incorporated in Leninism. Nevertheless, the alignment was imperfect and important theoretical issues continued to separate them. Lenin's position remained very much more concrete than that of Bukharin. While he came

to accept that the 'maximum programme' applicable to socialist revolution ruled the day, he did not thereby jettison the 'minimum programme' relevant to democratic revolution, as Bukharin had done. Instead Lenin argued for the continuing importance of the latter, but also now insisted that it could only be realised through socialist revolution. As we have seen in Chapter 12, this was also the heart of Trotsky's conception of permanent revolution. Had Lenin, then, under the influence of Bukharin, become a Trotskyist?

V Lenin and 'Permanent Revolution'

After 1914 Lenin moved closer to Trotsky's ideas and, as we saw in Chapter 11 above, he did so from a position which was already rather close to them. The 'Prussian road' involved an integration of pre-capitalist and capitalist forms, so that a notion of 'combined development' was implicit within it. Although limiting itself to measures that would facilitate capitalist development, the 'democratic dictatorship' was also envisaged to be compatible with draconian measures against the bourgeoisie. In 1917 Lenin went even further to argue that any effective democratic change must be coupled to socialist construction as the theory of permanent revolution had always maintained. And to this Lenin appended a theory of the dictatorship of the proletariat which appeared to repudiate his own doctrine of the party, on which Trotsky had previously concentrated his attacks against Bolshevism. The revolution itself had international objectives, but would initially have to be limited to particular collectivist measures, and not involve an immediate and thoroughgoing socialist transformation, which Trotsky agreed was impossible.

Not surprisingly, then, numerous passages in Lenin's wartime writings smacked of permanent revolution.⁸⁶ Certainly the response of many Bolsheviks to the 'April Theses',⁸⁷ where he first stated his new position after returning to Russia, was to accuse Lenin of Trotskyism.⁸⁸ In joining the Bolshevik party in 1917 Trotsky, too, demonstrated his belief that his remaining differences with Lenin were secondary ones. This was a position he maintained until his death in 1940, and many others have agreed with him.⁸⁹ The fact that Lenin had not actually read *Results and Prospects* before 1919 can be used to explain away his own obvious misunderstanding of Trotsky's doctrine.⁹⁰

Nonetheless, there were theoretical differences between Lenin and Trotsky, and some of these were to become important issues of conflict after the revolution. Most obviously, Lenin's writings in 1917 involved expressions of 'two-stage' revolution, which do not fit with Trotsky's conception of telescoping the two revolutions.⁹¹ Also Lenin did not consider socialist revolution in Russia to be inevitable. Throughout 1917 he

believed that a 'Prussian' solution, enacted through a military dictatorship, was still quite possible.⁹² What really divided the two theorists, however, were different assessments as to the causes of the revolution and the problems which would arise in its aftermath. As we have seen, Lenin came to accept the need for a Russian socialist revolution through an understanding of advanced capitalism, not by reinterpreting Russian 'backwardness' in the manner of Trotsky. For Lenin, recognition of 'combined development' within the Russian social formation played no explanatory role in accounting for why socialist revolution could succeed, and the causal role of 'uneven development' was confined to international conflict. Arguments pertaining to Russia's internal condition were involved in Lenin's change of strategy, but they had little to do with the 'peculiarities' of Russian industrialisation and everything to do with the impact of war.⁹³

Like Trotsky, Lenin provided an internationalist rationale for a Russian socialist revolution which, if it failed to extend itself, might well be defeated.⁹⁴ However, there was a significant difference with Trotsky: Lenin had come to believe that the bulk of the peasantry would cooperate in the transition to socialism, since modern capitalism had brought a new unity to all the oppressed and provided means for self-government and economic planning even in conditions of Russian backwardness.⁹⁵ But this also implied that the principal threat to the Russian revolution was external; there was no insurmountable internal constraint. This divergence from Trotsky's views was to dominate the debates on economic policy after Lenin's death in 1924 (see Chapter 15 below). Lenin also saw world revolution as a protracted process, involving setbacks as well as advances and exhibiting considerable variation between different countries. Although in 1917 he undoubtedly believed that the Russian revolution would not remain alone for very long,⁹⁶ he sometimes suggested that a socialist revolution might continue to be isolated for an extended period.⁹⁷

None of this proves Lenin to be a theorist of 'socialism in one country', as his Soviet editors claim,⁹⁸ but his writings were amenable to that interpretation in a way that those of Trotsky could never be. When in the 1920s Bukharin and Stalin claimed Lenin's support on this question, they were less perverse than Trotsky maintained (see Chapter 15 below). Lenin certainly justified the October revolution in internationalist terms, but he also appealed to national circumstances too, and suggested that Russia might proceed toward socialism without external aid and fundamental internal conflicts.

VI An Assessment of Bolshevik Political Economy

Lenin's appraisal of the actual situation in Russia during 1917 was remarkably accurate.⁹⁹ The February revolution took on the character of a

'chauvinist revolution' designed to enhance 'defencism' which he had long thought possible;¹⁰⁰ the conciliationist policies of the Mensheviks confirmed their classification as opportunists;¹⁰¹ and, since the masses and their leaders in government and the soviets had different objectives, the domestic crisis intensified as Lenin expected.¹⁰² In these circumstances he was right to maintain that the only alternatives were a military dictatorship of the right, or a further revolution for 'peace, bread and land'.¹⁰³ As the cooperation of other socialist parties proved unattainable, the revolution could go forward only under Bolshevik initiative (see Chapter 8 above).¹⁰⁴

The wider vision of international relations which Lenin had propounded since 1914 also had a rational kernel. As noted in Chapter 12, there was a structural problem inhibiting international 'order'; the 'great powers' had imperialist aims and the resulting war proved fertile soil for revolutionary change. In the thirty years beginning in 1914, Western capitalism experienced the most severe set of crises in all its history. The Bolshevik theorists were right to locate their source in the nature of a world economy which had become both integrated and dangerously fragmented.

While the Bolsheviks' conclusions were basically sound, however, the economic theory underlying them was less secure. The ideas expressed in Lenin's *Imperialism* have indeed attracted an avalanche of criticism. Given Lenin's debt to Hilferding, and the similarity of his conclusions to those of Bukharin and Trotsky, much of this negative evaluation encompasses their work too. There are certainly important weaknesses in all four theorists, but many of the alleged deficiencies actually prove to be false. In the case of Lenin especially, the critics have frequently failed to take account of his writings on imperialism as a whole, or to pay sufficient attention to their ambiguities. Often associated with these faults has been a suspension of normal scholarly practices which would not be condoned in the assessment of a less controversial figure.¹⁰⁵

It has been claimed that Lenin's analysis is crudely economic, giving insufficient importance to the relative independence of 'politics', or the importance of nationalism, in understanding international relations.¹⁰⁶ In addition, critics argue, in the latter part of the nineteenth century colonisation and capital exports were determined by separate forces. Economic motives were frequently unimportant in territorial annexations, while capital exports to colonies lagged behind those to other areas.¹⁰⁷ It is also claimed that underconsumption was not the driving force behind the internationalisation of capital. Nor was monopolisation, since Britain, with the largest empire, had the least developed monopolies.¹⁰⁸ Finally, some critics allege, on Lenin's arguments decolonisation during the second half of the twentieth century would have proved fatal for Western capitalism.¹⁰⁹

All this pays scant attention to what Lenin actually wrote, and instead concentrates upon refuting a constructed stereotype of his ideas. Lenin's acceptance of state monopoly capitalism necessarily qualified the views

expressed in his *Imperialism*. In particular, it meant that politics and economics became fused in his perspective, just as in Bukharin's. Nonetheless, Lenin continued to emphasise the importance of 'political' factors for the understanding of imperialist phenomena, as he had done ever since the outbreak of the First World War.¹¹⁰ And Trotsky's analysis of contemporary events can, if anything, be faulted for neglecting the 'economic' dimension relative to the 'political'.¹¹¹ Lenin classified the First World War as imperialist but he never doubted the importance of 'nationalist' wars for oppressed ethnic groups; indeed, he recognised that the immediate cause of hostilities in 1914 lay in Serbian nationalism.¹¹² To accuse Bukharin of underestimating the importance of national sentiments among the subjugated would be valid, but it was a criticism that Lenin himself made repeatedly.¹¹³ And both Bukharin and Lenin pointed to the decline of liberal-democratic norms in areas of advanced capitalism, together with the reassertion of pre-capitalist values.¹¹⁴

Nowhere did either Lenin or Bukharin put forward a general theory of imperialist annexations, let alone a universal theory of international relations. They were concerned with what they each believed to be a historically specific stage of capitalism, which Lenin explicitly dated to the beginning of the twentieth century. Having recognised that 'empires' were pervasive in history,¹¹⁵ neither theory implied that the colonisation of the nineteenth century could be explained solely by the economic imperatives of the 'highest stage of capitalism'. The laws of motion of modern capitalism were in any event located, albeit unclearly, in the monopolisation of capital, not in the underconsumption of the working class, which is what Hobson (not Lenin) had stressed.¹¹⁶

Lenin and Bukharin also recognised that the control sought by monopoly capitalism did not always necessitate formal colonisation. Nor were the annexationist aims of leading capitalist powers, or their foreign investments, confined to areas outside Europe.¹¹⁷ Lenin criticised both Kautsky and Luxemburg for identifying imperial expansion with colonisation in the periphery.¹¹⁸ He concentrated upon explaining the consequences of an already 'divided' world, not accounting for how it had become divided.¹¹⁹ The key factors making for instability, Lenin maintained, were the needs of the newly emerging capitalist powers rather than those of the older states whose history of colonisation had involved different forces from those dominant in the 'highest stage'.¹²⁰ Here he differed significantly from Bukharin, but Bukharin emphasised the new, historically specific, form of competition developed under modern capitalism. Trotsky was even less committed to a definite economics; his emphasis lay in arguing that the productive forces could no longer be contained within the boundaries of nation-states (see Chapter 12 above). And the perspectives of all three theorists shared the Eurocentric quality of Hilferding's work. It was the economic structure of advanced capitalist powers, their relevance for

explaining the European war and, in the case of Lenin, the revolutionary importance of national movements within Europe, which were stressed.¹²¹ The emphasis upon the periphery which characterises later theories of imperialism was not developed by Russian Marxists until the late 1920s.¹²²

Neither Lenin's nor Bukharin's theory of modern capitalism made colonies essential to the survival of the metropolitan centres. The great powers needed monopoly control over exploitable areas of the globe; if decolonisation did not threaten this, there would be no reason to expect the demise of capitalism. And, as already mentioned, both Lenin and Bukharin recognised that economic domination was a more general category than formal colonial subordination.

Lenin's *Imperialism* shares with the early sections of *The Development of Capitalism in Russia* an uncharacteristic concern with relatively abstract theory. Just as the latter was used as a guide to empirical research, there is every indication that Lenin conceived his theory of the 'highest stage of capitalism' in similar terms. His fivefold definition of imperialism in terms of the world economy and his acceptance of uneven development implied that the characteristics of modern capitalism would be found in different constellations between countries. For example, according to Lenin, Germany took the lead in developing state capitalism precisely because it lacked other elements of modernity.¹²³ Converse propositions would seem to follow: the survival of competitive capitalism in Britain could have stemmed from the larger market provided by the empire.

While all this reflects adversely upon widely accepted criticisms of Lenin's political economy, it also points to its own limitations. The various elements of imperialism upon which Lenin focuses are only loosely connected theoretically. While obvious errors are few, it is frequently difficult to locate statements which might be falsified. This characteristic is even more true for Trotsky, whose economics of imperialism is never well-specified in any form. Bukharin was more definite, but as we have already seen in section II this was at the cost of ignoring the complexities of economic development and exaggerating advanced forms of economic management, defects which Lenin himself criticised.

Nevertheless, specific objections can be made to Lenin's and Bukharin's accounts of modern capitalism. Most obviously, their economic analysis of monopoly capitalism is superficial in the extreme. Bukharin's treatment was in fact contradictory: he believed that the world market equalised wages, prices and rates of profit, while simultaneously asserting that competition had been abolished within national economies. Lenin failed to relate clearly the different features of imperialism, and was especially vague regarding the forces behind capital exports. Neither theorist considered the problems evident in the association of monopolies with super-profits. The question of how, given the level of wages and rate of technical change, monopolies can increase total surplus value was never asked, let alone

answered. This deficiency was most marked in the case of Bukharin who, unlike Lenin, thought of national monopolisation as complete and recognised no competitive sector from which profits might be transferred. Neither Lenin nor Bukharin, in short, provided a theory of prices and wages applicable to monopoly capitalism.

This weakens their theory of the 'labour aristocracy' as the economic backbone of working-class reformism. There is no problem with the general argument that imperial exploitation and parliamentary participation may facilitate the integration of the working class into capitalism. The problems lie in the assertion that only a minority of the labour movement was deeply affected; in the failure to specify the mechanisms by which this incorporation occurred; and in the presumption that the revolutionary integrity of the proletarian mass was unchanged. Lenin actually contradicted himself when he analysed Russian conditions, maintaining that it was the highly-paid metal workers who were most militant and the poorer textile operatives who were least revolutionary.¹²⁴ And he never explained how the 'labour aristocracy' thesis related to the Menshevik émigrés who took a defencist position analogous to that of the bureaucrats of the German labour movement, nor how this theory related to his earlier and different observations on working-class moderation.¹²⁵

However, there are problems in this area too. Bolshevik ideas on the political possibilities opened up by advanced capitalism were contradictory. Neither Bukharin or Lenin convincingly explained the connection between the centralised economic control exercised under monopoly capitalism and the decentralised conception of the proletarian state. While the idea of 'smashing' the established state-machine made theoretical and practical sense, there are difficulties with its replacement by organs of direct democracy and the utilisation of hierarchical control mechanisms developed by monopoly capitalism. Management of the economy by bureaucratic means may be monitored by local elected bodies, but the subordination of administration to popular control is a wholly different matter because it conflicts with the very nature of bureaucratic organisation. A similar contradiction appears in Lenin's treatment of the party in 1917. Then, as in 1905, he jettisoned the model of *What Is To Be Done* and opened up membership to the revolutionary masses as they swung behind the Bolshevik platform. How 'vanguardism' was compatible with this practice was never squarely faced in any of Lenin's writings.¹²⁶

Nor did he confront the related issue of how the rural economy was to be integrated with that of the urban centres in the post-revolutionary regime. Having broken the power of the existing state, eliminated the landlords and finance capitalists who extracted the agricultural surplus that ultimately fed the cities, Lenin needed to identify a replacement. He realised that Russian industry was in a state of collapse, and that rural producers would attain economic control of agriculture in the course of an agrarian revolution, so

the problem was certainly not hidden. In general, however, he proved altogether too eager to interpret the demands of the peasants in the light of objective conditions which, he believed, had brought about the basis for a new community of interests among all the oppressed.

Trotsky at least continued to recognise that the proletariat and peasantry were epochs apart. Furthermore, his conception of uneven and combined development indicated a central deficiency in the economic theory of Bukharin and Lenin. Like Hilferding, they took contemporary German capitalism as their analytical starting-point. But the 'peculiarities' of German history had generated novel characteristics which were not duplicated elsewhere, including the fusion of industrial and banking capital on the basis of which the Bolshevik theorists believed socialist economic management could rely (see Chapters 5 and 12 above). Lenin noted that German capitalism had special features but he erroneously believed them to be more 'advanced' attributes, rather than country-specific ones. Both Bukharin and Lenin also thought that the centralised economic control produced by wartime exigencies was simply an acceleration of long-run trends which were strongly operative under all conditions.¹²⁷ Hence their exaggerated emphasis upon the general importance and enduring nature of state capitalism.

From their viewpoint, in which wars between advanced capitalist states were endemic, this particular deficiency was unimportant since any peacetime decline in the economic role of the state would be but a short interlude, to be reversed when war broke out again. This was another, more serious departure, from Bukharin's and Lenin's normal sensitivity to capitalism's potential for adaption. Like Trotsky (see Chapter 12 above) they occasionally glimpsed the possibility of 'super-imperialism': military domination by a single capitalist power to change the nature of international relations, breaking up the colonial empires of others and thereby undermining monopolised spheres of influence, all to its own benefit.¹²⁸ But they did not take this very seriously, and continued to stress the inevitability of repeated imperialist wars. Thus they failed to predict the long period of peace between the major capitalist powers in the second half of the twentieth century under US hegemony. Of course, this itself may prove to be temporary. National capitalisms continue to develop unevenly, undermining US dominance as its relative economic power has declined and the costs of adopting a global policing role have risen.¹²⁹ Only in this very limited sense, however, has the perspective of Lenin proved to be durable.

Notes*

* References to Lenin's *Collected Works* (Moscow: Progress Publishers, 1960-70) are indicated by CW, followed by volume number

1. CW, XXII, pp. 185-304.
2. CW, XXI, p. 211; XXII, p. 376 n. 80.
3. CW, XXI, pp. 19, 33, 160, 277, 379, 381, 401, 402; XXII, p. 151; XXIII, pp. 58, 59, 268, 287.
4. CW, XXI, pp. 16, 32, 33, 40, 92, 93, 110, 153, 162, 163, 213, 275, 278, 284, 301, 311, 323, 329; XXII, p. 306; XXIII, p. 203.
5. N. K. Krupskaya, *Reminiscences of Lenin* (London: Lawrence & Wishart, 1960) p. 277.
6. CW, XXI, pp. 27, 28, 233, 236.
7. CW, XXI, pp. 38, 98, 109, 149, 159, 208, 215, 258, 345, 390, 429; XXII, p. 295.
8. R. Hilferding, *Finance Capital* (London: Routledge & Kegan Paul, 1980).
9. CW, XXII, p. 195.
10. Bukharin's main work was *The Economic Theory of the Leisure Class* (New York: Monthly Review Press, 1972) completed in the autumn of 1914.
11. Bukharin, *Economic Theory*, pp. 15-58.
12. M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, p. 37.
13. Bukharin, *Economic Theory*, p. 31; M. C. Howard, *Profits in Economic Theory* (London: Macmillan, 1983) pp. 103-10.
14. R. L. Meek, *Economics and Ideology and Other Essays* (London: Chapman & Hall, 1967) pp. 51-74; J. E. King, 'Marx as a Historian of Economic Thought', *History of Political Economy*, 11, 1979, pp. 382-94.
15. Bukharin, *Economic Theory*, pp. 9-11.
16. N. I. Bukharin, *Imperialism and World Economy* (London: Merlin, 1972).
17. *Ibid.*, pp. 18, 22, 25, 39, 40, 46; N. I. Bukharin, *Selected Writings on the State and the Transition to Socialism* (Nottingham: Spokesman, 1982) p. 27. These *Selected Writings* include works of Bukharin written between 1915 and 1929; the references in this chapter are to articles written before 1917.
18. Bukharin, *Imperialism*, pp. 36, 87, 88.
19. *Ibid.*, pp. 27, 54; *Selected Writings*, p. 23.
20. Bukharin, *Imperialism*, pp. 104, 168, 169.
21. *Ibid.*, pp. 29, 30, 33, 45, 84, 90, 96, 97, 102, 103.
22. *Ibid.*, pp. 17-28, 39, 40, 52, 53, 80.
23. Bukharin, *Selected Writings*, pp. 18, 22, 27.
24. Bukharin, *Imperialism*, pp. 87, 100-4, 109, 122, 123.
25. Clausewitz's dictum was deemed by Lenin to be the essence of the Marxist theory of war in CW, XXI, p. 304.
26. Bukharin, *Imperialism*, pp. 73, 108, 118.
27. Bukharin, *Selected Writings*, pp. 7, 16, 17, 27, 31.
28. Bukharin, *Imperialism*, pp. 144, 147, 149, 153; *Selected Writings*, p. 19.
29. *Selected Writings*, pp. 17, 25.
30. Bukharin, *Imperialism*, pp. 110ff, 125-8, 153ff.
31. M. Haynes, *Nikolai Bukharin and the Transition from Capitalism to Socialism* (New York: Holmes & Meier, 1985) p. 58.
32. *Ibid.*, pp. 53-4; M. Sawyer, 'The Genesis of *State and Revolution*', *Socialist Register*, 1977, pp. 215-16; Bukharin, *Selected Writings*, p. 30.
33. *Selected Writings*, pp. 19, 26.

34. Bukharin, *Imperialism*, pp. 161ff.
35. *Ibid.*, pp. 79, 161ff.
36. Bukharin, *Selected Writings*, pp. 19, 16; *Imperialism*, pp. 158–9, 161ff.
37. S. Cohen, *Bukharin and the Bolshevik Revolution* (Oxford: Oxford University Press, 1980) pp. 26–7.
38. Bukharin, *Economic Theory*, p. 16; *Imperialism*, pp. 73, 133; *Selected Writings*, p. 32.
39. Bukharin, *Imperialism*, pp. 3, 60, 63, 74, 120, 134, 138, 142, 143.
40. Bukharin, *Economic Theory*, pp. 46–7; *Imperialism*, pp. 19, 27, 39, 64, 74, 80, 132; Haynes, *Nikolai Bukharin*, pp. 50–3, 68–9.
41. Bukharin, *Imperialism*, p. 27.
42. Haynes, *Nikolai Bukharin*, p. 27.
43. *Ibid.*, pp. 15, 31–2.
44. Sawyer, 'Genesis of State', pp. 209–14; D. A. Smart (ed.) *Pannekoek and Gorter's Marxism* (London: Pluto Press, 1978).
45. Bukharin, *Selected Writings*, pp. 6–37.
46. Bukharin, *Imperialism*, p. 10; Haynes, *Nikolai Bukharin*, pp. 50–3, 68–9; R. B. Day, 'The New Leviathan' in Bukharin, *Selected Writings*, pp. 1–lii.
47. Bukharin, *Imperialism*, pp. 69, 76–9, 87, 113, 115, 128, 132, 137, 153; *Selected Writings*, p. 22; *Economic Theory*, p. 18.
48. *CW*, XXII, pp. 103–7.
49. *CW*, XXII, pp. 185–304.
50. *CW*, XXII, p. 195.
51. *CW*, XXII, pp. 206–8, 219, 266; Krupskaya, *Reminiscences*, p. 332; also see 'Lenin's Remarks' to N. I. Bukharin, *Economics of the Transformation Period* (New York: Bergman, 1971) contained in that work on pp. 211–24.
52. *CW*, XXII, pp. 208–9; XXIX, p. 165.
53. *CW*, XXIII, pp. 165–6; Sawyer, 'Genesis of State' p. 215f; Cohen, *Bukharin*, pp. 39–41.
54. *CW*, XXI, p. 321f; XXIII, pp. 13–76; XXVI, p. 169; O. H. Gankin and H. H. Fisher, *The Bolsheviks and the World War* (Stanford: Stanford University Press, 1940) p. 213–56; Cohen, *Bukharin*, pp. 13, 15, 23–4, 35–8, 56; Haynes, *Nikolai Bukharin*, pp. 54–5; Sawyer, 'Genesis of State', pp. 214–15; N. Harding, *Lenin's Political Thought* vol. I (London: Macmillan, 1977), p. 298 and *ibid.* vol. II (London: Macmillan, 1981) p. 64; T. Cliff, *Lenin* (London: Pluto, 1976) vol. II, pp. 51–2.
55. Harding, I, pp. 249–281.
56. *CW*, XXII, pp. 185–304; see also *CW*, XXI, p. 211.
57. See *CW*, XXIX, and Krupskaya, *Reminiscences*, pp. 322ff.
58. J. A. Hobson, *Imperialism* (London: Allen & Unwin, 1938) (first published in 1902). For an outline of Hobson's views see J. E. King, *Economic Exiles* (London: Macmillan, 1988) ch. 6.
59. *CW*, XXII, p. 223.
60. *CW*, XXXIX, p. 202; also see *CW*, XXII, p. 276.
61. *CW*, XXII, pp. 276–85.
62. *CW*, XXII, pp. 266–7.
63. *CW*, XXII, pp. 271ff, 295; see also *CW*, XXI, pp. 223ff, 358, 448.
64. *CW*, XXII, pp. 193–4, 252ff, 281ff, 301; see also *CW*, XXI, pp. 109, 152, 161, 223, 242, 310, 355, 442; XXIII, pp. 55–6, 105, 110, 117; XXVI, p. 168.
65. *CW*, XXII, pp. 200–5, 226, 239, 265.
66. *CW*, XXII, pp. 240–5.
67. *CW*, XXII, pp. 254–65, 272–6; see also *CW*, XXI, p. 303.
68. *CW*, XXII, pp. 246–53, 271.

69. *CW*, XXII, pp. 248, 252, 254, 260, 261, 265, 268–76, 285–98.
70. Bukharin, *Imperialism*, pp. 108–9, 121, 141.
71. *CW*, XXII, p. 243; XXVI, p. 165.
72. *CW*, XXI, pp. 17, 28, 34, 126, 178, 185, 291; XXII, pp. 240, 258–9, 263, 268–9, 297, 337; XXIII, pp. 33, 4, 44, 126, 180, 213, 260, 267, 335; XXVI, p. 165.
73. *CW*, XXI, pp. 15, 18, 22, 27, 225, 236, 413; XXII, pp. 21, 153, 308, 342, 359; XXIII, pp. 116, 133; XXVI, p. 161.
74. *CW*, XXII, pp. 281–5, 301. See also *CW*, XXI, pp. 109, 152, 161, 223, 242, 310, 355, 442; XXII, p. 112; XXIII, pp. 55–6, 105, 110, 117.
75. In other work Lenin's remarks suggest a more refined viewpoint. See section VI below.
76. A. Rabinowitch, *The Bolsheviks Come to Power. the Revolution of 1917 in Petrograd* (New York: Norton, 1978).
77. *CW*, XXII, pp. 258–9.
78. See, for example, *CW*, XXI, pp. 71, 146; XXII, p. 191.
79. A. Gillie, 'The State, the Market and the Plan', in J. Anderson (ed.) *The Rise of the Modern State* (Brighton: Wheatsheaf, 1986) pp. 172–6.
80. *CW*, XXIII, pp. 23, 212, 230, 267; XXIV, pp. 240, 305, 309, 403, 464; XXV, pp. 44, 68–9, 279, 333, 340, 346, 357, 359, 383, 392, 415, 442; XXVI, p. 170.
81. *CW*, XXIII, pp. 330, 341; XXIV, pp. 162, 206, 309, 314, 316, 360, 396, 446–7, 484, 513, 551; XXV, pp. 32, 43, 106, 141, 297–8, 309, 323–9, 353, 360, 370; 371; XVI, p. 65; G. Garvy, 'The Origins of Lenin's Views on the Role of Banks in the Socialist Transformation of Society', *History of Political Economy*, 4, 1972, pp. 252–64.
82. *CW*, XXIII, pp. 67, 139, XXV, p. 33; XXII, pp. 276–85; Cliff, *Lenin*, p. 56, 220ff; A. Brewer, *Marxist Theories of Imperialism* (London: Routledge & Kegan Paul, 1980) pp. 90, 97; A. G. Meyer, *Leninism* (New York: Praeger, 1962) pp. 29, 47, 115, 126–9; V. Kiernan, *Marxism and Imperialism* (London: Edward Arnold, 1974) pp. 8–9, 46–8.
83. This is traced by Sawyer, 'Genesis of State'. See also Harding, *Lenin's Political Thought*, vol. II, pp. 92–141; Cohen, *Bukharin*, pp. 42–3; Haynes, *Nikolai Bukharin*, pp. 26–7.
84. *CW*, XXV, pp. 383–492.
85. *CW*, XXII, p. 205; XXV, pp. 381–492; Garvy, 'Origins'.
86. *CW*, XXI, pp. 306, 311; XII, pp. 241, 258, 287, 356; XXIII, pp. 37, 48, 58–60, 158, 236–53, 329–30, 348, 370–2; XXIV, pp. 23, 36, 52–3, 74, 141, 192–5, 239, 241, 246, 262, 300, 306–8, 311, 425, 428, 440, 450; XXV, pp. 19, 63, 221–2, 289–310, 324–9, 357–9, 470; XXVI, pp. 94, 107; Krupskaya, *Reminiscences*, p. 355.
87. *CW*, XXIV, pp. 19–26.
88. I. Deutscher, *The Prophet Armed* (Oxford: Oxford University Press, 1954) pp. 256–9; Cliff, *Lenin*, pp. 124, 132, 135.
89. Meyer, *Leninism*, p. 170; B. Knei-Paz, *The Social and Political Thought of Leon Trotsky* (Oxford: Oxford University Press, 1978) p. 172; M. Löwy, *The Politics of Combined and Uneven Development* (London: Verso, 1981) pp. 61–4; D. Hallas, *Trotsky's Marxism* (London: Bookmarks, 1984) p. 17; E. Mandel, *Trotsky* (London: New Left Books, 1979) p. 20.
90. *CW*, XXI, pp. 419–20; XXIII, p. 174; Harding, *Lenin's Political Thought*, vol. II, p. 75; T. Cliff, *Lenin* (London: Pluto, 1975) vol. I, p. 207.
91. *CW*, XXIII, p. 358; XXIV, pp. 44ff, 229–30, 548.
92. Rabinowitch, *The Bolsheviks*.
93. *CW*, XXIV, pp. 54, 91, 417; XXV, p. 384.
94. *CW*, XXI, p. 342; XXIV, pp. 227, 238, 310; see also XXVI, p. 328; XXVII, p.

- 98; XXVIII, pp. 342–8; XXXI, p. 397; XXXII, pp. 113, 479–80; XXXIII, p. 499; XXXV, p. 364.
95. *CW*, XXI, pp. 40, 45, 58–9, 69, 74, 77, 418; XXII, pp. 92, 100; XXIV, pp. 70–3, 150, 169–70, 185, 194, 204, 242, 262, 284–9, 291, 306–7, 370, 393–4, 418, 451, 484, 503–5; XXV, pp. 171–3, 199, 200, 274, 277, 279–80, 281–2, 344–5, 371, 416; XXVI, pp. 40, 59, 94, 154, 165, 197, 229; Krupskaya, *Reminiscences*, pp. 117–19, 390ff; Garvy, 'Origins'. See also note 82 above.
96. *CW*, XXVI, p. 74; Krupskaya, *Reminiscences*, pp. 341ff.
97. *CW*, XXI, pp. 339, 342; XXII, p. 144; XXIII, pp. 70–1, 79, 253.
98. *CW*, XXII, p. 11; XXIII, pp. 11–12.
99. On this see especially Rabinowitch, *The Bolsheviks*.
100. *CW*, XXI, pp. 397, 403; XXIII, p. 297; XXIV, p. 393.
101. *CW*, XXVI, pp. 126–9; M. Liebman, *Leninism Under Lenin* (London: Merlin, 1975) pp. 164, 173; O. Radkey, *The Agrarian Foes of Bolshevism* (New York: Columbia University Press, 1958); J. D. Basil, *The Mensheviks in the Revolution of 1917* (Columbus, Ohio: Slavica Publishers, 1983).
102. *CW*, XXIII, pp. 288, 321–2.
103. *CW*, XXV, pp. 220, 236; XXVI, p. 191; Liebman, *Leninism*, pp. 167, 174.
104. Rabinowitch, *The Bolsheviks*; Liebman, *Leninism*.
105. Examples of poor scholarship are exposed by L. G. Churchward, 'Towards an Understanding of Lenin's *Imperialism*'. *Australian Journal of Politics and History*, V, 1959, pp. 76–83, and E. Stokes, 'Late Nineteenth-Century Colonial Expansion and the Attack on the Theory of Economic Imperialism, a Case of Mistaken Identity?' *Historical Journal*, XII, 1969, pp. 285–301.
106. J. A. Schumpeter, *Imperialism and Social Classes* (New York: Kelly, 1951); Kiernan, *Marxism*, pp. 17, 27, 54, 93.
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108. Boulding and Mukerjee, *Economic Imperialism*.
109. G. Lichtheim, *Imperialism* (London: Allen Lane, 1971) p. 115
110. See notes 72 and 73 above; Churchward, 'Towards an Understanding', pp. 78–9, 82; Stokes, 'Late Nineteenth-Century Colonial Expansion', pp. 291ff. Lenin made clear that his *Imperialism* was confined to *economic* analysis; see *CW*, XXII, pp. 266–7.
111. See especially, L. Trotsky, *The Bolsheviks and World Peace* (Westport, Conn.: Hyperion, 1973; written in 1914).
112. *CW*, XXI, p. 225; XXII, pp. 101, 308.
113. See note 54 above.
114. See note 73 above and Bukharin, *Selected Writings*, pp. 6–37.
115. *CW*, XXVI, pp. 161–2, 165–6; Bukharin, *Imperialism*, pp. 112f, 119.
116. *CW*, XXIII, pp. 42–3; Stokes, 'Late Nineteenth-Century Colonial Expansion', pp. 288–9.
117. See notes 71 and 72 above.
118. *CW*, XXII, p. 297; XXIII, p. 107; J. P. Nettl, *Rosa Luxemburg* (Oxford: Oxford University Press, 1966) vol. II, p. 533.
119. *CW*, XXII, p. 254.
120. *CW*, XXII, pp. 260, 264; XXVI, pp. 161–2, 165–6.
121. *CW*, XXI, pp. 102, 140; XXIII, p. 126; XXVI, p. 154; Trotsky, *The Bolsheviks*; Stokes, 'Late Nineteenth-Century Colonial Expansion', pp. 299–300.

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124. *CW*, XXIII, p. 241.
125. *CW*, V, pp. 349–520; IX, p. 43; XV, p. 21; XVI, p. 88; XVII, pp. 241, 260; XVIII, pp. 535, 591; XXI, pp. 247, 251, 255; Krupskaya, *Reminiscences*, p. 186; Liebman, *Leninism*, pp. 30, 71.
126. Harding, *Lenin's Political Thought*, vol. I, pp. 230–45; Harding, *Lenin's Political Thought*, vol. II, pp. 84–141; Cliff, *Lenin* vol. I, pp. 168ff, 232; Cliff, *Lenin*, vol. II, pp. 157–60; Liebman, *Leninism*, pp. 45, 85ff, 148, 191–209; R. Miliband, *Class Power and State Power* (London: Verso, 1983) pp. 154–66.
127. *CW*, XXIV, p. 240.
128. Bukharin, *Imperialism*, pp. 13, 120, 139, 144–5; *CW*, XXII, p. 256; XXIII, p. 207.
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Part III
Social Democracy and
Communism,
1917–1929

14

The Revival of Revisionism

I Introduction

The outbreak of the First World War in August 1914 shattered the already precarious unity of the European socialist movement. A large majority in the Marxist parties of all the important combatant powers supported the war efforts of their respective states, with greater or lesser degrees of enthusiasm. Otto Bauer and Rudolf Hilferding, for example, joined the Austrian army as a matter of course, without apparently even considering any alternative course of action. In Germany the patriotic fervour of the SPD's right wing produced an appalling display of chauvinistic casuistry in which the military victory of the Hohenzollern Empire was invoked as a necessary step on the road to socialism.¹ At first, dissenting voices were few; only a small, resolutely internationalist group around Rosa Luxemburg and Karl Liebknecht identified with the revolutionary position of Lenin and the Bolsheviks. As the war dragged on, however, a pacifist tendency emerged, opposed to the belligerence of the German state but unwilling to call openly for its overthrow. Karl Kautsky and Eduard Bernstein, antagonists for so long, found themselves reunited in support for this centrist position.²

By the end of the war the political situation in Europe had been transformed by the October Revolution in Russia, the defeat of the Central Powers, and the collapse of the German and Austro-Hungarian monarchies. But the German revolution was abortive. Although formal political democracy was established and significant social reforms were carried through there was no change in class structure, nor even an effective challenge to private property. The state apparatus was still authoritarian, and the position of the previously dominant classes remained secure. Indeed, it was a social democratic government which put down the Spartacist rising, connived at the murder of Liebknecht and Luxemburg in January 1919, and helped to make post-war Germany safe for capitalism. After the formation of the German Communist Party (KPD) in 1918 the

chasm separating supporters and opponents of Bolshevik Russia soon became unbridgeable. The centrist position was now untenable, and in 1923 the Independent Socialist Party (USPD), which numbered Kautsky and Hilferding among its leaders and had been the mainstay of the short-lived 'Two-and-a-Half International', merged with the majority organisation. Social democrat or communist: the battle-lines were now drawn, and the German working class movement was polarised between reformists and Comintern-affiliated revolutionaries.³

There were, inevitably, complementary developments at the level of Marxist theory. Even more than before 1914, political controversy spilled over into economic debate, and conflicting analyses of capitalist development were used in defence of rival political strategies. On the one hand the resources of the soviet state were added to the immense moral authority of a successful proletarian revolution to produce an increasingly rigid (albeit changing) orthodoxy which hardened, after Stalin secured power, into dogmatism. Against the communists, whose theoretical impetus came overwhelmingly from Russia, were the mainstream social democrats in Germany and Austria. The German party enjoyed a measure of respectability in the Weimar Republic, and sometimes participated in government; Rudolf Hilferding twice served as an impeccably conservative Minister of Finance in the 1920s.⁴ As the prospects for social revolution diminished, the SPD became ever more deeply committed to gradual reform within the existing system, and the pre-war heresies of Eduard Bernstein won increasing acceptance. Only a handful of deviants remained outside the two great camps.

II 'Organised Capitalism' and the New Revisionism

At the turn of the century Bernstein had argued for a peaceful, evolutionary approach to the achievement of socialism. Instead of revolution there would be a gradual social transformation resulting from a long series of limited reforms. Bernstein denied the necessity of a catastrophic breakdown, and suggested that economic crises would decline in severity as production came to be regulated by private associations of capitalists and by the state. His views had been denounced by the SPD's ideological leadership, but their criticisms had little analytical foundation (see Chapter 4 above). In his *Finance Capital* Rudolf Hilferding had emphatically denied that cartels could prevent crises, but he also came close to the revisionist line in arguing that:

The socializing function of finance capital facilitates enormously the task of overcoming capitalism. Once finance capital has brought the most important branches of production under its control, it is enough for

society, through its executive organ – the state conquered by the working class – to seize finance capital in order to gain immediate control of these branches of production. Since all other branches of production depend upon these, control of large-scale industry already provides the most effective form of social control even without any further socialization . . . Even today, taking possession of six large Berlin banks would mean taking possession of the most important spheres of large-scale industry . . . In other words, since finance capital has already achieved expropriation to the extent required by socialism, it is possible to dispense with a sudden act of expropriation by the state, and to substitute a gradual process of socialization through the economic benefits which society will confer.⁵

At the time, however, the potentially reformist significance of these passages was lost amid the excitement generated by Hilferding's incisive discussion of imperialism and the militant tone of his principal conclusions (see Chapter 5 above).

The economic foundations of Hilferding's reformism did however correspond rather closely to the nature of contemporary German capitalism. There had never been an era of full-blooded *laissez-faire* in Germany. The government had consistently played an important role in economic life, and competition had always been limited by trusts, cartels and price-fixing arrangements. The onset of total war accelerated these developments, as the state now assumed responsibility for larger sectors of the economy and encouraged the formation of new producer associations and the strengthening of existing ones. Their wholehearted participation in the war effort earned for the trade unions a degree of recognition from government and employers alike, giving a new corporatist tinge to an increasingly statist regime. As was the case in other European countries, the post-war 'return to normality' was in Germany only partial, and many of the wartime changes proved irreversible.⁶

By the early 1920s support for further 'rationalisation' was widespread, within the labour movement as well as in capitalist circles. 'Among all the capitalistic industrial nations the centralising tendency has gone furthest in post-war Germany', wrote Robert Brady in 1933. 'The background in that country is most favourable for continued advance, and the German sentiment in favour of centralisation seems to be increasing rather than decreasing in almost every economically significant activity.' Thus there was no future in Germany for 'the old Manchesterian system', Brady concluded. 'Two facts stand out as of paramount importance. First, the desire to go back to a "freely competitive" capitalist economic system is almost completely gone in Germany. Second, the possibility of such a return has been almost completely eliminated.' Even the trade unions supported rationalisation, which they saw as 'the technical and organisatio-

nal expression of evolution from the old to the new order', which would culminate in comprehensive economic planning. Working-class political power, they expected, would be sufficient to secure for labour a large and growing share of the gains from rationalisation.⁷

The implications of these changes were recognised by Hilferding quite early in the war and reinforced the reformist elements in his thinking, which were already evident in his *Finance Capital*. In an article published in the Austrian party journal *Der Kampf* in 1915 he described what he believed to be the adjustments forced upon capitalist society by the socialist and trade union movements. In the course of its struggle the working class had increased its strength and self-consciousness, but in improving its own position it had also moderated its revolutionary impulse, since the conditions of its existence were no longer utterly intolerable. 'To put it in the form of a paradox: the counter-revolutionary effects of the workers' movement have weakened the revolutionary tendencies of capitalism.' Additional stabilising factors had emerged in 'the latest phase of high capitalist development'. Since the mid-1890s depressions had become shorter and chronic unemployment less severe. In Germany and the USA there was no longer a reserve army of the unemployed in the old sense. Finance capital had reduced the system's susceptibility to economic crises, and 'contains the germ of a transformation of the anarchic-capitalist into an organised capitalist economic order'. The growth in the power of the state, itself the product of finance capital, worked in the same direction.

In place of the victory of socialism there appears possible a society organised, indeed, but hierarchically [*herrschaftlich*] and not democratically organised, at the apex of which stand the combined forces of the capitalist monopolies and the state, under whom the working masses are engaged in a hierarchy as agents of production. Instead of the triumph of socialism over capitalist society we would have an organised capitalism, better adapted than hitherto to meeting the immediate material needs of the masses.

The experience of the war could only strengthen these tendencies, Hilferding concluded. What was coming to be known as 'war socialism' was merely an intensified form of pre-war organised capitalism.⁸

Even more far-reaching conclusions were drawn by the legal theorist and future President of the Austrian republic, Karl Renner. Writing in 1916, Renner accused Marxists of overlooking fundamental changes in the structure of capitalism. The economic functions of the state had increased to an unprecedented degree. 'It is a question rather of the penetration of the private economy down to its elementary cells by the state; not the nationalisation of a few factories, but the control of the whole private sector of the economy by willed and conscious regulation and direction.'

This had come about in four stages. In the first, which lasted from 1878 to about 1890, the state had intervened to protect the weak against the effects of internal and external competition. There followed the era of 'the organised private enterprise economy', in which cartels arose against the opposition of the state to restrict competition. In the third stage, that of 'the imperialist national economy',

the state power serves capital by substituting the defence of the strong for the traditional 'protection of the weak' . . . State power and the economy begin to merge; the state's area of domination and the national economic region coincide; the national economy is perceived as a means of state power, state power as a means to strengthen the national economy, in spite of their overtly proclaimed separation.

The process culminates in the fourth and final stage, 'an era of state economy', in which the private sector 'is determined by the state and has become a thoroughly state-dominated organisation'. Thus 'capitalist society, as Marx experienced and described it, no longer exists . . . Counterposing the beginning and the end of this process one might say that *laissez-faire* capitalism has changed into state capitalism or is well on the road to doing so.'⁹

In this Renner had gone further than Hilferding would ever do, but the latter did return to the question of organised capitalism in 1924-6, in a series of articles in the SPD's new theoretical journal, *Die Gesellschaft*, which he edited. The war and its aftermath had seen a further substantial increase in industrial concentration. Hilferding argued that the new-found stability of the world economy was the permanent result of basic structural changes, and not the chance outcome of transient or fortuitous circumstances. There would be no great economic breakdown. The capitalist economy was becoming less unstable, and the impact of crises upon the working class was declining. This was the effect of planning of investments by the trusts; of deliberate counter-cyclical timing of these expenditures; and of the regulation of credit by the big banks in conjunction with the monetary authorities. Unemployment was less of a threat to the proletariat, its menace attenuated by the spread of social insurance, while scientific management techniques were increasing both the intensity of labour and the segmentation of the working class. On balance, reforms had made the workers more conservative, and given them a stake in the system, so that the economic basis for revolutionary change no longer existed. Similar views were expressed at this time by Otto Bauer, Hilferding's colleague Emil Lederer, and even by the Italian Communist Antonio Gramsci.¹⁰

A second fundamental implication of organised capitalism concerned international relations. There was no longer any compelling reason to expect renewed imperialist hostilities, Hilferding concluded, and the eco-

conomic contradictions advanced by Bukharin and Lenin as the root cause of war were illusory (see Chapter 13 above). Hilferding identified a new 'realistic pacifism' as the mainspring of post-war foreign policy. Both politically and ideologically, Anglo-Saxon influence had grown in the world at the expense of Germany and France. England and America both had strong interests in the prevention of war. England needed a breathing space to solve its colonial problems and to resist the demands of national liberation movements in Asia and the Near East, while the USA had become a major exporter of both commodities and capital and required peace in order to reap the benefits. Even France needed financial assistance from England and the USA, and was in no position to engage in sabre-rattling. In all these countries the growth of democracy had further undermined militarism, for the voices of tens of millions of workers and peasants were raised in defence of world peace.¹¹

Even German capitalism appeared less bellicose than before. Chemical production was now the leading sector of German industry, Hilferding suggested, having overtaken the coal and iron industries which had dominated the economy in Bismarck's day. Wages formed a lower proportion of total costs in chemicals than in the older industries, and the interests of the capitalists were therefore less bitterly opposed to those of their workers. This had altered the international perspective of the most influential capitalists. Before the war the old heavy industries, in alliance with the big landowners, had formed a powerful coalition with the military and the imperial bureaucracy in support of an aggressive expansionism. Defeat in the war had broken Germany's military might, but she remained an economic power of the first order. 'Thus the urge to expansion of German capitalism must seek alternative outlets, which are found in international capitalist common-interest associations [*Interessengemeinschaften*] of every sort.' If German foreign policy had become increasingly pacific in character, it was because the perceived interests of capital had changed. German industrialists had at last adopted the cosmopolitan world outlook displayed by British capitalists long before the war.¹² Though Hilferding did not cite any authority, and carefully avoided using the term 'ultra-imperialism', he now shared Kautsky's 1915 vision of a peaceful world cartel.¹³

Finally, he pointed to a major change in the relationship between politics and the economy. No longer was a single class able to impose its control on the state. The proletariat had achieved both a measure of real political power and a consciousness of its strength. It saw the state not as an implement in the hands of its oppressors, but rather as a tool which it might itself use in its own interests. Organised capitalism had not, however, done away with the class struggle. In fact the contradiction between the increasingly regulated nature of production and the unorganised basis of property relations was becoming ever more blatant. In order to resolve it, the economy must be subject to democratic organisation in place of the existing

hierarchic forms of control.¹⁴ By its very nature, organised capitalism lent itself to peaceful transformation through gradual legislative reform, and reform would improve the functioning of the economic system. Atomistic competition was a thing of the past, and with it the tyranny of impersonal market forces. Cartels, trusts, associations of capitalists, cooperatives and trade unions exercised more and more power over economic life. Thus social control of the economy was already a reality. At present it was enjoyed by a handful of corporate capitalists – the ‘six large Berlin banks’ of *Finance Capital* – in the interests of their class. Once the proletariat had gained full political power, it could use these same institutions for its own ends. Hilferding thus repudiated his earlier view of the state as simply an executive organ of capitalist domination, regarding it instead as an agent of society as a whole. State policy depended on the relative power of the classes vying for control over it, he argued, and in this struggle the working class was growing stronger and stronger.¹⁵

Under the influence of the British Guild socialists,¹⁶ social democratic theorists like Fritz Naphtali urged the extension of economic democracy to complement the political democracy which German workers had won in 1918. The working class must use its new political strength to build its economic power and challenge that of the continuing economic autocracy, Naphtali argued. The emergence of organised capitalism, the extension of public enterprise and the significant (if limited) successes of the labour movement in securing legal protection of working conditions, all demonstrated that ‘capitalism can be *bent* before it is *broken*’.¹⁷ The despotism of the magnates of capital could be fought with some success. This had important strategic implications for the German working class. Although the SPD’s socialist goal was unchanged, Naphtali wrote, the means of attaining it must be adapted to the changed circumstances. Economic democracy was both a necessary condition for socialism and the best way of achieving it. There were several areas in which progress could be made. First and foremost was the expansion of state control over economic life, through both anti-monopoly legislation and counter-cyclical credit and public investment policy. Second came increased trade union representation in industry, via an extension of the codetermination system set up in 1918, the strengthening of collective bargaining, and the fostering of trade union enterprises. Third was the further development of the social insurance network, in order to take income distribution out of the marketplace. Finally, support for consumer cooperatives and a more democratic education system was required.¹⁸ The party’s slogan should be: ‘Through democratisation of the economy to socialism.’¹⁹

For his part Karl Kautsky devoted much of the 1920s to completing his encyclopaedic exposition of historical materialism, which he intended as a manual of orthodox Marxism. Kautsky repudiated his earlier claims, advanced against Bernstein in 1899, that the capitalist mode of production

faced insurmountable economic limits. There was no inevitable tendency to breakdown. Economic crises had become milder and less menacing to the interests of capital, and the living standards of the working class had improved considerably.²⁰ The state was losing its character as an instrument of oppression, and was turning into 'a tool for the liberation of the exploited'. Nor was increasing international tension unavoidable. Just as the introduction of universal suffrage had proved (to Bismarck's dismay) to be a powerful weapon in the hands of the German proletariat, so the League of Nations had ceased to be a creature of the victorious powers and was transforming itself into a forum for international cooperation. Nationally and internationally, the old class state was changing into a 'workers' or social state' [*Arbeiterstaat oder Sozialstaat*]. Almost thirty years after his break with Bernstein, Kautsky had thus accepted many of the principal themes of revisionism.²¹

The principal theorists of organised capitalism denied that they had broken with Marxism. Throughout the later stages of his life Rudolf Hilferding continued to regard himself as a Marxist, writing more freely on general questions of historical materialism than on narrowly economic issues.²² Far from renouncing *Finance Capital*, when called upon for his views on political economy he merely summarised the main themes of the book.²³ Kautsky also continued to proclaim his commitment to socialism, although he now stressed that its realisation depended on the moral, intellectual and political power of the working class rather than on economic breakdown. In fact the more successful and highly-developed was the capitalist economy, the stronger the proletariat and the closer socialism would be. Only if social reforms weakened class antagonism would the cause of socialism be hopeless. Kautsky believed that the conflict between capital and labour was intensifying, despite the profound economic changes that he acknowledged. Crises continued to recur, bringing mass unemployment and its attendant misery in their wake, while the improvement in working-class living standards lagged far behind those of their exploiters.²⁴ Thus 'the capitalists are becoming stronger and stronger economically, the proletarians politically'.²⁵

III Fritz Sternberg on Imperialism

Before 1929 the only serious non-Communist challenge to the new orthodoxy came with the publication of Fritz Sternberg's massive *Imperialism*.²⁶ Drawing upon, expanding and modifying the analysis of Rosa Luxemburg's *Accumulation of Capital* (see Chapter 6 above), Sternberg argued that the current prosperity was a transient phenomenon, and that the economic contradictions of capitalism would shortly reassert themselves with a vengeance. Revisionism, old and new, was simply an ideological

reflection of this temporary period of economic stability. The necessity for a revolutionary politics would soon become apparent.

**Biography of
Fritz Sternberg**

Born in Breslau in 1895 of Jewish parents, Sternberg studied in Frankfurt under Franz Oppenheimer before embarking on a career as an independent author and journalist. In the 1930s he belonged to the German Socialist Workers' Party (SAPD), a left-wing splinter from the SPD. After exile in Switzerland and France, where he had a series of discussions with Trotsky (but dismissed the formation of a Fourth International as a Utopian venture), Sternberg emigrated to the USA in 1939 and became a US citizen. He returned to Europe after the war, advocating a 'third way' between capitalism and Soviet Communism, and died in Munich in 1963.

Like that of Luxemburg, Sternberg's critique centred on the simplifying assumption, frequently made by Marx, of a purely capitalist economy without peasants, artisans and other petty commodity producers. This, Sternberg maintained, was a cardinal error, since non-capitalist production had played a crucial role from the beginnings of capitalist history. Rosa Luxemburg had been right to stress this defect in Marx's reasoning, but she did not take her criticisms far enough. All of Marx's work was subject to it: the theory of wages, of crises and revolution, as well as the analysis of reproduction. In short, to assume a pure capitalism was to eliminate the real nature of the system itself.²⁷

Sternberg began his attack by pointing to the requirement for a surplus population as a basic condition for the viability of capitalism: without it no surplus labour would be performed, and no surplus value would be produced. Marx's account of the reserve army of the unemployed concentrated upon the unemployment-creating effects of mechanisation, which increased the organic composition of capital and reduced the demand for living labour relative to dead labour in the production process. For Sternberg, technical progress was neither necessary nor sufficient to secure a surplus population. It was not necessary, because non-capitalist producers constituted a potential source of labour power even in the absence of technical change. And it was not sufficient, because in certain historical circumstances the labour-displacing effects of machinery could be 'over-compensated' by the massive extension of overseas markets which it made

possible. Less living labour might be required per unit of output, but the growth of demand in non-capitalist areas of the world could so increase the quantity of output that employment would nevertheless increase.²⁸

Somewhat more formally, Sternberg identified six sources of surplus population. Two – the growth of the population, and mechanisation – were internal to the capitalist system, and it was these which Marx emphasised. More important, however, were the four ‘exogenous’ elements. Of these, Marx had paid some attention to two: the expropriation of artisan producers, and the migration of peasant farmers into the towns. But he had very largely ignored the two ‘external exogenous’ sources of surplus population: immigration from non-capitalist areas, and (above all) the export of capital to such areas. Like mechanisation, capital exports first increased employment within the industrialised capitalist countries, as more labour was needed to produce the means of production in which it was embodied. Then employment declined, as colonial production began to compete with that from the metropolis.²⁹ Hence overcompensation is chiefly a feature of the early stages of imperialist penetration, before the previously non-capitalist lands are assimilated into the world economy. ‘The faster the rate of progress of capitalisation (*Kapitalisierung*) in the non-capitalist areas, the faster, for example, India constructs its own industries with Indian workers, the harder becomes the lot of the working class in the active imperialist countries; for then the displacement of workers by machines gathers pace.’³⁰

This conclusion was implicit in Luxemburg’s analysis but not, perhaps, made sufficiently clear by her. It allows Sternberg to suggest a periodisation of capitalist development according to the principal source of surplus population. In the first era, corresponding roughly to Marx’s phase of ‘primitive accumulation’, the first two exogenous elements (local artisans and peasants) are most important. Then mechanisation becomes the chief supplier of labour power. Finally the external exogenous sources take over, and the imperialist era begins. Sternberg distinguishes further between early and late imperialism. In the initial stages of imperialist activity the overcompensating effects of technical progress and capital export are still powerful, while the local reservoirs of non-capitalist producers are drying up rapidly. Unemployment is thus at its lowest, and the living standards of the working class are at their highest.³¹ This is the ‘honeymoon period’ for the working class. It is characterised by genuine increases in real wages for most workers in all advanced capitalist countries. Revisionism, in fact, is ‘the theory of the honeymoon period’.³²

Sternberg maintains that honeymoon cannot last, since sustained and continuous increases in real wages would threaten the accumulation of capital itself. Thus capitalists seek relief outside the system. The honeymoon is brought to an end by the accelerated export of capital, which gives an international dimension to the surplus population. The wages of English

workers, for example, are no longer determined in England alone, but are affected by the possibility that English capitalism can extend itself over the whole globe, drawing on sources of labour power in colonial and semi-colonial territories. Two central conclusions follow from this. First, without effective proletarian solidarity which might increase the living standards of colonial workers, European wages will be forced down to Asian levels. Second, imperialism cannot be seen as an accident or an avoidable policy option. It is an immanent necessity for the capitalist system as a whole.³³

Sternberg supported this assessment with a second argument, concerning the role of imperialism in permitting the realisation of surplus value. Rosa Luxemburg had already demonstrated that Marx's reproduction schemes were unsatisfactory. They must be adapted, Sternberg maintained, to incorporate two significant features of capitalist reality: an organic composition of capital higher in department I than in department II, and an increasing organic composition in both departments. Neither Luxemburg, nor Otto Bauer, nor Bukharin had succeeded in extending Marx's analysis in this way. Had they done so, they would have discovered that there was necessarily an unsaleable surplus of commodities in department II, so that a closed capitalist system would indeed encounter serious difficulties in the realization of surplus value and would be forced to look overseas for non-capitalist customers.³⁴ Rosa Luxemburg's criticisms of Marx on this score were 'correct and justified in all essential points'. But she had somewhat exaggerated the magnitude of the problem: it was not the entire accumulated surplus value which was unrealisable, but only part of it, namely the surplus of consumer goods produced by department II. The resulting crises would thus be less devastating than Luxemburg's analysis might lead one to expect.³⁵ Still, these crises are real enough, and it remains true that their 'finally decisive cause' is 'the necessary disproportion between the growth of production and the growth of consumption on the basis of antagonistic relations of distribution', which however 'expresses itself in a very complicated way, in the disproportion in the investment expenditures of the means of production and means of consumption industries'.³⁶

Luxemburg had been wrong, Sternberg suggested, in arguing that imperialism had always led to an intensification of the class struggle. Until 1914, during the era of early imperialism, the overcompensation effect had meant that the reverse was true: real wages had grown, social reforms had been achieved, and hostilities between capital and labour had weakened. But imperialism offered only a temporary respite in the class war, just as it represented only a limited solution to the economic contradictions of capitalist society. By assimilating larger and larger areas of territory, it was making increasingly difficult the acquisition of new non-capitalist markets, and was thereby digging its own grave. The world was entering a new cycle of economic crises, with mounting international rivalry for access to

shrinking markets, and growing pressure on real wages. This was most evident in Britain (Sternberg was writing in the year of the General Strike).³⁷ Only in the USA was the working class continuing to gain. Here the honeymoon period had begun later than in Europe, and the revisionists were wrong to generalise from the American experience. They had fallen into the worst error of bourgeois science, Sternberg concluded, by making absolute the specific conditions of a particular historical epoch. There was no future for revisionism in late imperialism, which was a period of deepening crises, falling living standards and renewed imperialist war.³⁸

IV Sternberg's Critics

Sternberg's *Imperialism* is a very uneven work, impressive in its structure and range yet weak in substantive analysis. Its logical-historical account of the stages of capitalist development, and its attempt to relate changes in economic and political thought to these stages, make Sternberg's book closer to Marx's *Capital* than is any other work of the period. Moreover, his theory of the sources of surplus population touched upon questions which resurfaced half a century later, in the context of the 'de-industrialisation' apparently faced by advanced capitalist economies.³⁹ Sternberg himself did not offer any firm analytical support for his sweeping claims about the 'honeymoon period' and the pending decline in living standards in the era of late imperialism. Marxists would subsequently argue that international wage differences gave rise to relations of unequal exchange in international trade, in which the extraction of surplus value by the rich nations blocked the industrial development of the poor regions. Others explained the wage gap itself in terms of large productivity differentials between advanced and backward countries, which restricted the latter's competitiveness in world markets.⁴⁰ All these issues were ignored in Sternberg's work.

His theory of economic crisis is even less satisfactory. It rests, as Henryk Grossmann was quick to observe, upon 'an unanalysed schematic numerical example'.⁴¹ Sternberg was extremely critical of both Luxemburg and Otto Bauer; unlike them, however, he made no attempt to demonstrate the truth of his statements about unsaleable surplus production by means of an exemplary scheme of expanded reproduction. Thus there is every reason to suppose that the criticisms of Rosa Luxemburg's analysis made in Chapter 6 apply equally to Sternberg's crisis theory. In her review of *Imperialism* in the theoretical journal of the Austrian socialist party, Otto Bauer's wife, Helene, made precisely this point, and accused Sternberg of overlooking the role played by credit in the circulation process of advanced capitalist economies. The extension of credit from one department to another made it possible to overcome disproportionalities, Bauer argued. Sternberg's argu-

ment applied, if at all, only to a relatively primitive stage of capitalism, in which credit had yet to emerge.⁴²

Bauer's review had an independent significance, in its repudiation of any narrowly economic theory of imperialism. International trade was an expression of the social division of labour, she insisted, and not an unmistakable sign of economic contradictions. Since imports had to be paid for by their recipients, the growth of exports offered no solution to realisation problems, and Britain (for example) was actually a net importer. Political factors were of great importance in understanding imperialist rivalries:

The fact that the world war resulted from the crimes and indiscretions of the military cliques, from the dynastic interests of the Hapsburgs, from the prestige politics of the Romanovs – all this cannot easily be reconciled with the usual primitive form of the materialist conception of history, which investigates economic interests rather than socio-economic conditions . . . In alliance with feudalism, capitalism can be warlike, does seek war, and does raise its profit rate through war. But it can also be peaceful⁴³

It may profit more from international cartels, and from the protection offered by state export credit guarantees, than from any military umbrella. In short, imperialism neither offered a cure for economic crises nor signified the decline of the capitalist system into inescapable barbarism. More than anything else, imperialist rivalry was a convenient mystification behind which the ruling class sought to hide from the workers the realities of the class struggle at home.⁴⁴

V An Assessment

The main thrust of Helene Bauer's attack cannot be resisted: Sternberg's economic arguments were simply not strong enough to justify his apocalyptic conclusions. But neither she nor other revisionists had anything to offer by way of hard analysis to support her claims.⁴⁵ It was one thing to reveal the obscurities and inadequacies of Sternberg and Luxemburg, and to show that credit offered the possibility of realising surplus value without either imperialism or crises of disproportionality between the departments. It was quite another to demonstrate that credit made smooth, sustained and profitable growth at all likely in the longer run. There was no difficulty in pointing to lacunae in the theory of aggressive economic nationalism, or uncovering pacifistic tendencies among Anglo-Saxon (and even some German) industrialists and politicians. To show that the economic motives

for war had faded away was altogether a harder task. Neither Hilferding, nor Kautsky, nor Helene Bauer offered a convincing rebuttal of the Leninist claims concerning the necessary connection between capitalist rivalry and war (see Chapter 13 above). In a sense their revisionism did not go far enough.

There were qualities in Marxism itself which allowed revisionism to take hold on such a superficial basis. Those features of capitalism which Hilferding emphasised in *Finance Capital* now seem to be due, in large part, to the industrialisation of Germany under relatively backward conditions: rather than representing a 'higher stage of development' they were the product of a late start.⁴⁶ Thus Sternberg was correct in accusing the revisionists of making absolute the specific conditions of a particular historical epoch. But other Marxists made exactly the same mistake. Even the most sophisticated historical materialists had hitherto accepted a unidirectional theory of history, which made it difficult to distinguish universal patterns of development from specific transient forms.⁴⁷

Bukharin claimed that the concept of organised capitalism was a contradictory one, since capitalism was anarchic by its very nature. Competition, he argued, had simply been displaced from the national to the international arena, leaving the world economy no more unified than before and the prospect of harmonious and peaceful capital accumulation as remote as ever (see Chapter 13 above). Similar criticisms were common from both orthodox communists and independent Marxist writers.⁴⁸ But classical Marxism provided little basis for denying the possibility of an organised international capitalist economy. In his main economic works Marx abstracted from the division of capitalism into separate and competing territorial states: he offered a model of capitalism, not capitalisms. His theory of the state referred only to its internal domain, neglecting its relations with other states and supplying no analysis of the international relations of a system of states. Reinforcing this omission was the Marxist belief in the internationalism of class interests. 'Workers of all countries unite': the slogan claimed proletarian chauvinism to be a thing of the past, and by implication made out bourgeois nationalism to be no less archaic. This was a serious, if very common, mistake.

By comparison with more orthodox Marxism, the new revisionists did not take an especially harmonistic view of capitalist society. Their political strategy remained anchored to the class struggle, without which the evolution to socialism would be impossible. Indeed, Hilferding came close to describing Germany in the 1920s as in a state of dual power. This was evidently false. More important, however, was his belief that socialism could be attained peacefully through the established framework of democratic institutions. Marx himself had tended towards the view that liberal democracy was the political superstructure most appropriate to a capitalist economic base, and until Lenin's 'April Theses' in 1917 even the Bolsheviks

had concurred, basing their whole revolutionary strategy against Russian absolutism on this foundation (see Chapters 8, 11 and 13 above).⁴⁹

Just how wrong the revisionists of the 1920s were would be very quickly revealed: the Great Depression, the Nazi seizure of power and the renewal of imperialist warfare were their most effective critics. But their errors were deeply rooted in the corpus of Marxist theory and were not a specifically German, or social-democratic, aberration. In some respects, indeed, the revisionist analysis proved more convincing than that of orthodoxy. Helene Bauer's neo-Schumpeterian recognition that atavistic pre-capitalist ideas bore a major responsibility for imperialist aggression is now widely accepted.⁵⁰ Where the revisionists went wrong was in supposing that the political reconstruction of Europe after 1918 had eradicated them, and in exaggerating the permanency of the post-war economic stabilisation. Socialism was not to be achieved gradually through peaceful – and piece-meal – reform. As with Bernstein and his colleagues in the 1890s, the revisionists of the 1920s had succumbed to wishful thinking.

Notes

1. It was against this tendency, epitomised by the writings of Cunow and Lensch, that Kautsky directed his 'Zwei Schriften zum Umlernen', *Die Neue Zeit*, 33, 1915, pp. 33–42, 71–84, 107–16 and 138–46 (see Chapter 6 above).
2. C. F. Schorske, *German Social Democracy 1905–1917* (New York: Wiley, 1955) part 5; a very readable history of the party is provided by E. Anderson, *Hammer or Anvil: the Story of the German Working Class Movement* (London: Gollancz/Left Book Club, 1945).
3. Ben Fowkes, *Communism in Germany under the Weimar Republic* (London: Macmillan, 1983).
4. H. James, 'Rudolf Hilferding and the Application of the Political Economy of the Second International', *Historical Journal*, 24, 1981, pp. 847–69; W. Darity and B. L. Horn, 'Rudolf Hilferding: The Dominion of Capitalism and the Dominion of Gold', *American Economic Review*, 75, 1985 (Papers and Proceedings) pp. 363–8; cf. W. S. Woytinsky, *Stormy Passage* (New York: Vanguard Press, 1961) pp. 467–8, 470–2; and D. Abraham, *The Collapse of the Weimar Republic* (Princeton: Princeton University Press, 1981) part 5.
5. R. Hilferding, *Finance Capital* (London: Routledge & Kegan Paul, 1981; first published 1910) pp. 367–8.
6. G. Stolper, *German Economy 1870–1940* (London: Allen & Unwin, 1940) parts II and IV.
7. R. A. Brady, *The Rationalization Movement in German Industry* (Berkeley: University of California Press, 1933) pp. 63, 398, 355; cf. J. Kocka, 'Organisierter Kapitalismus oder Staatsmonopolistischer Kapitalismus? Begriffliche Vorbemerkungen', pp. 19–35 of H. A. Winkler (ed.) *Organisierter Kapitalismus: Voraussetzungen und Anfänge* (Göttingen: Vandenhoeck & Ruprecht, 1974).
8. R. Hilferding, 'Arbeitsgemeinschaft der Klassen?' *Der Kampf*, 8, October 1915, p. 22.
9. K. Renner, 'Problems of Marxism', in T. Bottomore and P. Goode (eds) *Austro-Marxism* (Oxford: Clarendon Press, 1978) pp. 91–101.

10. R. Hilferding, 'Probleme der Zeit', *Die Gesellschaft*, 1, 1924, pp. 1–3; cf. W. Gottschalch, *Strukturveränderungen der Gesellschaft und Politisches Handeln in der Lehre von Rudolf Hilferding* (Berlin: Duncker & Humblot, 1962) pp. 191–4. Compare Bottomore and Goode, *Austro-Marxism*, p. 210 (for Bauer); E. Lederer, 'Konjunktur und Krisen', *Grundriss der Socialökonomik*, 4, 1925, p. 384; and A. Gramsci, 'Americanism and Fordism', pp. 279–318 of G. Nowell Smith and Q. Hoare (eds) *Selections from the Prison Notebooks of Antonio Gramsci* (London: Lawrence & Wishart 1971).
11. 'Probleme der Zeit', pp. 13–15; cf. Hilferding, 'Die Weltpolitik, des Reparationsproblem und die Konferenz von Genoa', *Schmollers Jahrbuch*, 46, 1922–3, pp. 623–50; and 'Realistischer Pazifismus', *Die Gesellschaft*, 1, 1924, pp. 97–111; also Gottschalch, *Strukturveränderungen*, pp. 196–8.
12. R. Hilferding, 'Politische Probleme', *Die Gesellschaft*, 3, 1926, pp. 289–96; cf. Hilferding, 'Die Eigengesetzlichkeit der Kapitalistischen Entwicklung', in B. Harms (ed.) *Kapital und Kapitalismus* (Berlin: Reimar Hobing, 1931) pp. 34–7.
13. K. Kautsky, 'Zwei Schriften'.
14. Hilferding, 'Probleme der Zeit', pp. 3–4, 11–13.
15. Gottschalch, *Strukturveränderungen*, p. 199.
16. Hilferding wrote the introduction to the German edition of G. D. H. Cole's *Self-Government in Industry*, which was published in Berlin in 1921 (Gottschalch, *Strukturveränderungen*, p. 268).
17. F. Naphtali, *Wirtschaftsdemokratie: Ihr Wesen, Weg und Ziel* (Frankfurt am Main: Europäische Verlagsanstalt, 1977; first published in 1928) p. 28; stress in original.
18. *Ibid*; Naphtali's 'shopping list' of reforms is on pp. 194–6.
19. *Ibid*, p. 29.
20. K. Kautsky, *Die Materialistische Geschichtsauffassung* (Berlin: Dietz, 1929) vol. II pp. 545–6, 591.
21. *Ibid*, pp. 598–9, 606–7, 610–13.
22. See the two articles written shortly before Hilferding's death in 1941: 'The Materialist Conception of History', pp. 125–37 of T. Bottomore (ed) *Modern Interpretations of Marx* (Oxford: Blackwell, 1981); and 'State Capitalism or Totalitarian State Economy', *Modern Review*, June 1947, pp. 266–7, reprinted in C. Wright Mills (ed.) *The Marxists* (Harmondsworth: Penguin, 1963) pp. 323–8.
23. Hilferding, 'Die Eigengesetzlichkeit', pp. 20–34.
24. Kautsky, *Die Materialistische*, pp. 545–6, 562–3, 566–9, 591.
25. *Ibid*, p. 578.
26. F. Sternberg, *Der Imperialismus* (Frankfurt am Main: Verlag Neue Kritik, 1971; first published 1926). Like Luxemburg, Sternberg supplied a rather more succinct version of his argument in the first part of his anti-critique: F. Sternberg, 'Der Imperialismus' und Seine Kritiker (Berlin: Soziologische Verlagsanstalt, 1929) pp. 1–109.
27. *Der Imperialismus*, pp. 7–9.
28. *Ibid*, pp. 23–30. This was certainly a valid criticism of Marx: cf. K. Marx, *Capital*, I (Moscow: Foreign Languages Publishing House, 1961) ch. 25; and M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985) 2nd edn, pp. 226–7.
29. *Der Imperialismus*, pp. 33–40.
30. *Ibid*, p. 41.
31. *Ibid*, pp. 45–6.
32. *Ibid*, p. 68.
33. *Ibid*, pp. 49, 83.

34. Ibid, pp. 94–107.
35. Ibid, pp. 87, 102, 106–7; cf. 'Der Imperialismus' und Seine Kritiker, pp. 17–29.
36. *Der Imperialismus*, p. 114.
37. Ibid, pp. 234–6.
38. Ibid, pp. 246–51.
39. For a liberal anticipation of this question see J. A. Hobson, 'Can England Keep her Trade?' *National Review*, 18, 1891, pp. 1–11. Marx's own 'logical-historical' method is discussed by R. L. Meek, *Economics and Ideology and Other Essays* (London: Chapman & Hall, 1967) pp. 93–112, and in Howard and King, *Political Economy*, pp. 54–9.
40. A. Emmanuel, *Unequal Exchange: A Study of the Imperialism of Trade* (London: New Left Books, 1972); M. Kidron, 'Black Reformism: The Theory of Unequal Exchange', pp. 95–123 of Kidron, *Capitalism and Theory* (London: Pluto Press, 1974).
41. H. Grossman, 'Eine Neue Theorie über Imperialismus und die Soziale Revolution', *Grünberg's Archive für die Geschichte des Sozialismus und der Arbeiterbewegung*, 13, 1928, p. 192. See also L. Laurat, *L'Accumulation du Capital d'après Rosa Luxemburg* (Paris: Marcel Rivière, 1930) pp. 182–6, and H. Neisser, 'Zur Theorie des Wirtschaftlichen Gleichgewichts', *Kölner Sozialpolitik Vierteljahrschrift*, 6, 1927, pp. 105–24.
42. H. Bauer, 'Der Imperialismus', *Der Kampf*, January 1927, pp. 7–12 and 'Akkumulation, Kredit und Imperialismus', *Der Kampf*, April 1927, pp. 173–8. See however, the relatively favourable attitude towards Sternberg's Luxemburgism adopted by his former teacher, Franz Oppenheimer, in an otherwise scathing review of the book (F. Oppenheimer, 'Fritz Sternberg's "Imperialismus"', *Archiv für Sozialwissenschaft und Sozialpolitik*, 57, 1927, pp. 496–526.
43. Bauer, 'Akkumulation', p. 11.
44. Ibid, p. 178.
45. We shall see in Chapter 15 that communists in the Soviet Union were in little better shape.
46. A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1966).
47. Compare, for example, V. I. Lenin, *The Development of Capitalism in Russia* (Moscow: Progress Publishers, 1964) with H. Friedmann, 'World Market, State, and Family Farm: Social Bases of Household Production in the Era of Wage Labour', *Comparative Studies in Society and History*, vol. 20, 1978, pp. 545–86.
48. N. Bukharin, 'Die Widersprüche des Modernen Kapitalismus', *Die Internationale*, 7, 1924, pp. 560–3; cf. E. Varga, 'Der Überimperialismus und das Gesetz der Ungleichmässigen Entwicklung des Kapitalismus', *Die Kommunistische Internationale*, October 1926, pp. 245–50, and H. Grossmann, *Das Akkumulations- und Zusammenbruchsgesetz des Kapitalistischen Systems (Zugleich eine Krisentheorie)* (Leipzig: Hirschfeld, 1926) pp. 602–22. On Grossman, see Chapter 16 below.
49. G. Lichtheim, *Marxism* (London: Routledge & Kegan Paul, 1961). See also P. Anderson, *Considerations on Western Marxism* (London: Verso, 1976) pp. 176–7, and N. Harding, *Lenin's Political Thought* (London: Macmillan 1983).
50. R. Dahrendorf, *Society and Democracy in Germany* (New York: Doubleday, 1967); Barrington Moore, Jr, *Social Origins of Dictatorship and Democracy* (Harmondsworth: Penguin, 1966); A. Mayer, *The Persistence of the Old Regime* (New York: Pantheon, 1981). See also Chapter 12 above.

15

The Transition to Socialism: Communist Economics, 1917–29

I Introduction

The October revolution opened up a new chapter in Marxian political economy. The transition to socialism was placed on the agenda as a practical issue. Since there was little guidance to be found in the writings of either Marx and Engels, or in the work of the theorists of the Second International, Bolshevik thinkers were forced to develop an economics indicating how this could be accomplished. Innovation would have proved necessary in any event because the seizure of power had occurred on the periphery of world capitalism. As the Russian revolution was in a sense a 'revolution against *Capital*,'¹ even the sparse Marxian heritage on the transition question was of limited relevance. Many of the revolutionaries were of course fully aware of the problems and justified their actions by a novel interpretation of their epoch (see Chapters 12 and 13 above). This was bluntly restated by Trotsky in the mid-1920s. 'If world capitalism . . . should find a new dynamic equilibrium . . . this would mean that we were mistaken in our fundamental historical judgments. It would mean that capitalism had not yet exhausted its historic "mission" and that [imperialism] does not constitute a phase of capitalist disintegration.' In consequence the Russian revolution would have to be regarded as 'premature', and the transition to socialism doomed to failure.²

That there was in all probability no socialist resolution of the difficulties facing the Bolsheviks after 1917 is perhaps the most important consideration pertinent to an understanding of the theoretical instabilities and conflicts that characterised communist economics. The revolutionary regime had inherited an economic catastrophe. With one-third of the adult male population mobilised after 1914, the backward Russian economy had

already proved extremely vulnerable to sustained total warfare. The Revolution and civil war were even more devastating. With 1913 = 100, industrial output had fallen to 75 by 1917 and 31 by 1921, while agricultural production declined to 90 in 1917 and 60 four years later. Foreign trade virtually ceased altogether under the blockade maintained during the civil war by Western capitalist states. Subsequent recovery was very fast, the industrial and agrarian indices rising to 133 and 125 respectively by 1928. Taking the period 1913–28 as a whole, however, Russia fell still further behind the West. Output grew at the very low rate of 0.8 per cent per annum, compared with 2.5 per cent between 1870 and 1913, while the population, which had grown at an annual rate of 0.9 per cent in the earlier period, decelerated to a mere 0.3 per cent per annum after 1913.³

Prior to 1929 three distinct stages can be identified in the economic history of the Soviet Union, and each produced its own theories of transition. The first eight months after the Revolution were marked by a widening gulf between *de jure* and *de facto* economic relations. The peasants seized the land and redistributed it on traditional communal principles, rendering redundant the formal nationalisation decreed by the new state as well as reducing the previous degree of internal differentiation and lowering productivity. There were very few industrial nationalisations, and most of those were the result of spontaneous local action. In addition 'workers' control' was inaugurated, in which private capitalists were subjected to supervision by factory committees and local Bolshevik officials. Lenin defended this system against his left-wing critics, describing it – rather confusingly, given the pre-revolutionary use of the term – as 'state capitalism', and regarding it as the principal mode for the transition, at least in its earliest stage.

After June 1918, the onset of civil war provoked an immediate wave of nationalisations and the imposition of a siege economy. Attempts were made to requisition the entire agricultural surplus, leaving the peasants enough only for seed and for bare subsistence. Industrial products were allocated directly without the mediation of money, wages were paid in kind, and military discipline was imposed upon the urban labour force. Eventually charges were abolished for public utilities, housing, rail travel and the basic food ration. Economic administration was centralised to a hitherto unprecedented degree, and characterised by expropriations, terror and arbitrariness. Bolshevik theorists now took this as definitive of the appropriate transition to socialism.

Early in 1921 the replacement of peasant requisitions by a new tax on agricultural output heralded the third stage, that of the New Economic Policy (NEP). The peasants recovered their right to trade in the residual agricultural surplus, and to hire wage labour. They would sell grain only to buy manufactured products, so that NEP implied the restoration of market transactions between agriculture and industry. Rich peasants – the notori-

ous *kulaks* – did well out of the system, and a new *petit-bourgeois* class of NEP-men emerged to take advantage of the opportunities for profitable retail trade. While the ‘commanding heights’ of the economy – banking, large-scale industry and foreign trade – remained in state ownership and subject to the dictates of direct government regulation, inputs were bought and outputs sold for money, and private enterprise was again permitted for artisans and owners of small workshops. Thus NEP allowed substantial scope for both central planning and the market. Lenin regarded it as a ‘transitional mixed system’. It was ‘mixed’, since there were elements of socialism, simple commodity production and socialism; it was ‘transitional’ because it was inherently unstable, and would end either in the restoration of capitalism or in the achievement of a fully socialised economy. During this stage it was widely believed that the transition would have to be achieved through a gradual transcendence of market forms as the state sector increased its economic weight. However, there were major differences between theorists as to how this could be accomplished.

The critical problem under NEP was the relationship between town and country. Three-quarters of the population were peasants, and industrial expansion required the transfer to urban areas of a large part of the agricultural surplus. With the ending of War Communism this had to be attained voluntarily by inducing the peasants to place sufficient grain on the market, which required the availability of manufactured commodities at attractive prices. But an industrial ‘goods famine’ characterised the whole period of the NEP and repeatedly the relative prices of agricultural and industrial products were sources of acute tension, as in the ‘scissors crisis’ of 1923 when industrial prices rose sharply and gave rise to fears of a severe shortage of grain as the peasants held back from marketing their output. The price scissors were soon closed, but by the end of the decade the problems of NEP were becoming increasingly apparent. The ‘grain crisis’ of 1928, when agricultural sales fell massively short of requirements, proved to be the final straw. Measures reminiscent of War Communism were implemented, and after 1929 they culminated in Stalin’s ‘revolution from above’.⁴

This chapter concentrates upon the theories of transition produced in each of these periods. The first decade of Bolshevik power was however associated with fertile theoretical developments on a much broader front. The study of Marxian intellectual history blossomed under the supervision of David Ryzanov in the newly formed Marx–Engels Institute;⁵ a Marxian mathematical economics began to germinate; planning was for the first time treated seriously by Marxists;⁶ and an embryonic version of dependency theory emerged as part of the process in which revolutionary Marxism moved its focus to the East.⁷ Soviet historians researched further into the Asiatic dimension of historical materialism;⁸ statisticians like Kondratiev developed stimulating ideas on the cyclical nature of capitalist growth;⁹ and

even neo-populism sought to make its contribution to resolving the problems of a socialist transformation of agriculture.¹⁰ It was nonetheless the transition issue which absorbed the energies of the major thinkers.

There were a variety of theories. In part this was a function of the nature of Marxism, which, by attributing a logic to history, generated a tendency to see the problem as one in which social engineering was highly constrained: once in power, it was thought, the proletariat as the ruling class would necessarily follow a path culminating in socialism. In other words, the transition would have a law-like character in which theory might trail behind practice without becoming purely passive or an apology for its less admirable features. This helps to explain why theorists like Bukharin and Preobrazhensky, each of whom adhered to markedly different views during a very short period of time as they sought to come to terms with fundamental changes in the forms of economic development, neither fell into scepticism nor lacked a devoted following. Theoretical work, no less than historical transformations, could claim a dialectical quality.

Nevertheless, the complexity of intellectual life after the revolution is not simply a matter of theorists dramatically shifting position. Heated controversies characterised each phase. The absence of an established transitional economics is relevant here, as is the fact that the properties of socialism had never been well-defined.¹¹ Thus there was room for wide differences of view as to what constituted the ultimate goal, embryonic signs of which should presumably be observable during the transition. Bolshevism both simplified and complicated the matter. With the party seen as vanguard of the class and the repository of proletarian interests, its dominance also became a criterion of healthy progress. In fact by the early 1920s the preservation of the Bolsheviks' political monopoly had become the principal prop sustaining belief in the continued existence of the dictatorship of the proletariat. Trotsky's allegation of 1904, in which he claimed that the logic of Bolshevism entailed 'substituting' the party for the class, had been vindicated, although Trotsky himself now repudiated the charge.¹²

On the importance of maintaining the Bolshevik dictatorship virtually all party members agreed, but the isolation of the revolution and its '*petit-bourgeois* encirclement' by the peasantry reinforced doubts as to the possibility of holding back counter-revolutionary forces. However, these anxieties were transformed by events. Once the regime had preserved power through victory in a bitterly-fought civil war, the prospect of losing it through military defeat receded (although this fear revived again after 1926). Instead each faction within the party looked with suspicion upon the others. There were good reasons for the mutual mistrust: denied alternative expression, non-proletarian class interests could find representation only through the Bolshevik party. Trotsky articulated a pervasive sentiment when he wrote that 'Neither classes nor parties can be judged by what they say . . . This fully applies to groups within a political party as well'.¹³ It was

possible 'to backslide into Thermidorian positions even with the banner of communism in one's hands. Herein lies the diabolical trickiness of history'.¹⁴ Thus theoretical differences took on the menacing characteristics of counter-revolutionary class antagonisms.

This was reinforced by the fact that each faction recognised how precarious the dictatorship of the party actually was. While few Bolsheviks believed the situation to be utterly unsustainable, the leading theorists did consider that their survival was on a knife-edge. Room for manoeuvre was distinctly limited, and the programmes of other factions appeared to threaten the very possibility of successful transition. In this environment the legitimate bounds of party discipline came to be interpreted ever more rigidly by the dominant group, and the constraints were experienced ever more oppressively by successive opposition factions.¹⁵

The death of Lenin in January 1924 (and his limited influence in the preceding eighteen months of his illness) exacerbated the conflicts, for they became fused with the struggle for the succession. This led to his deification and the elevation of his writings to a Talmudic status, which some of the more original theorists like Preobrazhensky and Trotsky found difficult to accommodate. It did however reflect the transformation of the Bolshevik party into a large bureaucratic apparatus, capable of administering a modern state but also able to accept a cruder form of consciousness.¹⁶

II State Capitalism and the Commune State as a Model of Transition

Immediately after the October revolution the Bolshevik government sought to implement the ideas of Lenin as they had crystallised during 1917 (see Chapter 13 above). Authority derived from the soviets was used to issue decrees legitimising peasant seizures of land, sanctioning workers' control of industry and nationalising those elements of the urban economy thought to be essential in making state policy effective. Peace negotiations with the German government were opened, tsarist debts repudiated, and preliminary work begun to found a new Communist International.

Lenin took the view that the initial phase of the transition to socialism could be undertaken through a combination of 'state capitalist' organisation and the commune state. Private capitalists and bourgeois specialists were to operate as before, but now under the direction and scrutiny of proletarian political power. Lenin thought that this would be sufficient to re-establish production and distribution until international revolution provided an environment in which more systematic progress toward socialist construction could be undertaken.¹⁷ There were here a number of presuppositions without which this made no sense. Lenin had been adamant during the earlier part of 1917 that a definite seizure of power on a programme popular with the revolutionary masses would eliminate the

possibility of an extended civil war. At the same time, he maintained, democratisation would revitalise the economy and the armed forces sufficiently to resist German imperialism and fight revolutionary wars should this prove necessary.

These beliefs were quickly falsified by events, and the form of transition dependent upon them was simultaneously undermined. The revolution further disrupted both the economy and the armed forces. Depopulation of the cities and desertion from the army continued under the pressure of insufficient food supplies and the prospects of gaining land from the expropriated estates. The Bolshevik government was thus compelled to capitulate to Germany in the punitive peace treaty of Brest-Litovsk. The chaos resulting in the implementation of workers' control was not reversed by ratifying the exercise of local initiative. This had a direct and adverse impact upon the 'state capitalist' model of transition, by both undermining overall coordination and extending the suppression of private capitalists beyond the measures thought expedient by the Bolshevik leadership. By March 1918 Lenin was rapidly back-peddalling, and the subordination of autonomous working-class organisations to hierarchical control in the name of economic necessity soon took over from the theories enunciated in the *State and Revolution*.¹⁸

The regime's tenuous hold on power also rendered it ill-equipped to secure cooperation from private capitalists or established bureaucracies. The growth of counter-revolution during 1918 led many of the personnel on whom Lenin's scheme depended to flee from proletarian strongholds. With the outbreak of civil war in the middle of 1918, the Bolsheviks were forced into extensive nationalisation as a security measure.¹⁹ Simultaneously, the alliance with the peasantry became strained as the regime resorted to coercion in requisitioning food supplies for the cities and Red Army (having insufficient real resources to procure them through voluntary exchange).²⁰

All this pointed to serious miscalculations and internal contradictions within Lenin's revolutionary strategy of 1917 (see Chapter 13 above). In particular, his 'state capitalist' model for the transition proved incompatible with the dynamics of the class struggle. Lenin faced criticism in the party on precisely this ground. The Left, at this stage including Bukharin, called for more radical measures and greeted the development of War Communist policies with enthusiasm. They recognised that this course of action had been forced upon the regime by events but, since it was viewed as inherent in the logic of revolution, the Left saw the radicalisation of economic policy during 1918 as an inevitable feature of the transition to socialism. Bukharin's ideas proved infectious. By 1920 he had systematised them in the *Economics of the Transformation Period* and all leading Bolsheviks seemed to have accepted their general validity.²¹ Nevertheless, Bukharin too made compromises (which others on the left found difficult to

accept): the fully democratised ‘commune state’ to which he had hitherto been committed gave way to a notion of a centralised dictatorship of the party, albeit camouflaged as proletarian ‘self-discipline’.²²

III War Communism as a Direct Transition to Socialism

The policy operative for nearly three years beginning in the middle of 1918, and known by the name of War Communism, represented a crude form of a command economy. Virtually all industry was nationalised, resources were allocated administratively rather than through the market, private trade was suppressed, and monetary relations were largely eliminated. Agricultural products were seized from the peasants by detachments of the Cheka (security police) and Red Army and distributed freely to industry and as consumption rations to designated groups. Democracy within the soviets was effectively repressed, discipline was heightened in the party and the ‘red terror’ was launched against counter-revolutionaries including anarchist and social revolutionary groups who had supported the October revolution but resisted the development of the Bolshevik party’s dictatorship.²³

Bukharin’s *Economic Theory of the Transformation Period* was War Communism’s most sophisticated theoretical expression. Its central argument was that authoritarianism was a necessary, and therefore universally relevant, paradigm for the socialist transition.²⁴ Representing both the dictatorship of the proletariat and a form of state socialism, it was modern capitalism ‘turned upside down’.²⁵ The structures of state capitalism – which according to Bukharin had brought the revolution – were to be reorganised under proletarian political control. Since this represented a new class dictatorship, compulsion and terror were inevitably employed against hostile groups. And on Bukharin’s argument a democratic organisation of the proletariat was also inappropriate. Although it would eventually emerge in a new form, with the subsequent withering away of the state, centralisation was essential during the proletarian dictatorship itself for a victorious conclusion to the civil war. Nevertheless, according to Bukharin the political structure of the transformation period was one of real democracy; voluntary self-discipline of the proletariat, led by the party, was the most perfect manifestation of its class rule.²⁶

Bukharin reasserted the positions of both *Imperialism and World Economy* and *The Economic Theory of the Leisure Class* (see Chapter 13 above), and coined the term of ‘negative extended reproduction’ to depict the crisis of contemporary capitalism. Statification of economic life, militarism and warfare, he held, generated extended reproduction in a contractionary direction. Unproductive utilisation of resources reached a scale that precluded positive economic growth and brought the collapse from which revolution on a world scale would emerge. But the establishment of

proletarian dominance also prolonged negative reproduction into the post-capitalist era. Itself the product of economic collapse, the revolution would initially deepen it as counter-revolutionary forces were crushed.²⁷

Bukharin further argued that the dictatorship of the proletariat, founded as it was on state control and coercion, had escaped from the domain of economic laws. Political economy, understood in its specifically Marxian sense, applied only to systems of commodity production. In overthrowing capitalism the proletariat also overthrew economics. By this Bukharin did not claim that 'the leap from necessity to freedom' was complete. Determinism, not voluntarism, still ruled but it represented a conscious prosecution of the proletariat's class interest. After all, this was but another expression of the epochal transformation represented by the socialist revolution, and the fact that disciplined organisation and coercion were the order of the day.²⁸

Bukharin imagined that, with a successful conclusion to the civil war, modifications in the framework of War Communism would occur, but he saw no need for a fundamental restructuring. The centralised proletarian state led by the vanguard party would persist with a system of administratively organised transactions between town and country, replacing forcible confiscation as the productive capacity of industry was restored.²⁹ It was because negative reproduction was necessarily concentrated in the more interconnected urban economy, and because the *petit-bourgeois* structure of agrarian production precluded effective nationalisation, that the coercive appropriation of peasant surpluses was initially required.³⁰ Ultimately the rural economy would be socialised, class divisions fade, inequalities decline and the state wither away as participatory democracy and a harmoniously planned economy became established, although Bukharin never specified exactly how all this would occur.³¹

As well as brilliantly rationalising necessities of survival, Bukharin's *Economics* had a political purpose: it sought to counter criticisms made by Western anarchists and social democrats of the party dictatorship and its methods of rule, by elevating both to the status of phenomena inevitable in any successful proletarian revolution.³² In this sense Bukharin's book complements Lenin's *The Proletarian Revolution and the Renegade Kautsky*, as well as Trotsky's *Terrorism and Communism*.³³ And it partially explains why the leading Bolsheviks never wholly repudiated Bukharin's theory of the transformation period. In subsequent years, after the New Economic Policy had become established, they all continued to recognise the expediency of War Communist measures and, moreover, to regard them as an essential part of the overall transition process. Trotsky even claimed that, had the revolution been extended internationally, the 'retreat' in 1921 would have proved unnecessary (although he was not always consistent on this).³⁴ And Preobrazhensky recognised that War Communist measures provided the foundation upon which the New Economic Policy became an

avenue for the transition.³⁵ Insofar as Stalin's 'second revolution' of the early 1930s may be said to have had a prior theoretical basis, it lay as much in Bukharin's *Economics* as anything else. Moreover, many of the book's key ideas continued to inform its author's very different paradigm of transition in the 1920s. The primacy of the state; the unity which this gave to diverse forms of economic structure; the leading role of the party; the need for 'self-discipline' in the working class; and the ultimate objective of the total replacement of market relations: all were embedded in Bukharin's subsequent work.

He and other theorists were reasonably candid as to why War Communism ultimately proved unsustainable.³⁶ Its contradiction was an inverted form of that which had wrecked Lenin's 'state capitalist' programme. While the latter had succumbed to the pressure of the class struggle, War Communism collapsed because it ignored the needs for class collaboration. During the civil war, when restoration of the *ancien régime* remained a distinct possibility, coercion of the peasantry brought from them no concerted resistance because a Bolshevik defeat would mean the return of the landlords. But as victory over the Whites became ever more secure during 1920, peasant opposition to the Bolsheviks became increasingly apparent. War Communism was not however abandoned immediately the civil war ended, which reveals how committed to this mode of transition the leadership had become. Not until March 1921 did Lenin finally conclude that either economic policy had fundamentally to change or there would be a forcible overthrow of his government.

IV The Political Economy of the *Smychka*: Bukharin's Theory of Indirect Transition

The socio-economic collapse in Russia between 1914 and 1921 has no parallel in modern history. The impression of H. G. Wells in 1921 was one of 'irreparable breakdown'. In addition to the contraction of output Russian cities had been massively depopulated, wartime casualties were easily the largest of all the belligerent powers, and widespread famine was imminent. Proletarian institutions other than the party had been drained of real power and the working class had been virtually destroyed in the process of defeating counter-revolution.³⁷

By March 1921 Lenin had concluded that both continued survival of the Bolshevik dictatorship and economic revival required a 'retreat' from the War Communist path of transition.³⁸ But he hoped that NEP would incorporate a modified 'state capitalist' mode of advance reminiscent of the immediate post-revolutionary period. He tried (without much success) to encourage foreign capital to participate in joint ventures with the Soviet

state, and he sought (with more success) to normalise diplomatic relations, while urging communists to 'learn to trade'.³⁹

None of this represented a coherent model for anything more than a material economic recovery. It also had restorationist features which the Left in the party found distinctly threatening. Moreover, in the latter part of 1922 and 1923 Lenin himself grew increasingly disturbed by the regime's bureaucratism and the replication of the administrative abuses which had characterised tsarism. In conditions of continued isolation and 'petit-bourgeois encirclement' he came to see the main hope for a socialist future in idealism, through the preservation of a party élite devoted to communist values.⁴⁰ At the same time, however, he hinted that real economic progress toward socialism might be accomplished under NEP, and that the 'retreat' turned into an advance by securing a proletarian-peasant alliance (*smychka*), in which the proletariat could be rejuvenated by industrial progress and the peasantry transformed through the development of cooperatives.⁴¹

It was on this basis that, after 1923, Bukharin proposed his second model of transition.⁴² In contrast with his *Economics* of 1920, Bukharin now advocated the attainment of socialism by a circuitous route, dependent on the growth of non-socialist forms.⁴³ In consequence his new scheme was to come under intense criticism from the Left Opposition, but it held sway as orthodox Leninism within the ruling factions of the party for several years after 1923. Bukharin's NEP model did not however represent a complete break with the *Economics of the Transformation Period*. Both rested upon an acceptance of Bolshevik vanguardism during the transition; each was defended on the same interpretation of historical materialism, in which dialectics became virtually equivalent to the functionalist equilibrium perspective of modern sociology; and many of the substantive arguments which Bukharin had made in 1920 found new expression in his revised thinking on transition.⁴⁴ The long-term goal also remained unchanged: a fully socialised economy, including agriculture, and the elimination of market relations. Bukharin was never a 'market socialist' in the modern sense.⁴⁵ Thus he did not wholly repudiate his earlier scheme, arguing that in the circumstances it had represented the appropriate policy. The major difference, in Bukharin's view, was that circumstances had changed.⁴⁶

Under NEP, he argued, progress toward socialism depended upon two principal factors: the expansion of large-scale industry and the development of cooperatives.⁴⁷ In themselves these arguments were relatively uncontroversial. By this time virtually all Bolsheviks presumed that the development of the state sector was synonymous with the expansion of socialist relations; and no one denied that cooperatives could both undermine peasant individualism and squeeze out private capital from trading activities.⁴⁸ Bukharin was most heavily criticised on the question of *how*

industry could expand and *why* cooperation was considered a sufficiently powerful force to socialise agriculture.

State industry, Bukharin claimed, depended upon the growth of peasant demand, which was ultimately a market for consumption goods.⁴⁹ In this connection he attacked Tugan-Baranovsky's treatment of expanded reproduction, in which consumption demand was irrelevant, and revealed the influence of the Austrian marginalism which he had attacked in *The Economic Theory of the Leisure Class* (see Chapters 5, 11, and 13 above and section VII below).⁵⁰ Cooperatives, Bukharin admitted, had in the past been correctly interpreted as organisations which aided the development of capitalism. But the dictatorship of the proletariat necessarily changed their character. Just as a *petit-bourgeois* agriculture had been incorporated into modern capitalism through the imperialist state, so its proletarian counterpart integrated Russian agrarian relations into a developing socialist complex. This would be further assisted by the encouragement of cooperatives, irrespective of whether they covered production activities or were limited to circulation. Thus for Bukharin politics remained the crucial variable, as it had been in both *Imperialism and the World Economy* and the *Economics*.⁵¹

Consequently there was a basis for a long term *smychka* between the proletariat and peasantry, he argued; but it was a delicate matter. Any attempt artificially to accelerate the growth of industry would disrupt the proportionality of the economy, generate a 'sales crisis' in the state sector and, by requiring increased resources from agriculture, threaten the political alliance between workers and peasants. Realism required that the party recognise that soviet socialism was 'backward', and further progress would have to be at a 'snail's pace' (see section VII below).

However, for Bukharin this was not a matter of Russian exceptionalism. Domestic circumstances reflected the overall structure of the global economy. The class composition of the world as a whole was predominantly *petit bourgeois*, but was nonetheless ripe for socialist transformation for the same reasons outlined in *Imperialism and the World Economy* (see Chapter 13 above). As revolution spread, Bukharin argued, Russian circumstances would be duplicated and the *smychka* of proletariat and peasantry would become generally relevant.⁵² Furthermore, the negative reproduction necessarily associated with imperialist wars and revolutionary civil war would produce an economic collapse analogous to that in Russia at the beginning of NEP. Thus even for advanced nations the transition to socialism would have to be indirect.⁵³ It had also been a mistake, Bukharin continued, to believe that the socialist revolution was formally analogous to the bourgeois revolutions. Unlike the bourgeoisie in feudal society, the proletariat was a deprived class; it could only begin its own cultural development after overthrowing capitalism.⁵⁴ This further reinforced the need for communist parties to be organised on highly centralist Leninist principles, a point

which had already proved itself in practice for all Bolsheviks. Again, then, Bukharin gave his understanding of the Russian transition to socialism on the basis of the NEP a paradigmatic significance, just as the *Economics* remained of general relevance in conditions of civil war.⁵⁵

V Soviet Views of the West and the Transition Question

At this point it is necessary to make a slight digression to consider Soviet views on the prospects for the world capitalist economy. This was a question of great significance for the transition debate, since continued instability in the West held out both hope and potential danger for the revolution. Hope, because without it the chances of socialist revolution in the advanced capitalist countries were slim; danger, because economic adversity and intensified imperialist rivalry raised the spectre of renewed military aggression against the Soviet state. Sometimes views of the West involved a more complex perspective, as we will see in section VIII below, but this was the essence of the matter. Communist analysis of these issues was, however, actually rather unimpressive. This is surprising in view not only of their vital importance but also of the array of intellectual talent which was now concentrated in Moscow. In addition to the Bolsheviks on whom this chapter focuses – Bukharin, Preobrazhensky, Trotsky and for a time Lenin – there were many brilliant Menshevik and neo-populist economists like Kondratiev, Falkner and Chayanov, who remained free to work and publish throughout the 1920s.⁵⁶

There seem to have been two reasons for their failure to produce an adequate assessment of world capitalism. First, they were all preoccupied with the problems of domestic economic development. It is easy to understand why energies should have been concentrated on the new and exciting questions of social transformation, economic growth and socialist planning, rather than on investigating the contradictions of what was thought of as an ultimately doomed social order. Second was the increasingly heavy weight of Leninist orthodoxy in the 1920s, which progressively discouraged any original thinking which appeared to conflict with what official Bolshevism claimed to be Lenin's own ideas. Thus Kondratiev's celebrated theory of long waves, for example, was dismissed as heretical nonsense by both the ruling factions of the party and the Left Opposition.⁵⁷

Similar factors inhibited creative thought by communists outside the Soviet Union. The dogmatic authoritarianism of the German party, to take one example, repelled otherwise sympathetic Marxists like Fritz Sternberg and Henryk Grossmann (see Chapter 14 above and Chapter 16 below), and there was in the 1920s no one of comparable stature in the communist movements of France, Italy or the USA. The British party was more fortunate, having the young and extremely able Maurice Dobb among its

members. But Dobb, too, was fascinated by the internal economic problems of Soviet socialism, and left detailed dissection of contemporary capitalism to less gifted comrades like the Anglo-Indian R. Palme Dutt.⁵⁸

By far the most influential of all the non-Russian economists who studied international capitalism in the 1920s was the Moscow-based Hungarian exile Eugen Varga, an original if unpenetrating thinker whose dominance was achieved largely by default.⁵⁹ In the early 1920s Varga made much of the temporary 'stabilisation' of capitalism, which in practice amounted to little more than a recognition that the world economy had recovered from the deep slump of 1920–1 and that the Dawes Plan was limiting the damage done by the reparations crisis. Varga later argued that the recovery would be short-lived, because industrial rationalisation was increasing the organic composition of capital, reducing employment and workers' consumption, and leading inexorably to a further crisis.⁶⁰ In the light of what happened after 1929 this must be regarded as remarkably prescient, but it was very loosely argued and open to all the traditional Marxian objections to underconsumptionism. In general the communist position on underconsumption was characterised by distinct uneasiness, as can be seen from the inconsistencies of party texts on the issue.⁶¹ In the absence of any model of a falling rate of profit, however (see Chapter 16 below), Bolshevik economists could offer no better theory of capitalist crisis.

To return to Bukharin: he was the only important Communist theoretician to take seriously the possibility of a long-run stabilisation of capitalism, which was indeed an essential pre-condition for the success of his gradualist conception of Soviet industrialisation under NEP.⁶² But he was not consistent in this stance,⁶³ and his argument hinged upon the notion of 'organised capitalism', which was both tainted by association with social democratic enemies of the revolution like Hilferding and Kautsky and analytically defective (see Chapter 14 above). It was easy for Bukharin's enemies in the party after 1929 to discredit him on both counts. By that time Bukharin's ideas on the transition to socialism had been rejected by Stalinists for domestic reasons (see section IX below). But there was an international dimension to this too. After 1926, when Soviet diplomacy and Comintern policy experienced several significant setbacks, the fear of a military attack on Russia in the near future increased. Consequently a greater emphasis was placed on the need for faster industrialisation, and there was considerable pressure upon theorists to adjust their thinking about the West.⁶⁴

Stalin's shift away from Bukharin's ideas after 1926, and more especially his clear break with them in 1928, is frequently described as a 'left turn'. This is apt in that Stalin's ideas were moving closer to some of those held by the Left Opposition, whose leading theorists were Trotsky and Preobrazhensky.

VI Primitive Socialist Accumulation: Preobrazhensky's Theory of Transition for a Dual Economy

The Left Opposition saw Bukharin's new theory of transition, outlined in section IV above, as a form of revisionism which was both economically erroneous and politically dangerous. Trotsky best articulated the Left's overall critique (see section VIII below), but its most original economist was Evgeny Preobrazhensky.⁶⁵

Biography of E. A. Preobrazhensky

Evgeny Alexeyevich Preobrazhensky was born in 1886, the son of a priest, in the province of Orel. He joined the Social Democrats in 1903 and allied with Lenin in the party split of the same year. Although active in the revolutionary movement and holding important party positions, as well as suffering arrest and internal exile, he did not become intellectually prominent until he co-authored (with Bukharin) *The ABC of Communism* in 1919. During the 1920s he became the leading economic theorist of the Left Opposition headed by Trotsky. Together with other Oppositionists, he was expelled from the party in 1927 and went into internal exile in 1928. In 1929 he was readmitted to the party, although expelled again in 1931, and finally executed without trial in 1937 as part of Stalin's purges.

Preobrazhensky, like Bukharin, had been a fervent supporter of War Communism in the years immediately following the revolution. But in the early 1920s he too accepted that it could not after all constitute a long-term model for the transition.⁶⁶ No less than Bukharin he became committed to NEP (without repudiating the necessity at the time for War Communism), and to the belief that it constituted a general paradigm for socialist construction. However, his theoretical focus was significantly different from Bukharin's, and he gave much more attention to the concrete circumstances prevailing in the post-revolutionary economy.

For Preobrazhensky expansion of the state sector was the key variable in the growth of socialism, above all its rate of development relative to the non-state economy which was dominated by bourgeois and *petit-bourgeois* relations.⁶⁷ October 1917 had been a dual revolution. As Trotsky put it:

In order to realise the Soviet State, there was required a drawing together and mutual penetration of two factors belonging to completely different historic species: a peasant war – that is a movement characteristic of the dawn of bourgeois development – and a proletarian insurrection, the movement signalling its decline. That is the essence of 1917.⁶⁸

While Preobrazhensky accepted that it was possible to form an alliance between the proletariat and the poorer peasantry, he believed it would be successful only through increasing the strength of the proletariat and curtailing the influence of *kulaks* and NEP-men. Both vied for hegemony over the peasant masses. Nor was it just a question of domestic forces working for the restoration of Russian capitalism. The world economy also represented a grave danger. Soviet industry was inefficient, kept in operation only by the foreign trade monopoly and under continual pressure from the capitalist world market. External bourgeois forces could join with the emerging Russian bourgeoisie to form a *smychka* with the peasants against the dictatorship of the proletariat.⁶⁹

State industry must therefore predominate in economic growth, Preobrazhensky argued. This would directly increase the strength of socialist relations, and have the same effect indirectly by providing resources for the collectivisation of agriculture (which was impossible without extensive mechanisation). Cooperatives could aid the process, but there was no real substitute for the transformation of production relations: that was the logic of historical materialism.⁷⁰ Here lay the nub of the economic problem. What Bukharin regarded as socialist accumulation – that is, reliance upon the internally generated surplus of the state sector⁷¹ – could not possibly provide sufficient resources for industrial development at the rate required. Drawing an analogy with Marx's analysis of the origin of capitalism, Preobrazhensky argued for a 'primitive socialist accumulation'. The resources for the expansion of socialist accumulation had also to be extracted from the non-socialist economy. In the circumstances this meant they had to come predominantly from the peasant sector.⁷² Hence exchange between industry and agriculture could not follow the law of value any more than could trade between the Soviet economy and world capitalism. Internally, there had to be non-equivalent exchange for the benefit of the state sector's primitive socialist accumulation.⁷³ External economic relations had to be channelled through the foreign trade monopoly and, again, placed at the service of primitive socialist accumulation.

Preobrazhensky always talked in terms of the 'law' of primitive socialist accumulation because he saw the Russian revolution as having no alternative to this growth strategy if it was to endure. The law of primitive socialist accumulation was in constant tension with the law of value. Both laws were in fact abstract expressions of radically different modes of production; internal and external capitalist forces pressed for equivalent exchange and

freer international trade, while the survival of socialism necessitated the suspension of both.⁷⁴ In this conflict, Soviet industry had one significant advantage. Although it was currently less efficient than that of modern capitalism, Preobrazhensky believed it to be organisationally privileged. Existing socialist relations allowed a planned coordination of the different branches of the state economy, and between socialist industry, the private domestic economy and the world market. Economic planning was the trump card of the proletarian dictatorship; if it were properly played there was in principle no reason why socialism in Russia might not move ahead.⁷⁵

Subsequently, when he came to examine the concrete conditions prevailing in the Soviet Union during the second half of the 1920s – as he put it, providing the arithmetic for the algebra of primitive socialist accumulation⁷⁶ – Preobrazhensky became significantly more pessimistic. Here he proved himself to be a much better economist than either Bukharin or Trotsky, who tended to confine their polemics to the level of theoretical generalisations. Preobrazhensky coupled his empirical work to a brilliant conceptual extension of Marx's schemes of reproduction.⁷⁷ Deeply impressed by Rosa Luxemburg's critique of their rarified abstractions, Preobrazhensky formally adapted them to deal with those situations where more than one mode of production prevailed within a single social formation, which he took to be the typical case.⁷⁸ So far as the Soviet Union was concerned, interdepartmental exchange was joined to different economic systems, each with its own departments. Treating primitive socialist accumulation empirically required proper attention to be given to both principles of division, as well as to those connected with unproductive consumption and the importance of private capital in circulation activities. Developing his conclusions methodically, Preobrazhensky deduced that primitive socialist accumulation was an insoluble problem in conditions of Russian isolation. Definitive resolution required an extension of the revolution internationally; 'socialism in one country' was impossible.⁷⁹

VII Contrasts Between Bukharin and Preobrazhensky

Between 1924 and 1928 Bukharin and Preobrazhensky vigorously debated their differences on the transition to socialism. This occurred as part of a wider conflict between the Left Opposition and the ruling factions of the Bolshevik party. The general theoretical positions adhered to by each grouping will be considered in sections VIII and IX below. Here we focus upon the conflict between Bukharin and Preobrazhensky in matters of economic theory.

This difference hinged on alternative assessments of how industry could develop. For Bukharin industrial expansion depended upon the growth of peasant demand, and especially on the market for consumer goods.

Bukharin opposed the ideas of both Rosa Luxemburg and Tugan-Baranovsky, dismissing Luxemburg's chronic underconsumptionism as nonsense and Tugan-Baranovsky's belief that industry could advance independently of consumption demand as equally erroneous.⁸⁰ The critique of Luxemburg was far stronger than the case against Tugan-Baranovsky (see Chapters 5 and 10 above); indeed, Bukharin seriously misrepresented Tugan-Baranovsky's argument as to the possibility of a contracting department II. As the basis of an assault upon Preobrazhensky, Bukharin's attack upon Tugan-Baranovsky's economics was in any event of dubious relevance. The economy of the Soviet Union was not one of competitive capitalism, and primitive socialist accumulation envisaged only the faster relative growth of the state sector, not an absolute decline in consumption, nor even in the consumption of the peasants. As for the living standards of the working class, Preobrazhensky was adamant that they would have to rise as an integral part of the process by which the proletariat was revitalised.⁸¹

Tugan-Baranovsky had also emphasised that proportionality was crucial for equilibrium growth. Preobrazhensky concurred, referring to 'iron laws of proportionality' limiting state accumulation.⁸² Indeed, the problem of ensuring that disproportionalities were contained within manageable bounds haunted Preobrazhensky. He correctly realised that the major difficulty lay in a 'goods famine'. The revolution had fundamentally altered the relation between the demand for domestically-produced industrial goods and their supply, compared with the situation prevailing before the war. In aggregate, demand had increased and supply had fallen.⁸³ Under the NEP, therefore, there was a problem of excess demand for the output of the state sector, not a potential deficiency in purchasing power as Bukharin imagined. Preobrazhensky's insight was reinforced by another when he recognised, in 1925, that growth in the future would require large fixed investments. So far the recovery of industry had been based upon restoring full utilisation of existing capacity, which would have to be increased very soon if development were to be sustained.⁸⁴ In the short run, then, according to Preobrazhensky, the problems associated with the goods famine must intensify, but in the long run underinvestment would make them insurmountable, forcing a break in the *smychka*.⁸⁵

Bukharin failed to anticipate this problem and his economic analysis was ill-designed to cope with it, for it required that the growth of peasant demand be curtailed.⁸⁶ Bukharin's whole emphasis, however, lay in the contrary direction. There was for him a necessary and specific order to economic development. Increases in agricultural output enhanced peasant purchasing power, which carried light industry forward; this in turn expanded the demand for the products of heavy industry. Bukharin maintained that he was not simply generalising past empirical connections, but identifying a necessary, universal economic principle.⁸⁷ Bukharin tended to dismiss any other growth scenario as 'applied Tuganism'.⁸⁸

Preobrazhensky's recognition of the need for capacity-extending investments as recovery was completed reversed Bukharin's analysis: the expansion of heavy industry would have to be faster than that of light industry. Only then could there be a significant long-term expansion in the output of manufactured consumer goods, which were required to eliminate the goods famine. Nevertheless, Preobrazhensky did not regard this plea for unbalanced growth as anything more than a matter of technical economics. Heavy industry attained a privileged position in Soviet economics as a matter of principle only in the 1930s.⁸⁹

Given these differences it is understandable why Preobrazhensky stressed the immediate necessity for systematic planning.⁹⁰ It was indispensable to the transition, not just to the socialist future, because it allowed disproportions to be anticipated and corrected before they could lead to crises. Since Bukharin had a completely different perspective on the true nature of the Soviet economy's problems, he was much more inclined to favour the autonomy of the market. This in fact was the economic root of his opposition to non-equivalent exchange between industry and agriculture. Bukharin seems to have completely misunderstood Preobrazhensky's theoretical argument on the need to limit the sway of the law of value.⁹¹ He also failed to appreciate that Preobrazhensky's proposal to increase industrial wholesale prices did not imply the onset of a new 'scissors crisis' in which the terms of trade would turn against the peasant and reduce the incentive to market grain.⁹² For Preobrazhensky the whole issue was largely a pragmatic matter.⁹³ Maintaining low industrial wholesale prices for industrial goods (which was official policy in the mid-1920s) meant that private capital in the sphere of circulation accumulated at the expense of both industry and agriculture, while the goods famine persisted: the beneficiaries were the NEP-men, who purchased goods cheaply from industry and sold them at much higher prices to the peasants. Preobrazhensky was quite explicit on the need ultimately to *reduce* all industrial prices so as to stave off pressure from the world market.⁹⁴

Controversy over all these specific points was heightened by the emotive language each theorist sometimes employed. In 1924 Preobrazhensky had referred to the need for 'exploitation' of the peasantry, whose position in the structure of the Soviet economy was analogous to that of the 'colonies' in the primitive accumulation of capital.⁹⁵ On the other hand Bukharin spoke of proceeding at a 'snail's pace' on a 'peasant nag' who was enjoined to 'enrich yourself'.⁹⁶ Each pounced on the other's terminological infelicities. The reason was not simply the loss of comradely goodwill. Both the Bukharinite and Stalinist ruling factions in the party, and the Left Opposition, believed that the expressions which they attacked revealed the hidden content of their opponent's doctrine. And there was some validity in these suspicions. Stalin and Bukharin had good reasons for claiming that the deeper issue concerned the 'unorthodox' theory of permanent revolution, which conflicted with their interpretation of Leninism. The opposition was

equally correct to see in official ideas and policies the seeds of a major economic crisis which might possibly lead to a capitalist restoration.

VIII Socialism in One Country or Permanent Revolution

As an economist Preobrazhensky was far superior to Bukharin, but he was also a more specialised thinker and relied upon Trotsky's ideas to provide the overall perspective for primitive socialist accumulation. This was a sensible division of labour. As we saw in Chapter 12, Trotsky's capacity for rigorous economic analysis was very limited. As an innovative Marxist, however, he had few equals. He was also better placed than any other Bolshevik theorist, including Lenin, to lend intellectual coherence to the post-revolutionary situation in Russia. The theory of permanent revolution had correctly located the class dynamics of the October revolution. At the same time it minimised expectations as to the possible socialist gains which the Bolshevik seizure of power might achieve. The theory also relied upon a more general notion of uneven and combined development, which highlighted the contradictions of the Soviet Union's position in the 1920s (see Chapter 12 above).

Nevertheless, Trotsky's original ideas had gone astray at a crucial point. Bukharin and Stalin were quick to locate the errors (as well as others which were really figments of their own imaginations). Most obviously, Bolshevik power *had* survived in conditions of revolutionary isolation. In 1924 Stalin explained this in terms of Lenin's conception of the uneven development which underlay imperialist rivalries. Divisions within Western capitalism had precluded a unified and sustained military attack upon the Soviet Union. Although Trotsky accepted that this was true, he did not admit that his mistake stemmed from his own vision of imperialism, which (paradoxically) devalued the significance of unevenness between advanced national capitalisms (see Chapters 12 and 13 above). In consequence, Stalin claimed, Trotsky had never really understood the nature of modern capitalism. For Stalin, continued divisions between the capitalist powers could be exploited by Russian diplomacy and the Comintern to neutralise military threats in the future, while socialism was being built in the Soviet Union. Extending the revolution, while important, was not essential for survival.⁹⁷

Coupled to this was the charge that Trotsky had underestimated the significance of the peasantry. Frequently stated in language that is obviously absurd, the indictment could be given a serious basis in Bukharin's theory of the *smychka*, in terms of which both Bukharin and Stalin claimed that internal conflict would not inevitably wreck the revolution, even if it continued to remain isolated. Revolutionary internationalism was not to be neglected, but its importance was grossly exaggerated by Trotsky's theory of permanent revolution.⁹⁸

Bukharin and Stalin also pointed to the existence of similar themes in Lenin's own writings, and noted that his conception of the Russian revolutionary process differed from Trotsky's (see Chapter 13 above). This theme was embellished by Bukharin, who now saw 1917 as a joint revolution of the proletariat and peasantry and not, as Trotsky continued to view it, a fusion of two revolutions.⁹⁹ Furthermore, Bukharin argued, under the leadership of the proletariat the relation between classes was essentially harmonious. The dictatorship of the proletariat, as a new form of state, had changed class relations in general, and Soviet society represented a genuine new unity.¹⁰⁰ Bukharin even accepted that populist ideas had some validity here.¹⁰¹ The implication was clear: Trotsky had misspecified the nature of the Russian revolution, and the Left Opposition's view of the peasantry as a force for the restoration of capitalism was anachronistic. Simultaneously, Bukharin now regarded the possibility of socialism in one country as inherent in the Bolshevik endeavour from the outset.

Bukharin reinforced this with a re-evaluation of the economic implications of international revolution, which had previously been treated in a cavalier fashion by all Bolsheviks, including Trotsky. As already noted in section IV, Bukharin emphasised the predominance of *petit-bourgeois* relations in the world economy, and maintained that the inevitable economic costs of revolution dramatically reduced the material inheritance of any socialist revolution. Joined to his new perspective on the culturally deprived nature of the proletariat, Bukharin concluded that international revolution was unlikely to provide much economic aid to the Soviet Union.¹⁰² There was in all this a highly significant revision of Marxism, particularly when combined with Bolshevik vanguardism, and especially since much of it was accepted by both Trotsky and Preobrazhensky.¹⁰³

Nor did Bukharin and Stalin neglect to reconstitute their views on the probability of international revolution, and the most likely form that it would take. European capitalisms remained organised entities which had 'stabilised' in the post-war years.¹⁰⁴ This view implied that revolution was not imminent in the West, and that armed intervention against the Soviet Union did not pose a threat in the foreseeable future. At the same time, Bukharin maintained, capitalist development in the periphery had halted; imperialist exploitation now had a purely parasitic character.¹⁰⁵ This created a basis for anti-imperialist revolts in colonial territories, but not for proletarian revolution. On the basis of Lenin's writings on national self-determination (with which Bukharin had now made his peace), even the colonial bourgeoisie might have a progressive role. Therefore, Bukharin concluded, the Comintern could not realistically support Trotsky's attempt to generalise the theory of permanent revolution to all backward capitalisms (on which, see Chapter 12 above).¹⁰⁶

All these ideas, adhered to by the Bukharinite faction (and until 1927 by the Stalinist faction), were seen by Trotsky as involving departures from genuine Leninism (which he increasingly identified with his own ideas); as

symptomatic of a degeneration in the revolution; and as providing an ideological cloak for a Thermidorian reaction which would pave the way for a capitalist restoration. After 1926 Trotsky regarded the nucleus of his opponents' ideas as the doctrine of socialism in one country. There was some justification for this. By the mid-1920s both Bukharin and Stalin had become remarkably complacent with regard to the internal contradictions inherent in the structure of the Soviet economy, and excessively optimistic as to the prospects of advance. Moreover, Stalin's doctrine should not be taken too literally: neither he nor Bukharin defined socialism at all precisely, and even then they never claimed that 'complete' socialism could be achieved by Russia alone.¹⁰⁷ Instead the doctrine of 'socialism in one country' functioned as a polemical device to defeat the Left Opposition as a party faction, and as an emblem of rejection of Trotsky's proposals for the transition to socialism.

These proposals necessarily involved a modification of his pre-war position, because events had clearly failed to substantiate his earlier ideas completely. Trotsky began by re-evaluating the condition of international capitalism. While it had proved more resilient than he had expected in 1917, it was nevertheless in a process of decay; matters were only a little more complex than he had originally thought. The 'curve of capitalist development' had a dual structure: there was both a secular trend and cyclical oscillations. The latter behaved much as before, but the former had definitely flattened out or begun to decline. Any stabilisation of capitalism would be very temporary, Trotsky argued. Bourgeois society had ceased to be a progressive force in Europe and revolutionary situations could be expected to reappear frequently.¹⁰⁸ Capitalism was clearly ascendent only at the periphery, and possibly also in the USA.¹⁰⁹

Trotsky argued that this provided opportunities to end the political isolation of the Soviet Union. Furthermore, it meant that possibilities for socialist revolution were opened up in the East. The proletariat of backward capitalist systems in the colonies and semi-colonies could duplicate the achievements of the Russian working class, for economic structures conducive to permanent revolution had now extended beyond Russia (see Chapter 12 above). If only the 'Lessons of October' informed Comintern policy, and the 'Menshevism' of Bukharin and Stalin was repudiated, success was virtually inevitable.¹¹⁰

Trotsky's conception of capitalist decline in Europe also provided him with an apparent resolution of the difficulties inherent in primitive socialist accumulation. He argued that political isolation did not imply economic isolation. Capitalism's need for markets could be used to re-integrate the Russian economy into the world market. This would have to be done on a planned basis – there was no question of abandoning the foreign trade monopoly – and could provide both temporary and sustained benefits. Imports of consumer goods might be used to overcome the 'goods famine',

and specialisation according to comparative advantage would markedly increase the efficiency of state industry.¹¹¹

This idea of integration into the world market also formed Trotsky's principal economic argument against the possibility of socialism in one country, since he correctly understood this doctrine to imply autarkic economic development on the basis of the Soviet Union's own resources. Like Preobrazhensky, he emphasised the inability of Soviet industry to compete internationally on the basis of the law of value, and that it was essential to close the efficiency gap. If this were not done, and done quickly, the Soviet economy would find it increasingly difficult to resist both internal and external capitalist pressure to open the economy on an unregulated basis. The state sector would then be doomed, and so too would Russian socialism. Rather more abstractly, Trotsky described as the 'fundamental law of history' the view that 'Victory *ultimately* falls to that system which provides human society with the higher economic plane.'¹¹² Without an expansion of socialist revolution to other countries, which would facilitate a much fuller development of the productive forces than reliance upon domestic circumstances allowed, no country, let alone the backward Soviet Union, could hope to surpass the economic achievements of international capitalism. Thus Trotsky was able to assert the essential element in his original argument: if capitalist stabilisation were to prove durable, the revolution in Russia was doomed to extinction.¹¹³

According to Trotsky, the key to resolving the contradictions in the position of the Soviet Union was political reform. There was no question of relinquishing the Bolsheviks' monopoly of power, or even of legalising factions in the party (which had been banned since 1921 when the economic 'retreat' to NEP was made). But it was essential, Trotsky argued, to rejuvenate the proletarian character of the party by accepting the legitimacy of criticism and subordinating the apparatus to rank-and-file control. This was the key element in strengthening the proletariat, but similar measures could usefully be extended to the state system generally. In a word, for Trotsky 'bureaucratism' must be countered. He seems to have taken it as obvious that, once this was achieved, his own ideas would triumph, since they were genuinely Leninist and therefore represented the real interest of the proletariat. In consequence, the law of primitive socialist accumulation would become dominant in economic policy, and the resources of the Comintern would be properly marshalled to end political isolation.¹¹⁴

As he made very clear himself, Trotsky's whole position rested upon his vision of international capitalism as a decaying system. However, the absence of any analysis locating the exact cause behind the economic malfunctioning of Western capitalism persisted in Trotsky's post-revolutionary writings. His treatment of this issue was extensive but lacked rigour. Furthermore, although his belief that capitalism had failed to attain long-

term stabilisation dovetailed with both his economic integrationism and his political intransigence, it did so in different ways which were hardly compatible with one another. According to Trotsky, the Soviet economy was to be peacefully integrated into a capitalist world market while at the same time communist parties were to be primed to strike as revolutionary openings showed themselves.¹¹⁵

By the end of 1927 Trotsky believed that there was not much time left to save the revolution: 'the danger of Thermidor is at hand'.¹¹⁶ This reflected his view that contradictions within the Soviet Union were intensifying. Indeed they were. At this time, as Stalin was expelling members of the Left Opposition from the party and sending them into internal exile, the 'goods famine' manifested itself in the form of a major grain-procurement crisis. During 1928 it broke the coalition between Bukharinites and Stalinists and increasingly brought Stalin to use the language of his defeated opponents.¹¹⁷

IX The Stalinist Solution

'The personal misfortune of Stalin . . . consists in the colossal disproportion between . . . [his] . . . theoretical resources and the power of the state apparatus concentrated in his hands.'¹¹⁸ So wrote Trotsky in September 1927, and it is an apt characterisation of Stalin's position. His contribution to the development of Marxist doctrine had indeed been minimal. Yet by 1928 the faction he headed was in effective command of the party, and the party's hold on the state was virtually complete. Moreover, the officials who constituted the core of Stalin's followers were increasingly under his personal domination. It was this power, rather than theoretical profundity, which provided him with the capability to break through the impasse at the end of the decade.

Beginning in the early part of 1928, grain requisitions reminiscent of War Communism were employed to overcome inadequate marketings by the peasantry; between 1929 and 1933 they were extended to implement a forced collectivisation. This relieved the rural constraint placed upon rapid industrialisation by destroying every vestige of peasant independence; any possibility of resistance from the Soviet proletariat (whose living standards fell considerably after 1929) had long since ceased to be possible. Within a very short period of time the party dictatorship became a personalised totalitarianism. The whole of society was dragooned into the 'production front', and the output of pig-iron was officially viewed as an accurate proxy for the progress toward socialism.

Both the Left Opposition and the Bukharinites saw Stalin's solution as validating their own criticisms of each other. According to Bukharin the grain crisis had occurred because the Left's policy of 'super-industrialisa-

Biography of J. V. Stalin

J. V. Stalin (pseudonym of Josef Vissarionovich Dzhugashvili) was born at Gori in Georgia during 1879. His father, an ex-serf, became the village shoemaker. Stalin received most of his formal education while training as a priest in a seminary. He joined the Georgian Social Democrats in 1901, sided with Lenin in 1904 after the party split, and prior to 1917 worked mainly as a party activist in the underground. He was arrested many times and sent into internal exile. Coopted by Lenin onto the Bolshevik Central Committee in 1912 because of his organisational capabilities, he held the post of Commissar of Nationalities after the October revolution. In 1922 he became General Secretary of the party, and with responsibility for all appointments used this post as the basis for his rise to power. Under his leadership the collectivisation of the peasantry and rapid industrialisation programmes were implemented after 1929. During the 1930s his 'great purges' effectively destroyed the personnel of the old Bolshevik party and instituted totalitarian rule. In the Second World War he took command of military affairs and after victory used the Red Army to transform Eastern Europe into an image of the Soviet Union. He died in March 1953.

tion' had become increasingly influential with Stalin's faction, and with economists in planning agencies, after 1926. Bukharin had long maintained that the Left's platform would entail a 'second revolution' and a fully bureaucratised police state.¹¹⁹ On the other hand many oppositionists, including Preobrazhensky, made an uneasy peace with Stalin after his 'left turn'. For them, their predictions as to the consequences of past policies based on Bukharin's theoretical ideas had been verified.¹²⁰ The awesome implications of Stalinist industrialisation are discussed in the second volume of this book.

Notes*

- * References to Lenin's *Collected Works* (Moscow: Progress Publishers, 1960–70) are indicated by *CW*, followed by volume number. References to Stalin's *Works* (Moscow: Foreign Languages Publishing House, 1953–55) are indicated by *Works*, followed by volume number. References to N. I. Bukharin, *Selected Writings on the State and the Transition to Socialism* (Nottingham: Spokesman, 1982) edited by R. B. Day, are indicated by *SW* (this work consists of articles written by Bukharin between 1915 and 1929).

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13. L. Trotsky, *The Challenge of the Left Opposition (1923–25)* (New York: Pathfinder Press, 1975) p. 390; see also *SW*, pp. 120–1.
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17. *CW*, XXV, pp. 44, 69, 336, 426–7; XXVI, pp. 105–7, 170, 172–3, 365; XXVII, pp. 22, 293–8, 301–2, 307, 309–10, 334–42, 349–51, 382; XXXII, pp. 295–6, 322–3, 329–36, 344–5; XXXIII, pp. 25, 61–2, 89, 418–21, 472; Nove, *Economic History*, pp. 52–4; Lewin, *Political Undercurrents*, pp. 74–7; G. Garvey, 'The Origins of Lenin's Views on the Role of Banks in the Socialist Transformation of Society', *History of Political Economy*, 4, 1972, pp. 252–64.
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 38. *CW*, XXXII, pp. 329–65.
 39. *CW*, XXX, p. 104; XXXII, pp. 266, 295–8, 326, 344–50, 357, 364, 458, 491–2; XXXIII, pp. 25, 28, 58–9, 64–6, 72, 89, 93–106, 113–16, 159–60, 171–2, 185, 198, 213–5, 222, 224, 276–85, 304–5, 310–13, 419–22, 427–8, 440–1, 469–73; *SW*, pp. 190–4; Nove, *Economic History*, p. 89.

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42. *SW*, pp. 99–294.
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48. Preobrazhensky, *New Economics*, p. 237; Trotsky, *Communist International*, vol. 2, p. 271; *Challenge* (1926–7) pp. 328–30.
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51. *SW*, pp. 110ff, 117–19, 161, 194, 200ff, 234ff, 265; Bukharin, *Economics*, pp. 81ff, 90–6; Bukharin and Preobrazhensky, *ABC*, pp. 122–3, 330, 359ff, 383; also see Chapter 13 above.
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55. *SW*, p. 144; Bukharin, *Economics*, p. 202; Cohen, *Bukharin*, pp. 167–73, 252–8; S. Heitman, 'Between Lenin and Stalin: Nikolai Bukharin' in L. Labedz, (ed.) *Revisionism* (London: Allen and Unwin, 1962), pp. 77–90.
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58. M. H. Dobb, *Russian Economic Development Since the Revolution* (London: Routledge & Kegan Paul, 1929); R. Palme Dutt, *Socialism and the Living Wage* (London: Communist Party of Great Britain, 1927).
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 69. Preobrazhensky, *Crisis*, pp. 62ff; *New Economics*, pp. 78, 103ff, 127, 232, 238, 289; Day, *Leon Trotsky*, pp. 93–6; Erlich, *Soviet Industrialisation*, pp. 13–14, 51.
 70. Preobrazhensky, *New Economics*, pp. 17, 132, 218–23, 238ff.
 71. *Ibid*, pp. 84ff.
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 79. Preobrazhensky, *Crisis*, pp. 210–12, 229–30.
 80. Bukharin, *Imperialism*.
 81. Preobrazhensky, *New Economics*, pp. 255–7; *Crisis*, pp. 67–73, 222–4.
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 83. *Ibid*, p. 33ff.
 84. *Ibid*, pp. 67, 137, 162–3.
 85. *Ibid*, pp. 69, 192, 194; *New Economics*, pp. 176ff, 281.
 86. *SW*, pp. 243–5, 292. After 1926 Bukharin did modify his policy proposals to deal with this problem, but not his economic theory; see Erlich, *Soviet Industrialisation*, pp. 78–89, 102–4; Cohen, *Bukharin*, pp. 242–52, 290; Lewin, *Political Undercurrents*, pp. 19, 35, 49–51; M. Haynes, *Bukharin and the Transition from Capitalism to Socialism* (New York: Holmes & Meier, 1985), pp. 111–12.
 87. *SW*, p. 160.
 88. *SW*, pp. 125, 141, 168ff; Cohen, *Bukharin*, pp. 160–212.
 89. Preobrazhensky, *Crisis*, pp. 48, 50, 109.
 90. *Ibid*, pp. 72ff.
 91. *Ibid*, pp. 77ff.

92. *SW*, pp. 129ff.
93. Preobrazhensky, *Crisis*, pp. 43, 46, 66; *New Economics*, p. 117.
94. Preobrazhensky, *Crisis*, pp. 224–7; *New Economics*, pp. 250ff.
95. *SW*, pp. 154ff.
96. *SW*, pp. 196ff.
97. *Works*, VI, pp. 374–420; Trotsky, *Challenge (1923–25)*, p. 192; (1926–27) pp. 152ff, 179ff; Cohen, *Bukharin*, pp. 147–9.
98. *Works*, VI, pp. 374–420.
99. *SW*, pp. 212–17; Trotsky, *History*, pp. 72, 419.
100. *SW*, pp. 110–13, 162; Bukharin, *Historical Materialism; Economics*, pp. 50, 56; Trotsky, *Challenge (1923–25)*, p. 42; Haynes, *Bukharin*, pp. 85–7.
101. *SW*, pp. 162, 200–8, 283; Cohen, *Bukharin*, pp. 143–7, 192–201; Lewin, *Political Undercurrents*, pp. 44–6.
102. *SW*, p. 144.
103. Trotsky, *Communist International*, vol. 1, pp. 57, 72–3, 272; vol. 2, pp. 246–50, 165ff; Preobrazhensky, *New Economics*, pp. 20–1, 25, 79, 128, 133.
104. *SW*, pp. 183–4, 297, 333ff.
105. *SW*, pp. 157, 171.
106. Bukharin, *Imperialism*, pp. 269–70; Trotsky, *Challenge (1923–25)* p. 43; (1925–27) pp. 225ff, 368; *History*, pp. 908ff; Cohen, *Bukharin*, pp. 257–69.
107. *Works*, VI, pp. 374–420.
108. L. Trotsky, *Problems of Everyday Life* (New York: Monad Press, 1973: a series of essays written in the early 1920s) pp. 273–80; *Communist International*, vol. 1, pp. 6, 21–3, 48, 108, 120, 176–81, 192ff, 206, 212, 229, 241ff, 255, 260, 298; vol. 2, pp. 4, 61–3, 70, 77ff, 199–201, 306–7; *Challenge (1923–5)* pp. 345, 348; (1926–27) pp. 131, 134, 161, 193, 218, 404; *History*, pp. 1025, 1219. See also Preobrazhensky, *Crisis*, pp. 134–59, 217–18; *New Economics*, p. 159.
109. Trotsky, *Communist International*, vol. 1, p. 196; vol. 2, pp. 317, 341, 343; *Europe and America*, pp. 33, 67–8, 70–1; *Challenge (1923–25)* p. 332; (1926–27) p. 256.
110. *Ibid.*, pp. 20–2; Trotsky, *History*, pp. 1194, 1219ff.
111. Trotsky, *Communist International*, vol. 1, pp. 284–9, 305–6; vol. 2, pp. 243, 269–70, 330; *Challenge (1923–25)* pp. 61, 119, 159, 342, 347ff, 353, 358ff, 366, 388; (1926–27) pp. 53, 156, 182ff, 334ff, 365. See also Preobrazhensky, *New Economics*, pp. 41, 120–4, 134–6, 139ff, 158–60, 163, 165–6, 254n, 276, 289; *Crisis*, 20, 41, 43, 48, 59, 61ff, 71, 176, 195, 200–1, 203, 207; Day, *Leon Trotsky*, chs 6 and 7.
112. *Challenge (1923–25)* p. 334.
113. Trotsky, *Communist International*, vol. 1, p. 199; vol. 2, p. 186; *Challenge (1926–27)* pp. 57ff, 145ff, 152ff, 179ff, 198, 261, 270ff, 277ff, 374, 434, 495; *The Third International After Lenin* (New York: Pathfinder Press, 1970; written in 1928); *History*, pp. 1219–66; Day, *Leon Trotsky*, chs 6, 7, and 8.
114. Trotsky, *Communist International*, vol. 2, p. 331; *Challenge (1923–25)* pp. 15, 17, 28–9, 31–2, 55, 60, 64, 70, 78, 84, 93, 157, 161, 168ff, 200ff; (1925–27) pp. 31–2, 59, 62ff, 74ff, 83ff, 93, 102, 127, 232, 340–1, 349ff, 401, 411, 441, 452.
115. On this see Trotsky, *Communist International*, vol. 1, pp. 225, 247, 254, 284–7, 305–6; vol. 2, pp. 17, 71–2; *Challenge (1923–25)* p. 344; (1926–27) p. 385; Harding, *Lenin's Political Thought*, vol. 2, pp. 251–2; Bukharin and Preobrazhensky, *ABC*, pp. 49–50, 180ff.
116. Trotsky, *Challenge (1926–27)* p. 464.
117. *Works*, X, pp. 275–97; XI, pp. 3–22, 145–205, 213–24, 255–302, 332–40; A. Erlich, 'Stalin's Views on Economic Development' in E. J. Simmons (ed.)

- Continuity and Change in Russian and Soviet Thought* (New York: Russell & Russell, 1955) pp. 81–99; Erlich, *Soviet Industrialisation*, pp. 172–5; Cohen, *Bukharin*, pp. 270–336; Deutscher, *Stalin*, 401ff.
118. Trotsky, *Challenge (1926–27)* pp. 410, 413–14, 494, 499.
119. *SW*, pp. 127, 135, 164, 175, 199, 301–51; Cohen, *Bukharin*, pp. 142–4.
120. Preobrazhensky, *Crisis*, pp. 14ff; *New Economics*, p. 67; Erlich, *Soviet Industrialisation*, p. 170.

16

Henryk Grossmann and the Breakdown of Capitalism

I Introduction

In Chapter 14 we saw how the renewed dynamism and apparent stabilisation of the world capitalist economy influenced Marxian analysis in the 1920s. Orthodox social democrats like Kautsky and Hilferding stole the clothes of the earlier revisionists to argue that, in the epoch of 'organised capitalism', major economic crises had become improbable. Against them were ranged a handful of neo-Luxemburgists (most prominently Fritz Sternberg) who continued to assert the inevitability of a realisation crisis, and the Trotskyists, stridently insisted upon the impending necessity of further imperialist wars (see Chapters 14 and 15 above). One common strand unites these otherwise disparate schools of thought. This is their almost total neglect of volume III of Marx's *Capital*, and in particular of the tendency identified there for the rate of profit to decline. An important element in modern Marxian discussions of crises was thus almost entirely lacking.¹ This chapter is concerned with the first serious attempt by a Marxist to develop the volume III analysis and apply it to crisis theory. Deeply flawed, it nevertheless proved to be (in the long run) extremely influential.

In 1929, on the eve of the Wall Street crash, there appeared a 622-page book by Henryk Grossmann, a Polish academic hitherto known only as an economic historian and statistician. In *The Law of Accumulation and Breakdown of the Capitalist System (Including a Theory of Crisis)*, Grossmann advanced a breakdown theory which, he claimed, was for the first time consistent with the spirit of Marx's analysis in volume III. According to Grossmann, Marx's conception of history hinged on the theory of the dialectical transformation of modes of production. This, he believed, implied that capitalism has 'insurpassable, absolute economic limits to accumulation'. For Grossmann, any Marxian political economy worthy of

the name must demonstrate the nature of these limits. Nothing of the sort could be expected from neoclassical theory, which restricts itself to banalities concerning individual motivation while overlooking the objective conditions which generate excess saving. But Marx himself also failed to provide a clear account of the tendency to capitalist economic breakdown, Grossmann believed, and most subsequent Marxist writers explicitly denied the very existence of such a tendency. Only Rosa Luxemburg could be exempted from this criticism, and her theory was wrong.²

Biography of Henryk Grossmann

Born in 1881 in Cracow, the son of a Jewish mine-owner in Galicia, Grossmann studied law, and then economics, in Cracow and Vienna, publishing works on Austrian economic history. He became a Polish subject in 1918, and worked in Warsaw for the Central Statistical Office and the Free Polish University. Grossmann developed strong interests in economic theory and the history of economic ideas, which led him to join the Institute for Social Research in Frankfurt, where he moved in 1925. Although a member of the Communist Party in Poland, Grossmann never joined the German party, which he regarded as incompetent and over-bureaucratic. After Hitler's seizure of power he went into exile, first in Paris (in 1933–5) and then in London (in 1935–7), before moving with the Institute to New York in 1937. Grossmann was increasingly alienated from the Institute's leading members because of his support for the Soviet Union and his emphasis on economics, narrowly defined, at the expense of political and cultural issues. He returned to Europe in 1949 as Professor of Political Economy at the University of Leipzig, where he died in 1950.

Grossmann is very clear about his method of analysis, which he claims to be Marx's own. The tendency to economic breakdown must be deduced from the inner nature of capitalist *production*, not from the superficial appearances of commodity circulation or *exchange*. Hence his book aims to show:

how the sum of the empirically observable tendencies of the world economy, which are seen as the characteristic hallmarks of the latest phase of capitalist development (and have been enumerated in various writings on imperialism: monopoly organisations, export of capital, the

struggle for the division of raw-material-producing areas, etc.) are secondary surface appearances, which arise from the *essence* of capital accumulation as the primary root.³

This will enable a distinction to be made between the symptoms of economic crises, such as price fluctuations, and their underlying causes, which are to be located in the production process. On methodological grounds Grossmann therefore assumes equilibrium between supply and demand to prevail in all markets, with constant prices (which are assumed equal to labour values) and an unchanging value of money. He also deliberately avoids any consideration of credit or competition in this context. Economic crises must be explained in terms of 'the inner nature of capital' itself.⁴

The book begins with a lengthy summary of the literature, which occupies the entire first chapter and the first six sections of the second. In the remainder of the second chapter Grossmann presents his own theory of economic breakdown, which builds on the Marxian analysis of the falling rate of profit and is used to derive a model of cyclical crises. The third chapter assesses the 'counter-acting tendencies' which operate, first in a hypothetical closed economy and then on the world market. The latter form the basis for Grossmann's theory of imperialism. In the concluding chapter Grossmann sets out the implications of his analysis for the class struggle and the prospects for revolutionary change.

II Grossmann's Models of Breakdown and Crisis

It will be recalled from Chapter 6 that in 1913 Otto Bauer had published, in a review of Luxemburg's *Accumulation of Capital*, a four-period numerical example of accumulation with a rising organic composition of capital. Grossmann extends Bauer's model to thirty-six periods and demonstrates that the process of accumulation which it represents cannot be indefinitely sustained. The system is eventually incapable of producing sufficient surplus value to permit both (i) the required rate of accumulation and (ii) capitalist consumption. When the latter falls to zero, breakdown occurs; long before that point, severe economic crises are probable.

Grossmann's model is summarised in Table 16.1.⁵ As with Bauer, constant capital is assumed to grow at 10 per cent and variable capital at 5 per cent per period. The rate of exploitation remains constant at 100 per cent, so that in every year surplus value is equal to the variable capital employed. Grossmann assumes the value of labour power to equal unity; hence each unit of variable capital represents one worker. The labour force is assumed to grow by 5 per cent in each period. Sufficient surplus value must be accumulated as additional constant capital (a_c) to maintain the 10

per cent growth rate, and enough must be set aside as additional variable capital (a_v) to permit the latter to grow by 5 per cent. Capitalists' consumption is a residual: they can spend whatever is left over once accumulation has been taken care of. As Bauer had already discovered, equilibrium growth demands that the proportion of surplus value which is accumulated rises continuously, while the proportion consumed steadily declines. By year 35 it has almost reached zero and, if production were to continue into the next period, it would become negative. In fact, Grossmann argues, this is impossible and 'the system must break down . . . [since] the capitalists have the trouble and worry of running the system of production whose fruits go exclusively to the working class'. Even if they could 'live on air', the capitalist class would have no incentive for continued accumulation.⁶

The implications of economic breakdown become clearer if, following Grossmann, we can consider the position at the end of year 35. On the assumption that the additional constant capital is the first charge on surplus value, in year 36 $c = 5\,616\,200$ (a 10 per cent increase on the figure for the previous year). As capitalists' consumption cannot meaningfully be negative, it is set equal to zero. All the remaining surplus value produced in year 35 ($525\,319 - 510\,563 = 14\,756$) is used to accumulate additional variable capital, which rises from 525 319 to 540 075; this is an increase of 2.81 per cent. Since the labour force has increased by 5 per cent to 551 584, there are now 11 509 unemployed workers. There is also a surplus of constant capital. The ratio of constant to variable capital required (presumably, though Grossmann does not state so explicitly, by technology) in year 36 is

$$(5\,616\,200) \div (551\,584) = 10.18^7$$

But only 540 075 units of variable capital are available. Given an organic composition of 10.18, the quantity of constant capital which can be employed is

$$(540\,075)(10.18) = 5\,499\,015$$

leaving 117 185 units of excess capacity. These conditions correspond to those summarised in one of the section headings of *Capital*, volume III: 'surplus capital with surplus population'. They signify an 'over-accumulation of capital'⁸ which has come about with the rate of profit, although declining, still equal to 8.7 per cent.

This numerical example is, of course, only illustrative. More generally, the year in which breakdown occurs depends on the magnitude of the organic composition, the rates of growth of constant and variable capital, and the rate of exploitation. If the initial organic composition had been 8

Table 16.1 Grossmann's model of accumulation

Year	Constant capital (c)	Variable capital (v)	Capitalists' consumption (k)	Additional constant capital (a _c)	Additional variable capital (a _v)	Total value	Proportion of surplus value consumed (%)	Proportion of surplus value accumulated (%)	Rate of profit $\left(\frac{k + a_c + a_v}{c + v}\right)\%$
1	200 000	+ 100 000	+ 75 000	+ 20 000	+ 5 000	= 400 000	75.00	25.00	33.3
2	220 000	+ 105 000	+ 77 750	+ 22 000	+ 5 250	= 430 000	74.05	25.95	32.6
3	242 000	+ 110 250	+ 80 539	+ 24 200	+ 5 511	= 462 500	73.04	26.96	31.3
4	266 000	+ 115 762	+ 83 374	+ 26 600	+ 5 788	= 497 524	72.02	27.98	30.3
5	292 600	+ 121 550	+ 86 213	+ 29 260	+ 6 077	= 535 700	70.93	29.07	29.3
6	321 860	+ 127 627	+ 89 060	+ 32 186	+ 6 381	= 577 114	69.70	30.30	28.4
7	354 046	+ 134 008	+ 91 904	+ 35 404	+ 6 700	= 612 062	68.58	31.42	27.4
8	389 450	+ 140 708	+ 94 728	+ 38 945	+ 7 035	= 670 866	67.32	32.68	26.5
9	428 395	+ 147 743	+ 97 517	+ 42 839	+ 7 387	= 723 881	66.00	34.00	25.6
10	471 234	+ 155 130	+ 100 251	+ 47 123	+ 7 756	= 781 494	64.63	35.37	24.7
11	518 357	+ 162 886	+ 102 907	+ 51 835	+ 8 144	= 844 129	63.10	36.90	23.9
15	758 925	+ 197 988	+ 112 197	+ 75 892	+ 9 899	= 1 154 901	56.67	43.33	20.6
19	1 111 139	+ 240 654	+ 117 509	+ 111 113	+ 12 032	= 1 572 447	49.66	50.43	17.8
20	1 222 252	+ 252 691	+ 117 832	+ 122 225	+ 12 634	= 1 727 634	46.63	53.37	17.1
21	1 344 477	+ 265 325	+ 117 612	+ 134 447	+ 13 266	= 1 875 127	44.33	55.67	16.4

25	1 968 446	+	322 503	+	109 534	+	196 844	+	16 125	=	2 613 452	33.96	66.04	14.0
27	2 381 819	+	355 559	+	99 601	+	238 181	+	17 777	=	3 092 937	25.20	74.90	12.9
30	3 170 200	+	411 602	+	73 882	+	317 200	+	20 580	=	3 993 404	17.97	82.03	11.5
31	3 487 220	+	432 182	+	61 851	+	378 722	+	21 609	=	4 351 584	14.31	85.69	11.0
33	4 219 536	+	476 480	+	30 703	+	421 953	+	23 824	=	5 172 496	4.20	95.80	10.1
34	4 641 489	+	500 304	+	11 141	+	464 148	+	25 015	=	5 642 097	0.45	99.55	9.7
35	5 105 637	+	525 319	+	Ø	+	510 563	+	14 756	=	6 150 275	Ø	104.61	9.3
36	Available:		Labour Force:						Required:					
	5 616 200		551 584						26 265					
									Deficit:					
									11 509					
	Employed:		Employment:											
	5 499 015	+	540 075	+	Ø	+	540 075	+	Ø	=	6 696 350	Ø	109.35	8.7
	Excess:		Unemployed:						Required:					
	117 185		11 509						561 620					
									Deficit:					
									21 545					
									Total Deficit:					
									48 548					

Note by Ø Grossmann denotes any (economically meaningless) negative quantity.

instead of 2, for example, accumulation would have become impossible as early as year 5; were constant capital to grow at 20 per cent rather than the assumed 10 per cent breakdown would occur in year 8. A rate of exploitation greater than 100 per cent would postpone breakdown beyond year 35. Reductions in the growth rate of variable capital may work in either direction, depending upon their impact on the production of surplus value. If variable capital grows less rapidly due to a reduction in real wages, accumulation will benefit. If however the deceleration results from a lower rate of population growth, breakdown will be brought nearer. (An algebraic version of these conclusions is discussed in the Appendix to this chapter.) Capitalists may react to overaccumulation, Grossmann suggests, by cutting wages or by exporting capital. If neither course of action increases surplus value sufficiently to avert the threat of breakdown, they will reduce the rate of accumulation; they may do this as early as the 21st year, which is the point at which their consumption begins its absolute decline. In any event unemployment will ensue, independently of the direct labour-displacing effects of technical progress.⁹

Grossmann expects there to be a series of crises, each one more severe than the last, rather than the outright collapse of the system. A 'final crisis' will occur only if the counteracting tendencies (which are discussed below) cease to operate.¹⁰ Crises function as a 'healing process', restoring the conditions for continued accumulation.¹¹ The periodicity of the trade cycle, which neither bourgeois nor Marxian economists have been able to explain, can be derived 'in a purely deductive way . . . as a necessary consequence of the fundamental elements of the reproduction mechanism already established'. It thus depends on the size of the organic composition, the rate of exploitation, and the growth rates of constant and variable capital.¹²

Grossmann does not show explicitly how cyclical fluctuations can be deduced from his original numerical example. He does however present a crisis model from a slightly different perspective, involving the relaxation of the initial condition of balance between rate of accumulation and the rate of growth of the labour force. The capitalists are now assumed to add to their constant capital by 5 per cent rather than 10 per cent each year, and to reduce their accumulation of variable capital accordingly; their residual savings are set aside to finance future accumulation. There are repercussions on both the labour and money markets. Unemployment will arise because of the reduced rate of accumulation. This will force down real wages and increase the rate of exploitation, thereby inducing a renewed rise in the rate of accumulation. Moreover, since the capitalists lend out their excess savings as 'loan-capital', the rate of interest on loans will fall, which again acts as a stimulus to accumulation. Meanwhile the rate of profit continues to decline. Taken together with the increasing rate of accumulation, this reduces the value of the capitalists' net financial assets. When they reach zero, there is a crisis of overaccumulation. The overall effect is to

increase the amplitude of the cycle, so that both output and unemployment fluctuate ever more sharply.¹³

The process is summarised in Tables 16.2 and 16.3, where the initial value of the organic composition is set at 8. Table 16.2 ignores the effect of wage and interest changes on the rate of accumulation, which are taken into account in Table 16.3.¹⁴ In Table 16.2 constant capital increases at a steady rate of 5 per cent per annum, rising between the first and second years from 200 000 to 210 000. Variable capital increases much more slowly, from 25 000 to only 25 056. This preserves the organic composition at the level it would have reached if constant capital had actually risen by 10 per cent and variable capital by 5 per cent:

$$(220\ 000) \div (26\ 250) = (210\ 000) \div (25\ 056) = 8.38$$

The figures for the subsequent years are similarly derived; in some cases they imply a negative accumulation of variable capital. The capitalists are assumed to consume one-tenth of their surplus value in each year. Since the rate of exploitation is held constant at 100 per cent, surplus value of 25 000 is produced in the first year, of which 2500 is consumed and 10 056 accumulated. The remaining 12 444 units of surplus value are set aside as potential loan-capital (for the moment they are not lent out). It can be seen from Table 16.2 that there is a steady decline in the quantity of new loan-capital which the capitalists are able to set aside each year (nonetheless, by the end of year 8 they have built up financial reserves amounting to 85 081). Since the labour force has continued to grow up at 5 per cent each year, while the accumulation of variable capital (and hence employment growth) has been considerably slower, unemployment increases continuously. Zero in year 1, it is already 1194 in year 2, since only 56 of the additional 1250 workers have been employed. (Recall that Grossmann sets the value of labour power equal to unity, so that each unit of variable capital represents one worker employed for one year.) By the end of year 8, 24 880 workers are employed and 9576 unemployed, so that the unemployment rate is

$$(9576) \div (9576 + 24\ 880) = 27.8 \text{ per cent}^{15}$$

If the capitalists do in fact lend out their excess savings, the rate of interest will fall; and, since unemployment is rising, real wages will decline. Both factors will encourage faster accumulation. Table 16.3 shows the effect on the model if constant capital is accumulated at 5 per cent in the first year, and then at 6, 8, 9 and 9½ per cent in the succeeding four years. The accumulation of variable capital is determined, as in Table 16.2, by the need to maintain the organic composition that would have prevailed had constant capital grown at 10 per cent and variable capital at 5 per cent throughout. The level of unemployment is calculated as before. The system

Table 16.2 *Grossmann's crisis model (preliminary)*

<i>Year</i>	<i>Constant capital (c)</i>	<i>Variable capital (v)</i>	<i>Surplus value (s)</i>	<i>Capitalists' consumption (k)</i>	<i>Additional constant capital (a_c)</i>	<i>Additional variable capital (a_v)</i>	<i>Potential loan-capital (L)</i>	<i>Unemployment*</i>
1	200 000	25 000	25 000	2 500	10 000	+ 56	12 444	0
2	210 000	25 056	25 056	2 505	10 500	+ 57	11 994	1 194
3	220 000	25 113	25 113	2 511	11 025	+ 61	11 516	2 449
4	231 000	25 174	25 174	2 517	11 576	+ 72	11 009	3 766
5	243 101	25 246	25 246	2 524	12 515	+ 57	10 510	5 141
6	255 256	25 303	25 303	2 530	12 762	- 461	10 011	6 603
7	260 018	24 842	24 842	2 484	13 201	+ 38	9 211	7 974
8	281 219	24 880	24 880	2 488	14 060	- 154	8 386	9 576

*The increase in unemployment in any year equals 5% of the previous year's *v* less the previous year's *a_v*.

Table 16.3 Grossmann's crisis model (complete)

Year	Constant capital (c)	Variable capital (v)	Surplus value (s)	Capitalists' consumption (k)	Additional constant capital (a _c)	Additional variable capital (a _v)	Loan-capital (L)	Capitalists' accumulated wealth*	Unemployment
1	200 000	25 000	25 000	2 500	10 000	56	+ 12 444	+ 12 444	0
2	210 000	25 056	25 056	2 505	14 700	535	+ 7 316	+ 19 760	1 194
3	224 700	25 591	25 591	2 559	20 223	1 056	+ 1 753	+ 21 513	1 971
4	244 923	26 647	26 647	2 664	26 941	1 565	- 4 523	+ 16 990	2 193
5	271 864	28 812	28 812	2 881	35 320	2 238	- 12 167	+ 4 823	2 175
6	307 184	30 450	30 450	3 045	44 077	2 477	- 19 249	- 14 426	1 456
7	(253 361)	(32 927)	(32 927)	Ø					74

*Calculated by adding the (positive or negative) quantities of loan-capital set aside in the current and all previous years.

now runs out of surplus value before the end of the sixth year. The capitalists, who have begun to call in their loans in the fourth year, eventually become net debtors; accumulation ceases, and the economy goes into a severe depression. This can be interpreted either as a terminal breakdown,¹⁶ or as the prelude to a further upswing (though Grossmann does not at this point specify the mechanism which might lead to renewed accumulation).

Grossmann concludes his discussion of crisis theory by returning to the methodological themes with which he began. His model of the cycle has been derived from the production process, from which events in the labour and money markets were deduced as effects of accumulation. Changes in prices, wages and interest rates would be the result of overproduction, not its cause. Crises occur because of the insufficient production of surplus value, which is 'the basic law which controls Marx's entire conceptual framework'.¹⁷ This has been overlooked, he maintained, not only by the bourgeois economists, who focus their attention on price fluctuations and miscalculations by individual capitalists,¹⁸ but also by Grossmann's Marxian predecessors. Bauer, Kautsky and Hilferding had fallen under the influence of Tugan-Baranovsky's disproportionality theory, which had led them to conclude that crises could be overcome within the capitalist mode of production through central regulation of economic activity. They were at best 'neo-harmonists', while the later Kautsky had repudiated Marxism altogether.¹⁹ Among the revolutionaries, Rosa Luxemburg had mistakenly viewed circulation rather than production as the source of breakdown, and had traced the difficulty back to excessive instead of insufficient surplus value. Bukharin had simply listed a number of alleged economic contradictions before deducing a tendency to breakdown from war, which was an exogenous, non-economic factor. Even Lenin, towards whom Grossmann is evidently much more sympathetic, and who comes in for much less scathing criticism, failed to explain his crucial concept of capitalist 'overripeness', and so shared the general Marxian weakness with respect to the overaccumulation of capital.²⁰

III The Politics of Breakdown Theory

There is much to criticise in all this. First, however, something must be said about Grossmann's discussion of counteracting tendencies and the politics of breakdown theory. He interprets the counteracting tendencies as factors which operate in the downswing of the cycle to increase the rate of profit, and thus permit an upturn in the level of activity instead of the final collapse of the system. They do so either by reducing the value of constant capital or by increasing the production of surplus value, both within and outside the capitalist mechanism. Grossmann's analysis is based on that of

Marx in volume III,²¹ but with much greater detail and a much more emphatic conclusion: 'the contradictions within world capitalism are becoming sharper and sharper, and the breakdown tendency is increasingly approaching the absolute breakdown point'.²²

Those counteracting tendencies which operate in the internal market fall into three categories. First are the forces which work against the increase in the organic composition of capital. These are technical progress in the producer-goods industries of department I, which cheapens the elements of constant capital by devaluing existing as well as additional means of production; and improvements in transport and communications, which cut the time for which constant capital is locked up in the circulation process and thereby reduce the durability of capital.²³ Second, the production of surplus value is increased, both by technical progress in the wage-goods industries of department II, which cheapens the elements of variable capital, and by the intensification of labour and the depression of real wages below the value of labour power.²⁴ This is Grossmann's first mention of a rising rate of exploitation; it comes halfway through the book, occupies barely a page, and impinges not at all on any of his numerical examples. Finally there is a tendency for rent and commercial profit to fall as a proportion of total surplus value, with a corresponding rise in the share of industrial profit. This, however, is partially offset by the increasing costs of supporting the 'new middle-class' of unproductive workers.²⁵

Grossmann devotes much more attention to counteracting tendencies on the world market and their implications for the theory of imperialism. He is severely critical of all previous theories of imperialism, which have failed to see that the significance of capitalist expansion lies in the increased production of surplus value which it facilitates. It has nothing to do with realisation difficulties, which are the effect of a deeper malfunction rather than its cause, and result from the lack of profitable investment opportunities which Grossmann has already analysed. Rosa Luxemburg was the most prominent victim of this fallacy, in which she had been followed by Fritz Sternberg (see Chapter 14 above).²⁶ Rudolf Hilferding had mistaken one phase of capitalist history, in which industrial capital was for a while dominated by the banks, for the general historical tendency of the capitalist mode of production itself. Accumulation is increasingly self-financed, Grossmann argues, and 'in the last resort it is much more industry which controls the banks' than vice versa. Hilferding's theory of capital exports is also inadequate, since it cannot explain why the export of capital is a relatively recent phenomenon when there have always been international differences in profit rates.²⁷ Even Lenin had mistaken a particular means of offsetting the falling rate of profit (that is, the growth of monopoly) for its underlying cause, and had failed clearly to identify overaccumulation as the basis of imperialism.²⁸

Grossmann's own analysis points to three distinct ways in which access

to the world market might increase the rate of profit. The first involves unequal exchange in international trade. There is, Grossmann observes, an international dimension to the transformation of labour values into prices of production. This was touched on by Marx but then neglected by everyone except Otto Bauer, who had not connected it with the theory of accumulation.²⁹ Grossmann uses a numerical example in which Europe has a higher organic composition and a higher rate of exploitation than Asia, but a lower rate of profit:

$$\text{Asia} \quad 16c + 84v + 21s = 121$$

$$\text{Europe} \quad 84c + 16v + 16s = 116$$

Here the organic composition in Europe is 4 and that in Asia 0.25; the rates of exploitation are 100 per cent and 25 per cent; and the profit rates are 15 per cent and 21 per cent respectively. If Europe exports capital to Asia, and the rate of profit is equalised on a global scale, both sets of commodities sell at 118.5 and the common rate of profit is 18.5 per cent. The rate of profit in Europe has risen while that in Asia has declined, and there has been a transfer of value from Asia to Europe. 'The technically and economically more highly-developed country appropriates excess surplus value at the expense of the backward country'.³⁰ These profits are available whether Asia is capitalist or non-capitalist. They generate continuous intense competition on the world market and induce violent rivalry between the advanced capitalist powers, since one nation's gain is another's loss. Economic nationalism is thus a permanent feature of advanced capitalism, and not (as Kautsky had argued) merely a passing phase.³¹

A second way in which imperialism helps to increase the rate of profit is through the struggle for monopoly control over raw materials. In this struggle capitalists use the state as their agent in neo-mercantilist fashion. This again is a zero-sum game, in which each nation attempts to weaken its own breakdown tendencies (by cheapening constant capital) at the expense of others, which are forced to 'pay tribute' to it. Attempts at international regulation of commodity markets are therefore Utopian.³² Finally, there is the question of capital exports. As already indicated, Grossmann takes issue with all earlier Marxian theories of the export of capital. Previous writers had relied on differences in the rate of profit between advanced and backward countries. They thus ignored both the tendency for the international equalisation of the rate of profit, and the possibility that the organic composition of capital might actually be higher in the colonies because of the use of the latest technology there.³³ For Grossmann overaccumulation is again the deciding factor: 'Not the higher profit abroad, but the lack of investment opportunities at home is the ultimate basis of capital exports.'³⁴

Imperialism leads not only to the intensification of crises as they become

global in scope, but also to war: 'the battle for investment outlets signifies the greatest source of danger for world peace'.³⁵ Thus Grossmann regards the notion of increasing harmony in international relations as absurd. Nor can the contradictions between capitalists be overcome within an individual state. The 'general cartel' suggested by Rudolf Hilferding is a chimera, Grossmann maintains, since Hilferding has misunderstood the Marxian theory of value. Eliminating competition and commodity exchange would mean doing away with capitalism itself. Hence Hilferding's general cartel would not be an association of capitalists at all.³⁶ Any genuinely capitalist economy, on the other hand, would be essentially crisis-ridden. A regulated capitalist economy is thus 'conceptually impossible' [*denk unmöglich*].³⁷

Growing social tension is unavoidable, Grossmann concludes, because of the mounting pressure on wage levels. In the later nineteenth century real wages could rise in line with rising productivity and the growing intensity of labour. This is no longer possible, since overaccumulation requires capitalists to force wages down. Bernstein and the revisionists had argued that absolute immiseration was historically specific, and confined to the early phase of capitalist industrialisation. For Grossmann this is the reverse of the truth. Immiseration occurs rather in the later stages, when 'overaccumulation sets the objective limit to trade-union activity'.³⁸ This will intensify the class struggle. According to Grossmann breakdown theory is inconsistent with the fatalism often imputed to it. Economic breakdown, 'although objectively necessary and in connection with its onset exactly calculable', is not in itself an automatic process, to be passively awaited. If not resisted, immiseration will prolong the life-span of the capitalist system, while union resistance will accelerate breakdown. As the British General Strike of 1926 had shown, industrial conflict was now political to its core. Strikes and lock-outs were now being fought about the very existence of capitalism. Grossmann's conclusion echoed the Kautsky of the Erfurt Programme and *The Class Struggle* (see Chapter 4 above). The final goal of socialism, he proclaimed, was not an ideal brought into the working class from outside, but the inevitable result of the everyday class struggle.³⁹

IV Grossmann's Critics

The analytical weaknesses of Grossmann's work were mercilessly exposed in the reviews of his book, only two of which (one by a French sociologist) were at all favourable.⁴⁰ Critic after critic objected that Otto Bauer's initial assumptions were too rigid realistically to model an actual capitalist economy. Why, first, should constant capital grow continuously at 10 per cent, and variable capital at 5 per cent, per period, irrespective of the effects on the viability of the system?⁴¹ The organic composition of capital is not given by technology, but depends upon the profitability of investment

decisions. Faced with the consequences of continuing as Grossman would have them do, capitalists would adapt their behaviour to avoid ruination, slowing the overall pace of accumulation and reducing the rate of increase of the organic composition.⁴² Grossman's use of Bauer's example was thus, in Helene Bauer's words, 'a mere play with numbers'.⁴³

A second problem concerns the rate of exploitation, which Grossmann holds constant, allowing it to rise (in his crisis model) only at the expense of a cut in real wages. But the very technical progress which – in Grossmann's model – raises the organic composition of capital, simultaneously increases the productivity of labour in the industries which produce wage-goods or supply inputs to those industries. If real wages remain constant or fall, the rate of exploitation must increase; otherwise real wages will rise steadily, at a rate equal to the growth rate of labour productivity. Grossmann has thus ignored the Marxian concept of relative surplus value. If the rate of exploitation is allowed to rise, several of his critics concluded, it may still be the case that the production of surplus value increases too slowly to avoid breakdown; but there is nothing in Grossmann's analysis to demonstrate that this must be so.⁴⁴

Associated with these problems is an important methodological criticism. Grossmann treats the effects of technical change in cheapening the elements of both constant and variable capital as subsidiary factors which merely supply a 'correction' to the underlying forces leading to economic breakdown. But these effects are an inherent part of the process of capital accumulation. They should have been integrated into Grossmann's formal model, not simply tacked on at the end.⁴⁵

It was further objected that Grossmann ought to have developed his arguments in general algebraic terms instead of relying upon numerical examples; the little algebra he does use is not especially helpful.⁴⁶ He should also have explained why individual capitalists cease to invest at a point where the rate of profit is still healthily positive: 'the senselessness [of accumulation] from the standpoint of capitalism as a whole is . . . no basis for its breakdown'.⁴⁷ Moreover Grossmann's model is an aggregate one, which glosses over the distinction between the different departments of the economy, and is in this way less sophisticated than Otto Bauer's.⁴⁸ He also assumes all commodities to sell at their labour values, ignoring the transformation of values into prices of production; yet it is by no means self-evident that this would leave his analysis unimpaired.⁴⁹ Grossmann was soon to savage other Marxists for ignoring the divergence between values and prices, without once acknowledging that the criticism applied equally to his own work.⁵⁰

Grossmann was further accused of having misinterpreted Marx, wrongly imputing to him a theory of breakdown rather than of recurrent crises, and thereby devaluing the revolutionary role of the proletariat.⁵¹ He paid no attention to the underconsumptionist and disproportionality strands in

Marx's theory of crisis, and misunderstood the Marxian notion of 'absolute overproduction of capital', which occurs when the reserve army of the unemployed has fallen to zero, so that further accumulation adds nothing to the production of surplus value. Grossmann's was a theory of *relative* overaccumulation, in which the mass of surplus value continued to rise, and had little in common with that of Marx.⁵²

Finally, the critics turned on the empirical validity of Grossmann's analysis. His theory could not explain the occurrence of crises in the early nineteenth century, long before overaccumulation could have begun to be a serious problem. It was hard to reconcile with simultaneous fluctuations in countries with quite different degrees of overaccumulation. Grossmann also had no explanation of the fact that crises invariably broke out in particular sectors, and not across the economy as a whole.⁵³

V An Assessment

There was a great deal of substance in all these criticisms. Grossmann has no clear theory of accumulation; that is, there is nothing in his book to explain why capitalists add to their constant and variable capital at the prescribed rates. (This, it is only fair to note, is a criticism that applies equally to Marx and many later Marxian writers.) Grossmann also underestimates the effects of technical change in cheapening the elements of both constant and variable capital, which tends both to lower the organic composition and to raise the rate of exploitation. Thus the rate of profit may increase; in fact, it *must* increase if technical progress is accompanied by constant or falling real wages.⁵⁴ These two defects undermine the entire basis of the supposed breakdown theory: if capitalists need less surplus value (in relation to their capital) than Grossmann supposes, and if they are able to produce more surplus value than he allows, there is no obvious reason why they should not be able both to accumulate and to consume. Finally, the crisis model set out in Tables 16.2 and 16.3 contains a contradiction. Grossmann assumes that there is no difficulty in realising all the surplus value that is produced. But that part of surplus value which is set aside as loan capital is not offset by any corresponding investment. Effective demand will therefore be insufficient to realise the total surplus value; excess saving entails unsold commodities and reduced profits. In overlooking this problem Grossmann reveals himself to be a prisoner of Say's Law, as much a victim of the 'classical harmony theory' as the neoclassical economists whom he criticises so sharply.⁵⁵

Hence Grossmann failed completely to establish the necessity of capitalist breakdown. It is difficult to escape the conclusion, however, that much of the hostility to him was politically motivated. He occupied a decidedly exposed position as an independent Marxist, opposed alike to Stalinism, to

reformist social democracy, and to the anti-Parliamentarianism of the left communists with whom he otherwise had much in common. Thus he had few allies. Orthodox Leninists warned of the dangers of passivity and fatalism, to which his analysis supposedly led. Left communists like Anton Pannekoek and Karl Korsch attacked him for similar reasons, while Friedrich Pollock, the leading economic theorist of the Frankfurt Institute, took issue with him for asserting the primacy of economics and the existence of inexorable laws of accumulation. Grossmann's relations with the Institute cooled noticeably after the publication of his book.⁵⁶ His only wholehearted defender was Paul Mattick, a German Council Communist who had settled in the USA and belonged to a section of the syndicalist Industrial Workers of the World. But in the 1930s, at least, Mattick carried very little weight in international Marxism.⁵⁷

Thus Grossmann's immediate influence was minimal, despite the almost instant onset of the worst crisis in capitalist history. Although he continued to write prolifically on the history of economic thought, his plans for a revised edition of his book, and for two further volumes on simple reproduction and on Marx's economic method, never came to fruition.⁵⁸ Projected English and French translations of the book also failed to materialise, and the Japanese edition had little influence upon the idiosyncratic Uno School of Marxism which was emerging at the time.⁵⁹ Only after his death did ideas similar to Grossmann's gain currency, initially in Germany and – when Paul Mattick at last won an audience – in the USA. Today the notion that the 'logic of capital' hinders the production of surplus value in such a way as to prevent crisis-free accumulation is the fundamental tenet of one major stream of thought in Marxian political economy. The circumstances in which this came to be so are described in volume 2.

Appendix: An Algebraic Formulation of Grossmann's Breakdown Model

Grossmann's algebraic formulation is unclear and contains typographical errors. This is a revised and slightly simplified version, derived from the work of the Swiss economist, Martin Trottman.⁶⁰ Write c as constant capital, v as variable capital, s as the mass of surplus value, e as the rate of exploitation (rate of surplus value), and Ω as the organic composition of capital. All these magnitudes except e vary over time, and therefore have time subscripts. The percentage growth rates of constant and variable capital are denoted by g_c and g_v ⁶¹; they are constant over time. We can now write:

$$c_t = c_0(1 + g_c)^t \quad (16.1)$$

and

$$v_t = v_0(1 + g_v)^t \quad (16.2)$$

Capitalists' consumption k is defined as the difference between total surplus value and that part of it which is accumulated as additional constant and variable capital:

$$\begin{aligned} k_t &= s_t - c_t \cdot g_c - v_t \cdot g_v \\ &= v_t(e - g_v) - c_t \cdot g_c \end{aligned} \quad (16.3)$$

Breakdown occurs (in Grossmann's model) when k falls to zero. Suppose this to occur in year t , so that:

$$k_t = 0 \quad (16.4)$$

Using (16.3), this can be seen to require that:

$$v_0(1 + g_v)^t(e - g_v) = c_0(1 + g_c)^t \cdot g_c \quad (16.5)$$

so that

$$\frac{(1 + g_c)^t}{(1 + g_v)^t} = \frac{v_0(e - g_v)}{c_0 \cdot g_c} \quad (16.6)$$

Replacing (c_0/v_0) by Ω_0 , and rearranging terms, we have:

$$\left[\frac{1 + g_c}{1 + g_v} \right]^t = \frac{e - g_v}{\Omega_0 \cdot g_c} \quad (16.7)$$

so that

$$t = \frac{\log \left[\frac{e - g_v}{\Omega_0 \cdot g_c} \right]}{\log \left[\frac{1 + g_c}{1 + g_v} \right]} \quad (16.8)$$

which is Grossmann's equation.⁶² From (16.8) it can be shown that $\frac{\delta t}{\delta \Omega_0} < 0$, $\frac{\delta t}{\delta g_c} < 0$, $\frac{\delta t}{\delta e} > 0$, and $\frac{\delta t}{\delta g_v} > 0$. That is, breakdown would be deferred by a decline in Ω_0 or g_c , or by a rise in e , or g_v .⁶³

Notes

1. For an academic contribution see the 1924 paper by Erich Preiser, 'Das Wesen der Marxschen Krisentheorie', reprinted in Preiser, *Politische Oekonomie im 20. Jahrhundert: Probleme und Gestalten* (Munich: C. H. Beck, 1970) pp. 47–75. In 1910 Hilferding had set out the basis of Marx's analysis, without giving it any prominence in his discussion of crises (see Chapter 5 above).
2. H. Grossmann, *Das Akkumulations- und Zusammenbruchsgesetz des Kapitalistischen Systems (Zugleich eine Krisentheorie)* (Leipzig: C. L. Hirschfeld, 1929; reprinted 1970, Verlag Neue Kritik, Frankfurt am Main), pp. 1–23.
3. Ibid, p. x (original stress); cf. Grossmann, 'Die Aenderung der Ursprünglichen Aufbauplans des Marxschen "Kapital" und Ihre Ursachen', *Archiv für die Geschichte des Sozialismus und der Arbeiterbewegung* 14, 1929, pp. 305–38, reprinted in Grossmann, *Aufsätze zur Krisentheorie* (Frankfurt am Main: Verlag Neue Kritik, 1973) pp. 9–42.
4. *Das Akkumulations*, pp. 79–98.
5. Ibid, derived from table II, p. 119. There are consistent (but consistently small) numerical errors in Grossmann's calculations: in year 35, for example, $c = 5\,109\,531$ and $v = 525\,335$ rather than the values given in Table 16.1. These errors in no way alter the argument.
6. Ibid, pp. 121–2.
7. Since $200\,000 (1.10)^{35} \div 100\,000 (1.05)^{35} = 10.18$.
8. *Das Akkumulations*, pp. 125–6; cf. K. Marx, *Capital* (Moscow: Foreign Languages Publishing House, 1962) vol. III, pp. 246–51 (ch. 15, s. 3).
9. *Das Akkumulations*, pp. 184–7, 216–25, 128, 133, 136–7.
10. Ibid, pp. 140–1.
11. Ibid, pp. 139, 187.
12. Ibid, p. 215.
13. Ibid, pp. 230–9.
14. Ibid, derived from table VIII, p. 233 and table IX, p. 237.
15. There is an error in Grossmann's figures for constant capital from year 3 onwards, since $(210\,000) (1.05) = 220\,500$ and not 220 000. There are (small) consequential errors in all other magnitudes.
16. Ibid, this is depicted in Grossmann's Figure 3, p. 238; cf. his Figure 2, ibid, p. 141.
17. Ibid, pp. 243, 285, 306.
18. Ibid, pp. 142–8.
19. Ibid, pp. 99–104, 173–3 (Otto Bauer); 60–77, 272 (Kautsky); 55–8, 211, n. 40 (Hilferding).
20. Ibid, pp. 20–2, 116, n. 76, 281–2 (Luxemburg); 44–50 (Bukharin); 519–20 (Lenin).
21. *Capital*, vol. III, ch. 14.
22. *Das Akkumulations*, p. 296.
23. Ibid, pp. 308–15, 317–22, 368.
24. Ibid, pp. 308, 316.
25. Ibid, pp. 345, 354–6, 358–61.
26. Ibid, pp. 306, 426, 528–9; cf. F. Sternberg, *Der Imperialismus* (Frankfurt am Main: Verlag Neue Kritik, 1971; first published 1926) hereafter cited as Sternberg (1926); our discussion of Sternberg in Chapter 14; and Grossmann's 1932 article, 'Die Goldproduktion im Reproduktionsschema von Marx und Rosa Luxemburg', reprinted in Grossmann, *Aufsätze*, pp. 77–109.
27. Ibid, pp. 503–5; 575–8. Grossmann later absolved Lenin from many of Hilferd-

- ing's errors: see Grossmann to Paul Mattick, 21 June 1931, in Grossman, *Marx, die Klassische Nationalökonomie und das Problem der Dynamik* (Frankfurt am Main: Europäische Verlagsanstalt, 1969) p. 89.
28. *Das Akkumulations*, p. 527.
 29. Grossmann notes references to unequal exchange in volume I of *Capital* and volumes II and III of *Theories of Surplus Value*, but stresses the discussion in K. Marx, *Capital*, vol. I, chs 15 and 20 (*Das Akkumulations*, pp. 429–30, 432–5). Otto Bauer's discussion is in his *Die Nationalitätsfrage* (Vienna: Wiener Volksbuchhandlung, 1924) 2nd edn, pp. 246–7 (cited *ibid*, pp. 440, n. 331 and 433, n. 337).
 30. *Das Akkumulations*, p. 438.
 31. *Ibid*, pp. 431–40.
 32. *Ibid*, pp. 454, 458, 460, 488.
 33. *Ibid*, pp. 505–8.
 34. *Ibid*, p. 561.
 35. *Ibid*, pp. 570–2.
 36. *Ibid*, pp. 602–22.
 37. *Ibid*, p. 623.
 38. *Ibid*, pp. 188–9, 588–9; cf. Sternberg (1926) and the discussion in Chapter 14 above.
 39. *Ibid*, pp. 601–3.
 40. A. Gurland, 'Abstaz und Verwertung im Kapitalismus: zur Neusten Diskussion des Zusammenbruchsproblems', *Der Klassenkampf*, 4, 1930, pp. 75–83; Tazerout, 'La Théorie Economique d'Henryk Grossmann', *Revue Internationale de Sociologie*, May–June 1930, pp. 308–15.
 41. It is wrong to object that 5 per cent is an unrealistically rapid annual growth rate for the labour force: E. Varga, 'Akkumulation und Zusammenbruch des Kapitalismus', *Unter Dem Banner des Marxismus*, 4, 1930, pp., 74–6; cf. P. M. Sweezy, *Theory of Capitalist Development* (New York: Monthly Review Press, 1970; first published 1942) pp. 211–12. The time periods are arbitrarily chosen, and could represent a decade as easily as a year (though breakdown would then be correspondingly deferred).
 42. O. Benedikt, 'Die Akkumulation des Kapitals bei Wachsender Organischer Zusammensetzung', *Unter Dem Banner Des Marxismus*, 3, 1929, p. 882; A. Caspray, review of Grossman, *Weltwirtschaftliches Archiv*, 32, 1930, p. 81; K. Muhs, 'Das Gesetz der Fallenden Profitrate und die Zusammenbruchstendenz des Kapitalismus', *Jahrbücher für Nationalökonomie und Statistik*, 135, 1931, pp. 16–18; H. Neisser, 'Das Gesetz der Fallenden Profitrate als Krisen- und Zusammenbruchsgesetz', *Die Gesellschaft*, 8, 1931, p. 83; F. Sternberg, *Der Imperialismus' und seine Kritiker* (Berlin: Soziologische Verlagsanstalt, 1929) pp. 26–7, hereafter cited as Sternberg (1929); cf. Sweezy, *Theory of Capitalist Development*, who saw Grossmann's increasing organic composition as 'a Frankenstein monster' rampaging out of human control.
 43. H. Bauer, 'Ein Neuer Zusammenbruchstheoretiker', *Der Kampf*, 22, 1929, p. 274.
 44. Benedikt, 'Die Akkumulation', p. 884; Muhs, 'Das Gesetz', pp. 14–15; Varga, 'Akkumulation', pp. 72–3.
 45. H. Bauer, 'Ein Neuer Zusammenbruchstheoretiker', p. 274; Muhs, p. 9; Neisser, p. 80; L. Miksch, 'Zusammenbruch des Kapitalistischen Systems?', *Literaturblatt der Frankfurter Zeitung*, 17 August 1930, p. 7.
 46. Benedikt, 'Die Akkumulation', pp. 871–2.
 47. Neisser, 'Das Gesetz' p. 85.

48. Benedikt, 'Die Akkumulation', p. 828; Sternberg (1929) pp. 34, 37.
49. Neisser, 'Das Gesetz', pp. 80–2; C. Schmidt, review of Grossmann, *Sozialistische Monatshefte*, 69, 1929, pp. 638–41.
50. H. Grossmann, 'Die Wert-Preis Transformation bei Marx und das Krisenproblem', *Zeitschrift für Sozialforschung* 1, 1932, pp. 55–84, reprinted in *Aufsätze*, pp. 45–74.
51. H. Bauer, 'Ein Neuer Zusammenbruchstheoretiker', p. 280.
52. Muhs, 'Das Gesetz', pp. 23–4; Sweezy, *Theory of Capitalist Development*; Varga, 'Akkumulation', pp. 70–1, 76–84.
53. Benedikt, 'Die Akkumulation', pp. 871–2; Varga, 'Akkumulation', pp. 76–84.
54. See J. E. Roemer, *Analytical Foundations of Marxian Economic Theory* (Cambridge: Cambridge University Press, 1982) chs 4–5; for a less technical treatment see S. Bowles, 'Technical Change and the Profit Rate: a Simple Proof of the Okishio Theorem', *Cambridge Journal of Economics*, 5, 1981, pp. 183–6, and M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, 1985), 2nd edn, pp. 200–5.
55. M. Trottmann, *Zur Interpretation und Kritik der Zusammenbruchstheorie von Henryk Grossmann* (Basel: A. Fricker, 1956) pp. 45–7.
56. Benedikt, 'Akkumulation', p. 887; Varga, 'Akkumulation', p. 95; cf. F. R. Hansen, *The Breakdown of Capitalism* (London: Routledge & Kegan Paul, 1985), p. 142; R. Jacoby, 'The Politics of the Crisis Theory: Towards the Critique of Automatic Marxism II', *Telos* 23, 1975, pp. 38–40; and G. Marra-mao, 'Political Economy and Critical Theory', *Telos*, 24, 1975, pp. 56–80 and 'Theory of the Crisis and the Problem of Constitution', *Telos*, 26, 1975–6, pp. 143–64.
57. See the correspondence between Grossman and Mattick in Grossman, *Marx*, pp. 85–223, and Jacoby, 'Politics of Crisis Theory', pp. 40–3.
58. See especially Grossmann, 'Die Wert-Preis Transformation'; 'The Evolutionist Revolt Against Classical Economics', *Journal of Political Economy*, 51, 1943, pp. 381–96 and 506–22; and *Marx*. An unpublished manuscript, 'Marx Ricardiensis', arguing that Marx was a thoroughgoing critic of classical economics, is in the care of Columbia University in New York (W. Bauer, 'Henryk Grossmann als Nationalökonom', *Arbeit und Wirtschaft*, 8, 1954, p. 150).
59. On the Uno School see S. Mawatari, 'The Uno School: a Marxian Approach in Japan', *History of Political Economy*, 17, 1985, pp. 403–18, and T. T. Sekine, 'A Uno School Seminar on the Theory of Value', *Science and Society*, 48, 1984–5, pp. 419–32.
60. Trottmann, pp. 18–20, 32–3.
61. Grossmann writes these as a_i and a_c , which is confusing in view of his earlier use of these symbols to denote the *amounts* of additional constant and variable capital (see Table 16.1 above). Our exposition of Trottmann's algebra is slightly changed from the original in that the initial time period is subscripted 0 instead of 1.
62. *Das Akkumulations*, pp. 184–5.
63. For a modern reformulation in mathematical terms see M. Bronfenbrenner and M. Wolfson, 'Marxian Macrodynamics and the Harrod Growth Model', *History of Political Economy*, 16, 1984, pp. 175–86.

Conclusion

In 1883 Marxian economics appeared to be a relatively simple matter. Its substance was contained in a handful of basic texts, in effect volume I of *Capital* supplemented by the *Communist Manifesto* and *Anti-Dühring*. These writings were subject to interpretation only by Marx and Engels themselves, and their intellectual dominance over their followers was unquestioned. They had concentrated upon a range of issues which, though immensely important, was also rather narrow. Marxian political economy consisted of the theories of value and exploitation, capital and surplus value, accumulation and crisis, the emergence and imminent transcendence of capitalism, all viewed from the vantage-point of contemporary Britain.

By 1929 this somewhat deceptive simplicity had given way to a profound and obvious complexity. For one thing, the texts which defined Marxian economics had greatly expanded. The publication of the second and third volumes of *Capital*, followed by *Theories of Surplus Value*, placed the bulk of Marx's mature writings at the disposal of his followers, providing a host of new insights and a number of new problems. Some of his earlier works were also now accessible, offering very different perspectives upon economic problems. And the relevant literature also now included the writings of many other authors, in addition to those of Marx and Engels. Before the turn of the century Kautsky and Plekhanov had established a Marxist orthodoxy, which was later enriched or challenged – according to one's viewpoint – by the contributions of Hilferding, Luxemburg, Trotsky, Bukharin and Lenin. After 1917 Lenin's works enjoyed among Communists a canonical status almost greater than those of the founding fathers of Marxism. The fact that Lenin's theories had been formed in relation to an area of backward capitalism was also important. After 1917 Marxism increasingly became a world movement, rather than one almost wholly concentrated in Europe. At the same time, since proletarian revolution succeeded at the periphery and not in the heartlands of advanced capita-

lism, there arose a reaction against 'economistic' interpretations of Marxism within the movement itself.

This indicates a second dimension of complexity; both as a body of ideas and as a political movement Marxism had become polycentric. Already in the 1890s the theory and practice of orthodox Marxism had been attacked by the German and Russian revisionists, for whom questions of political economy came at the heart of their critique. Then the split in Russian social democracy took place, followed by the post-1905 conflict between radicals and centrists in the German party, the disarray of the Second International in the First World War, and the final, decisive rupture provoked by the Bolshevik Revolution. Increasingly economics was used as a crude political weapon, with the enemy often seen as another brand of Marxism instead of the bourgeoisie. Economic controversies became bitter, personalised and polemical, even where (as with Sternberg and Grossmann in the 1920s) the protagonists were defending neither a reformist nor a revolutionary party line.

It is incorrect, however, to speak of a 'breakdown' or 'dissolution' of Marxist theory after 1917. As far as political economy was concerned, Marxism was still vibrant in 1929. This can be inferred from the third source of its growing complexity: the expanding range of issues in dispute. Within twelve years of Marx's death, the publication of volumes II and III of *Capital* had stimulated new controversies in the analysis of prices and profits and also in crisis theory, where the question of capitalist economic breakdown remained unsettled on the very eve of the Great Crash. In subsequent decades structural changes in capitalism prompted theories of finance capital, monopoly, state expenditure, militarism and imperialism from both German and Russian Marxists, while the latter argued amongst themselves over the various types of capitalist industrialisation of pre-capitalist societies. Then, after 1917, the Russian theorists were forced to confront the enormous difficulties of adapting Marxian economics to the circumstances of a backward socialism, and their erstwhile German and Austrian comrades (now for the most part seen as enemies) grappled with the problems of state-regulated or 'organised' capitalism in Western Europe and the USA.

For all its many and substantial defects, Marxian economics could not by 1929 be described as 'degenerating'. On the contrary, it was continuing to invade new territory, throw up new ideas, engage new adversaries, encounter new problems. Its diversity, fragmentation and disharmony were sources of great strength. There was no longer (and not yet) a single stifling orthodoxy to which all who counted themselves Marxists must conform. In the West all pretence at a monolithic socialist economic science had long since been abandoned. Even in the Soviet Union, where Stalin was already casting his long ominous shadow, an impressive degree of intellectual freedom still survived during the 1920s. Yet humanity stood on the edge of

an abyss. The next decade would see the collapse of the capitalist world economy and the construction of a new economic order in the USSR, together with the suppression of all critical thinking in the vast areas controlled by Hitler and Stalin. This great world-historical drama gave renewed urgency to fundamental questions posed by Marxian economics. How might the apparently inexorable growth of state economic power be explained, and what did it presage? How could fascism be comprehended, how might one characterise the Soviet mode of production, and with what implications for historical materialism? What were the prospects for advanced capitalism, and what hopes for socialism in the peripheral areas?

The tasks facing Marxian economics in 1929 were arduous in the extreme. In volume 2 we shall see how successfully they were to be accomplished.

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