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# How Maoists "Restore Capitalism" in the Soviet Union

Part 2 OF 2

by Joseph Seymour

## Are Profits in Command in Brezhnev's Russia?

*Editor's Note: In the first installment, the myth of a workers paradise in Stalin's Russia was refuted. In addition, the notion presented by Maoist economist Martin Nicolaus (recently expelled from the October League) that factory managers in the USSR were the core of a new capitalist class was debunked and the similarity of Khrushchev's regional decentralization with Chinese economic organization demonstrated.*

The Kosygin reforms "restored capitalism" in the USSR, proclaims Martin Nicolaus, and he may well be the only person in the world who thinks so. (Unfortunately for his career as a Maoist, the official Peking line is that capitalism was restored under Khrushchev.) However, many commentators did regard the 1965 Soviet reforms

### Review of Restoration of Capitalism in the USSR by Martin Nicolaus

associated with the economist E.G. Liberman as capitalistic because of their emphasis on enterprise "profitability." *Time* magazine ran Liberman's picture on its front cover with a story entitled "Borrowing from the Capitalists," and ten years later the U.S. Maoist Revolutionary Union (now Revolutionary Communist Party) declared that the Kosygin reforms "made the profit motive the major guiding force in the Soviet economy..." (*Red Papers* No. 7).

As Liberman points out in defending himself against charges of anti-Marxist revisionism, ever since 1921 Soviet enterprises have been expected to make "profits," or at least avoid losses. This is true. However, the overriding goal of traditional Soviet planning was to over-fulfill the output target at the expense of all other considerations, including other plan indices. The purpose of the 1965 reforms was to eliminate the waste of resources caused by pervasive and many-sided managerial parasitism.

Since both monetary income and promotion to a higher position depended on over-fulfilling the output plan, managers usually understated enterprise productive capacity so as to be assigned an easy target. Moreover, a

savvy plant executive would not over-fulfill the plan by too much, since then he would be given a much higher output goal for the following year. In his famous 1962 article, "Plan, Profits, Bonuses," Liberman addresses this problem:

"How can the enterprises be entrusted with the job of working out plans when at present all their draft targets are usually much lower than their actual capacities?"

"This can be done if the enterprises have a maximum interest, both material and moral, in making full use of their reserves..."

—reproduced in Myron E. Sharpe, ed., *Planning, Profit and Incentives in the USSR*, Vol. I (1966)

Of course, the planning authorities always knew that enterprise managers systematically understated capacity, and attempted to correct for this. Plant executives and Gosplan (plan organization) authorities played a cat-and-mouse game with one another, and the resulting output targets bore only a rough relation to actual production capacity.

Since managers were rewarded for output regardless of the usability of or demand for their products, there was a tendency to sacrifice quality and assortment of goods in order to maximize output. Targets are set in physical units (e.g., silverware in kilograms, cloth in square meters) so that managers chose items maximizing this index even if the products had little use value. In a famous cartoon from the Russian humor magazine *Krokodil*, the annual output of the nail factory (measured by weight) is shown as one mammoth nail. Another example is the notorious fragility of plate glass in the USSR: since plan targets are set in square meters, managers maximize output by producing over-thin glass. In his September 1965 speech introducing the new system, Kosygin bluntly stated the problem:

"Experience indicates that the index of volume of gross output does not stimulate the enterprise to produce goods which are really needed by the national economy and the public, and in many cases the index tends to limit any improvement in the assortment of goods and their quality. Not infrequently our enterprises produce low-quality goods which the consumer does not

want and which therefore remain unsold."

—"On Improving Industrial Management..." in Sharpe, *op. cit.*

Another problem with the traditional system was that output was measured by total (gross) value, not that added by the enterprise. So managers naturally tended to use the most expensive inputs which thereby maximized the value of "their" output. And since managers had little incentive to minimize cost, hoarding labor and building up huge inventories of supplies was the rule. In particular, there was no material incentive to



E.G. Liberman

economize on plant and equipment, because investment was financed by a non-repayable budget grant. Since it was "free," managers consistently overstated their need for new equipment.

It is clear that what we have described is nothing but *bureaucratic parasitism* at the enterprise level. A plant manager who understates actual enterprise capacity in order to receive an easy plan, or one who produces low-quality goods so as to more easily meet output goals, knows he is behaving in an anti-social manner. Some managers may be personally honest but believe they will be victimized in income and career advancement if they don't over-fulfill the output plan. Moreover, *all* spokesmen for the Soviet bureaucracy regard the kind of managerial dishonesty depicted above as inherent in the system.

Libermanism is a fruitless effort to overcome managerial parasitism

through more sophisticated plan indices. But no planning techniques, however sophisticated, can prevent dishonest managers from subverting the planners' intent and squandering resources. As we shall see, the 1965 reforms perpetuated some of the old problems while generating new forms of managerial dishonesty and waste of resources.

The elimination of bureaucratic parasitism at the base of the economy as well as at the top is impossible without thoroughgoing soviet democracy, which in turn requires revolutionary action by the working class to topple the Stalinist bureaucracy. Two requirements, in particular, are necessary to ensure conscientious management: selection of managers with demonstrated socialist consciousness and workers control of production.

Following the Bolshevik Revolution and during the 1920's, Soviet economic management had to rely on bourgeois experts drawing high salaries. Lenin's Bolsheviks regarded this as a necessary evil, only partly offset by workers control. A revolutionary workers government coming to power in the advanced capitalist countries through social revolution or in the USSR and East Europe through political revolution would not face the same situation today. Managers would receive straight salaries commensurate with the wages of skilled workers, and a central task of the factory committees would be ensuring against managerial wastage of resources. Under the close scrutiny of the workers in the enterprise, incorrigibly incompetent, abusive or dishonest managers would simply be removed.

### Objective Pressures for Economic Reform

Managerial parasitism and the consequent squandering of resources at the enterprise level have long characterized Stalinist bureaucratic planning. Why then did pressure for reform build up in the early 1960's, culminating in the action of the incoming Brezhnev-Kosygin regime?

During the last years of the Khrushchev period a number of objective factors caused the bureaucracy to become more concerned about micro-economic inefficiency. A rising standard of living in the late 1950's made



Lev Nisnevich

Computer room at Moscow headquarters of the State Planning Committee

consumers more selective and unwilling to purchase shoddy or otherwise undesirable merchandise. Also, in Stalin's day a manager who played too fast and loose with the plan and his superiors could get into very hot water indeed. Thus the post-1956 relaxation of totalitarian state terror may have allowed greater managerial dishonesty and violation of planning instructions.

However, the basic motives for the 1965 reforms reflected profound changes in the Soviet economy. The later Khrushchev years (1958-64) saw a marked fall in economic growth, particularly in productivity increase per unit of new investment. In part this worsened economic performance reflected

increasingly harmful to the interests of the Soviet Stalinist regime.

The 1965 Kosygin reforms had four major elements. First, Khrushchev's regionalism was done away with and the economy was recentralized. Also, the key indices for measuring enterprise performance and managerial success were changed, the method of financing and determining investment at the enterprise level was altered, and the formula for setting wholesale prices was changed.

A significant effect of the 1965 measures which is often overlooked was the re-establishment of the traditional ministerial system. In one important respect the post-1965 economic structure was *more* centralized than it had been under Stalin, when industrial ministries tended toward autarky and "empire-building." To avoid wasteful duplication of intermediate products, the Kosygin reforms established a State Committee on Material-Technical Supply (Gossnab) as the centralized organ for allocating these goods.

It is typical of the dishonesty running through Nicolaus' book that he doesn't even mention the existence of Gossnab, although the Kosygin reforms are central to his thesis. The reason for this silence is not hard to discern: the very existence of Gossnab refutes his contention that after 1965 there was a market for producer goods created by enterprise competition. In the late 1960's this administrative organ allocated 16,000 intermediate products, and by 1971 it accounted for two-thirds of all inter-enterprise transactions (cited in *Soviet Studies*, July 1972). But according to Nicolaus the 1965 reforms ended centralized control over the enterprises, which thereafter operated on the basis of unrestrained profit maximization:

"Its essence...consists in giving the central planners the task of keeping the economy as a whole in balance while each particular unit of the economy runs riot in pursuit of its maximum profit."

This is a blatant falsification.

#### "Profit" in the Soviet Economy?

Since the early 1930's, Soviet enterprises have had a "profit" plan as well as an output plan and other indices. Basing herself on this, more than 30 years ago the anarcho-syndicalist Raya Dunayevskaya contended that since Soviet enterprises made "profits," the economy was capitalist (see her "A New Revision of Marxian Economics," *American Economic Review*, September 1944). However, in actuality enterprise "profit" amounts to a *tax* levied at the point of production, part of which is then granted to the enterprises subject to strict guidelines and instructions for its allocation.

From being a secondary and often neglected target under Stalin and Khrushchev, the profit plan was made the key index governing managerial bonuses in the Kosygin reforms. (To eliminate unusable merchandise, enter-

prises were credited only for output actually sold.) However, there is still an output plan, measured in physical units, which must be fulfilled. A manager who does not fulfill the output plan will not receive a bonus (regardless of profit), and he may also be administratively disciplined as a state functionary!

The standard Soviet work on current economic policy is *Soviet Economic Reform: Progress and Problems* (1972), which describes the relation of enterprise production to the planning authorities as follows:

"...guiding themselves by the prices set from above, production costs and the possibilities for the sale of the finished output, enterprises independently decide on the concrete, detailed assortment of output. But to reduce the probability of mistakes which separate enterprises might make, they are given *administratively*, as an initial basis, an *assignment* as regards the nomenclature [product-mix] of major output." [our emphasis]

This official description is confirmed by a leading British bourgeois expert on the Soviet economy:

"Managerial bonuses have simply redirected effort from output to profit—but *only* when output has *exceeded* the plan targets; below that level, profit counts for little." [our emphasis]

—Peter Wiles, "Recent Data on Soviet Income Distribution," *Survey*, Summer 1975

In contrast to capitalist firms, Soviet enterprises do not seek to maximize



Leonid Brezhnev

Der Spiegel

profit levels or the rate of return on invested capital. Managers are supposed to over-fulfill the output plan while maximizing the difference of realized profit over planned profit. As a result, the "reformed" system perpetuates a central weakness of the old system in a different form: instead of understating their production capacity to get an easy plan, managers now understate their ability to generate profit. So higher authorities still must intervene to offset the dishonesty of the managers.

E.G. Liberman, who of all people should know the effect of the 1965 measures, expresses disappointment in the Kosygin reforms:

"Basic shortcomings are also manifested in the striving of ministries to impose

higher sales volume on the enterprises. This is an expression of uncertainty that, independently, the enterprises will sufficiently utilize their production capacities and disclose reserves....

"The question of what the 'product-mix of most important items' is must be clarified. At present, its definition is chiefly left to the ministries. But the ministries tend to expand rather than restrict this product-mix, and this expresses a tendency to retain the old methods—to provide a greater degree of regulation...."

—E. G. Liberman, *Economic Methods and the Effectiveness of Production* (1971)

Since Liberman's book was written, the tendency has been to restrict enterprise autonomy even more.

The continuity of the post-1965 system with traditional Soviet planning is strongly emphasized by Alec Nove, one of the foremost bourgeois experts in this field. Under a sub-head entitled "The reform that never was," Nove writes:

"The power to allocate resources and to take production decisions remains with the central authorities, and is shaped between the revived industrial ministries, Gosplan and Gossnab, under the general supervision of the higher party organs... current doctrine regards an increase in profits due to a change in the product mix or in inputs as somehow illegitimate.... Yet this means that both the product mix and the inputs of the enterprise are laid down in a plan initiated or approved at the ministerial or *glavk* [sub-ministerial] level. It logically follows that the supply plans made in one or another of the central bodies cover the major part of industrial output, and that both its production and its delivery to designated customers must form part of obligatory plan-orders from above. *This is the essence of the old system. It survives today.*" [our emphasis]

—"Economic Reforms in the USSR and Hungary, a Study in Contrasts," in Alec Nove and D. M. Nuti, eds., *Socialist Economics* (1972)

#### Are the Means of Production Commodities in the USSR?

According to Nicolaus, the 1965 measures transformed the means of production into marketable commodities:

"The 1965 measures, in sum, wiped out the legal and financial barriers that had kept the emerging market in the means of production underground during the Khrushchev years. The exchange of the means of production as commodities...became respectable, universal and amply supplied with liquidity."

Another gross falsification! One might accuse Nicolaus of conscious deceit, except this would assume he actually knows something about the Soviet economy. Far from the means of production having become commodities, as we shall show *all* inputs purchased by the enterprises must be approved in the supply plan; "decentralized investment" by enterprises is a small share of total expenditure on plant and equipment; and enterprise funds

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Alexei Kosygin

Khrushchev's regional decentralization, undertaken purely to strengthen his power base within the party apparatus. More importantly, the USSR was beginning to experience a labor shortage which put an end to the traditional Stalinist pattern of rapid industrialization.

Stalin-era economic development was *extensive*, with almost all investment expended on new factories drawing upon seemingly unlimited labor supplies from the countryside. Around 1960, however, the most far-sighted elements in the bureaucracy realized that continued economic growth must become *intensive*, concentrating on modernizing existing productive units and raising their labor productivity. Under these circumstances, traditional managerial parasitism and conservatism had become a serious obstacle to further economic growth.

Libermanism was not the answer to supposedly inherent inefficiencies in centralized planning, as some bourgeois commentators claimed; and it certainly was not capitalist restoration. Rather it was a weak, contradictory attempt at self-reform of certain types of bureaucratic parasitism which had become

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cannot be expended outside the inherently narrow basis of the technical production unit.

Just as output targets are set from above, so supplies are allocated through a detailed annual plan. Unlike their Yugoslav, Hungarian and Chinese counterparts, Soviet enterprises cannot acquire supplies through a more or less free market. Almost all major inputs are allocated directly by Gosnab or through long-term contracts between the producing and consuming enterprises negotiated through Gosnab. Supplies neither go to the highest bidder nor are they distributed on a first-come, first-served basis. An enterprise which is willing to pay three times the official price for, say, a truck might not be able to purchase one, while a far less profitable firm will be allocated a vehicle according to the plan.

As a British expert on the Soviet economy put it:

"The material inputs which enterprises need for production are not simply purchased from producers as they would be in a free market, but are allocated to consumer enterprises by the state supply organs. In effect this is a rationing system for producer goods."  
—Michael Ellman, *Planning Problems in the USSR* (1973)

To drive this point home, Ellman cites an incident reported in the Soviet press in 1969. The deputy director of a state farm purchased wood (a centrally allocated item) from a quarry which had chopped down some trees in the course of its operations. As a result, the managements of both the state farm and the quarry were prosecuted and convicted for an economic crime!

In debunking Nicolaus' fraudulent contention that relations between Soviet enterprises are governed by the market, we are not endorsing traditional Stalinist bureaucratic planning methods. The detailed rationing of intermediate goods a year in advance possesses neither the virtues of socialist principle nor of economic rationality. The supply plan, involving hundreds of thousands of transactions, is always and necessarily inconsistent, resulting in untold shortages and bottlenecks. Soviet managers regularly resort to hoarding, blackmarketeering and corruption to

procure their "planned" supplies. Rational socialist planning should involve a centralized wholesale market where enterprises can purchase inputs at will. This would provide the necessary flexibility for the production process while avoiding the inefficiencies and dangers of atomized competition between enterprises.

From the standpoint of the enterprise, the most significant change caused by the 1965 reforms was in the financing of investment. Under the traditional system all new plant and equipment was financed by a non-repayable grant from the government budget. After the reforms such investment was largely financed through retained enterprise profit. In 1967 wholesale prices were revised upward in order to increase enterprise profits. And while in 1966 enterprises retained 26 percent of their profits, by 1969 this had risen to 40 percent (*Soviet Economic Reform...*).

Nicolaus naturally points to the significant increase in retained enterprise profits as key proof of "capitalist restoration":

"They [enterprise directors] became not only dictators of the production process...but also managers of important sums of money, who have the eagle eye of investors to succeed."

Any Soviet enterprise manager would find this statement utter nonsense.

According to Nicolaus' own figures, in 1969-70 only about 25 percent of enterprise investment was decentralized—i.e., was outside the annual plan. Decentralized investment means that managers do not require approval from higher bodies to spend enterprise funds. However, as we have seen, producer goods are not available in a market, but are rationed by the central supply agency. Thus an enterprise still requires approval from the Gosnab to actually implement "decentralized investment."

So the 1965 measures produced a contradiction: demand was partially decentralized while the allocation of producer goods remained centralized. The result of this contradiction is growing balances in the bank accounts of Soviet enterprises, since they cannot always use "their" "profits" to purchase actual means of production.

Nicolaus is aware of this fact but attributes it to the lack of profitable investment opportunities:

"...some enterprises cannot profitably place all 'their' funds, but accumulate what is called a 'free profit remainder,' in which case they are entitled to offer loans to Gosbank...for a certain interest fixed by the government."

Any capitalist firm in the U.S., West Europe or Japan which had excess liquidity would certainly not keep its money-capital in a bank, drawing minimal interest. It would branch out, build new factories, buy out other firms, purchase stocks and bonds, lend directly at the highest available interest and generally seek to maximize the return on its capital. Why don't the purported "capitalists" in the Soviet Union act in this way? *Because they can't*—because the means of production are not private property, commodities to be purchased in the market. Therefore, enterprise funds are not money-capital, which Marx termed "the universal means of purchase." To put it another way, *because the Soviet Union is not capitalist.*

## Growing Unemployment in Brezhnev's Russia?

Along with his absurd claim that managers in Stalin's time "lacked the whip hand" over the workers, Nicolaus' contention that unemployment has been restored in the USSR since 1965 is the most obvious and incredible of his endless falsifications. He writes:

"the unemployed are made to pay materially for the official hypocrisy. An even more bitter aspect of their situation is that all the layoffs undertaken by the enterprise directors for economic reasons are strictly against Soviet law,

as embodied in the Constitution of 1936, the Stalin Constitution."

Before dealing with unemployment in present-day Russia, we have once more to debunk the myth of Stalin's "workers paradise." As we have seen, during the 1930's there were widespread obligatory dismissals for breaches of work discipline, and mass disguised unemployment existed on the collective farms. Despite the "right to work" in the Stalin constitution, a Soviet employee *never* had a legal right to his job.

Because the planning system encouraged managers to hoard labor, and because economic (as distinct from disciplinary) dismissals were generally regarded as anti-socialist, layoffs were and continue to be rare. But as to legal managerial rights, the 1970 Principles of Labor Legislation perpetuate Stalin's precedent. Managers are obliged to seek comparable employment for those they intend to lay off. But if the trade union agrees that management has made a honest, though fruitless, effort in this regard, any Soviet worker can be dismissed with two weeks severance pay.

Anyone with the slightest knowledge of Soviet society today knows that there is an acute labor shortage, which greatly worries the bureaucracy. In 1960, 78 percent of the working-age population was employed; by 1965 this proportion had jumped to 87 percent, and by 1970 it had increased to 91 percent (V. Kostakov, translated in *Problems of Economics*, November 1974). By way of comparison, in the United States only 61.8 percent (1975 figures) of the non-institutional population, age 16 and over, is employed (*Monthly Labor Review*, November 1976).

The problems which the extremely high level of labor force participation in the USSR poses for the bureaucracy have been clearly stated by the Soviet manpower expert E. Manevich:

"The economic consequences of the manpower shortage are very great: in a number of cases there arise serious difficulties in supplying personnel to newly activated enterprises; it is difficult to secure the uninterrupted operation of enterprises in two shifts...; manpower turnover rises; the existence of a large number of vacancies hinders the collectives in their struggle to strengthen labor discipline and is one of the reasons for maintaining clearly superfluous workers and employees, which in turn aggravates the general manpower shortage in the nation."

"Ways of Improving the Utilization of Manpower," translated in *Problems of Economics*, June 1974

Nicolaus can nonetheless find in Soviet economic literature references to people who are not employed and are looking for work. As Manevich points out, labor shortage encourages high labor turnover. Since strikes and other forms of collective class struggle are suppressed by state terror, Soviet workers seek to improve their circumstances through individual initiative. Increasingly, workers take advantage of the tight labor market and change jobs frequently. In a formal, statistical sense this means more unemployed at any given time.

We are obliged to explain to Dr. Nicolaus that there is a difference between being the victim of a mass layoff and quitting one's job in order to find a better one. If the academic economist doesn't understand this difference, every worker in the world does. Furthermore, the difference between genuine labor turnover and unemployment can be measured statistically. The average period between jobs commonly given in Soviet literature is about three weeks. At present in the U.S., the average duration of unemployment is about 15.5 weeks (*Monthly Labor Review*, November 1976).

Under capitalism, mass unemployment is not primarily caused by technological progress, by machines replacing men. Rather, the appearance of masses of jobless workers results from a contraction of production—recessions, depressions, stagnation. Even a charla-

## CP Spokesman in ILWU Retires

# Requiem for a Class Collaborator

SAN FRANCISCO—Archie Brown, prominent Communist Party (CP) trade-union supporter and Bay Area longshoreman for about 40 years, retired last month. Given a few minutes at the December meeting of International Longshoremen's and Warehousemen's Union (ILWU) Local 10, Brown rambled on about younger workers picking up the banner and similar platitudes. He carefully steered clear of any comment on the present abysmal state of the union except for remarking vaguely, "we're in a lot of trouble."

A long-time militant in this hard-hit industry should have no difficulty picking out issues of burning interest to the ILWU membership. Conditions for longshoremen have deteriorated badly over the last decade and a half: available jobs have been slashed by more than 50 percent through disastrous "mechanization and modernization" (M&M) contracts; lower seniority "B" men are being driven out of the union; gang sizes and "guaranteed pay" are being cut; the union hiring hall has been weakened by the introduction of "steady men," and the very existence of the ILWU is threatened by rumored merger deals with the Teamsters.

However, in order to address these issues, a fighter for class-struggle unionism would have to come up against ILWU president Harry Bridges. This Archie Brown was unwilling to do, so instead he stuck to nostalgic references to the "good old days." Appropriately enough, Bridges was the first person to speak after Brown, and he had nothing but praise for his loyal Stalinist bootlicker.

For years the Communist Party has been the chief propagator of the myth that Harry Bridges is a militant defender of the working class. As the ILWU president and S.F. port commissioner has become increasingly overt in tossing overboard vital union gains in exchange for favors from Democratic Party politicians like former San Francisco mayor Joe Alioto, even the CP has become embarrassed by Bridges' actions. But never have the Stalinists

gotten up the nerve to openly oppose the conniving, class-collaborationist longshore chief.

Archie Brown became a well-known West Coast political activist at an early age, running for California state treasurer on the CP ticket in 1934. In 1942 he ran for U.S. Congress from San Francisco. At that time the Communist Party—along with Bridges—was vigorously supporting FDR and the Ameri-



Archie Brown

can bourgeoisie in the imperialist World War II. Brown vociferously supported Bridges' wartime no-strike pledge. In Local 10, the 16 September 1942 "Longshoremen's Bulletin" (edited by a Stalinist hack) warned that if dock workers didn't accept speed-up, "it wouldn't be long until we'd be eating sauerkraut with chopsticks..." (quoted in "West Coast Longshoremen and the 'Bridges Plan,'" *Fourth International*, December 1942).

After the war the CP/Bridges bloc continued and Brown argued for extending the no-strike pledge. The ILWU president had appetites to integrate himself into the increasingly anti-Communist American labor bureaucracy, but this was made impossible by the repugnance toward red-baiting felt by rank-and-file longshoremen as well as the bourgeoisie's hostility toward him. (Australian-born Bridges was the intended victim of several deportation

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tan like Nicolaus who invents growing unemployment in Brezhnev's Russia cannot invent cyclical contractions in the Soviet economy. Since 1956 (as well as before then), industrial production in the USSR has increased every single year, though at greatly uneven rates.

Thus the Maoists and other believers in "Soviet capitalism" present us with a capitalism free of cyclical fluctuations—a condition quite contrary to Marx's understanding of the capitalist system. The notion that the Soviet Union is capitalist necessarily leads to a revision of the Marxist analysis of actual capitalist societies. And, in fact, the Maoists, anarcho-syndicalists and social-democratic "Third Campers" tend to believe that present-day "state-monopoly capitalism" in the West can, in general, suppress sharp economic contractions and cyclical crises.

Until recently, the "Russia is capitalist" crowd would argue that Soviet economic performance over the past decade or so was no better than some "traditional" capitalist countries like Japan or France. In 1974 this impressionistic argument blew up in their faces. Between mid-1974 and mid-1975, industrial production in the advanced capitalist world dropped 19.5 percent. The 1974-75 depression hit every major capitalist country with drops in production ranging from 13.5 percent in Britain to 33 percent in Japan (OECD, *Economic Outlook*, December 1975 and July 1976). But in 1974-75 industrial production in the USSR actually increased by 18 percent (United Nations, *Statistical Yearbook* 1975).

A serious and honest Marxist confronting these empirical facts could reach only one of two conclusions: either the USSR is not capitalist, or it is a new form of capitalism which has overcome cyclical contractions (which Marx considered necessary for the capitalist mode of production).

The latter, revisionist conclusion directly negates the fundamental Leninist position that this is the epoch of capitalist reaction and decay. The Marxist revolutionary program is not based on moral repugnance against social oppression, class exploitation and inequality; it is based on the objective condition that capitalism arrests the development of productive forces and must be superseded by a superior economic system. Thus if there exists today a capitalist system which insures the rapid and steady growth of productive forces, this calls into question the necessity and progressive character of proletarian revolution and working-class rule.

### What Would Capitalist Restoration Look Like?

Nicolaus' empirical description of the Soviet economy is a mass of fabrications from beginning to end. However, the "capitalistic" features which he falsely attributes to "social-imperialist" Russia—enterprises determining output on the basis of profit maximization, a market for producer goods, widespread layoffs—do exist to some extent in other bureaucratically ruled workers states, notably Yugoslavia, Hungary and China.

Despite "radical" Maoist ideology the Chinese economy is characterized by significantly greater market orientation and enterprise autonomy than prevails in the Soviet Union. (We have already pointed out the substantial regional decentralization of the Chinese economy, another source for inegalitarianism.) The liberal American economist Lloyd G. Reynolds, who visited China in 1973, observed:

"In deciding what varieties of, say, watches or carpets to produce, the factory relies on the judgment of the sales organization that distributes its product. 'Market guidance' in this sense seems more prominent in Chinese planning than in traditional Soviet planning."

—"China's Economy: A View from the Grass Roots," *Chinese Economic Studies*, Spring 1975

Reynolds' observation about the market orientation of Chinese enterprises is confirmed by a report in the *U.S.-China Business Review* (May-June 1976) concerning a factory producing firecrackers for export:

"Workers in the factory receive an average monthly wage of 72 yuan, which is a high income for a rural area. Their salaries are at least partially the result of the method used to set firecracker prices. In general, various commodities receive prices either through a unilateral assignment or through negotiations between the Foreign Trade Bureau and a particular enterprise.... Firecrackers are priced using the negotiation process. Because their price has been rising in the international market, the chance for negotiation within China has led to higher prices there too, and a resultant higher income for the firecracker factory employees." [our emphasis]

In Brezhnev's Russia one will not find anything so irrationally capitalistic and inegalitarian as the wages of a particular group of workers being influenced by their product's price fluctuations in the world market.

In any case, whether a Soviet, Hungarian or Chinese manager orders more cups produced because it is more profitable or if he can purchase a new kiln on his own initiative has no bearing on whether the economy is capitalist. Such practices merely indicate the degree of centralization within a collectivized economy.

What distinguishes the capitalist mode of production is that the means of production are commodities, a phenomenon having its highest expression in the stock market. While there is a limited market in producer goods in various of the degenerated/deformed workers states, in none of them are the basic units of production—the enterprises—commodities. Even in Yugoslavia between 1965 and 1971 (the period of maximum enterprise autonomy and market relations) enterprises themselves could not be bought and sold. Investment by one Yugoslav enterprise in another was treated like a loan that had to be fully repaid over time.

The non-commodity character of Soviet and East European enterprises is not a mere juridical principle which could be changed overnight but integral to collectivized property. Enterprises, however autonomous their operations, are not owned by their managers but are sub-units of a single collective. Commodities can only be exchanged between different, independent owners. That is why Marx wrote, "Capital exists and can only exist as many capitals" (*Grundrisse*, Notebook IV).

The prerogatives and very existence of enterprises in the deformed workers states are decided by governmental authorities. In 1973 the Brezhnev/Kosygin regime downgraded the enterprise (usually corresponding to the technical production unit) and replaced it with the association (*obydineniye*) as the basic unit of management and accountability. In 1971 the Tito regime in Yugoslavia sharply curtailed enterprise autonomy and reversed the trend toward greater market orientation. This "conservative" turn refuted those impressionistic leftists like Paul Sweezy who saw in Yugoslavia a gradual, organic and

peaceful return to capitalism.

But to assert that neither in the Soviet Union nor in any of the bureaucratically deformed workers states that have emerged since World War II has capitalism been restored is not to argue that such a development is impossible. The bureaucracy's attempts to conciliate imperialism embolden capitalist-restorationist forces at home and abroad, and despite tremendous industrial development over several decades, the Soviet and East European economies are still far behind the most advanced capitalist societies.

Capitalist restoration in the Sino-Soviet states is possible through an essentially internal process and not only through imperialist reconquest from without. However, capitalist restoration cannot occur either through gradual evolution or a mere reshuffling of personnel at the top; it requires a violent counterrevolution.

Objective conditions encouraging the growth of bourgeois-restorationist forces were most closely approximated in Yugoslavia during 1965-71. These included the proliferation of property-owning petty capitalists (well-to-do farmers, owners of small workshops exploiting wage labor, middlemen/usurers operating with money-capital); the growing activity of foreign capital in the economic life of the country; the elimination of the state monopoly of foreign trade, allowing the world market to have maximum impact on the economy; the atrophy of centralized planning with enterprise relations largely governed by market forces; and the separation of managers from the state bureaucracy. Moreover, this economic "liberalization" was closely linked to an upsurge in Croatian nationalism, expressed not only in student protests and strivings for greater autonomy among party leaders but also in stepped-up activity by fascist Ustashi groups.

Under such objective conditions, a domestic capitalist-restorationist movement could well emerge. But this would not be a conspiracy striving for a palace coup in the manner of the Maoist fiction of a "Khrushchev restoration." It would be a visible, aggressive movement challenging the regime and polarizing society. Such a movement would require an ideology and organization capable of enlisting masses of adherents, such as the Catholic Church in Poland.

The emergence of powerful capitalist-restorationist forces would produce a "conservative" reflex among Stalinist officials anxious to preserve their social position, and also give birth to a directly counterrevolutionary wing of the bureaucracy (what Trotsky called the "Butenko faction"). However, the workers would instinctively move to defend their interests from the growing threat of reaction. Capitalist restoration could triumph only through a civil war in which the class-conscious elements of the proletariat were annihilated in the course of their bitter struggle to defend collectivized property as the economic basis for the transition to socialism.

### Defend the Gains of October Through Political Revolution!

The Mao-Stalinists go from hailing the supposed establishment of socialism in the USSR with the 1936 constitution to discovering a peaceful counterrevolution secretly carried out by Stalin's heirs. Not only did such a momentous event go unnoticed at the time, but Peking has never published an analysis of how or why this occurred and Maoists in the West cannot even agree on the timing. Moreover, if capitalism can be restored by a palace coup, then presumably socialism can be reinstated in the same manner; thereupon another Khrushchev could appear on the scene, and so on indefinitely, producing a cycle that has more to do with the Buddhist "wheel of life" than with Marxism.

As against this idealist/conspiratorial view of history, Trotsky provided a materialist analysis of the degeneration of the Russian revolution under Stalinism. "The October revolution has been betrayed by the ruling stratum," he wrote in 1936, "but not yet overthrown." He briefly summarized the nature of the regime in an analysis that remains valid today:

"The Soviet Union is a contradictory society halfway between capitalism and socialism, in which: (a) the productive forces are still far from adequate to give the state property a socialist character; (b) the tendency toward primitive accumulation created by want breaks out through innumerable pores of the planned economy; (c) norms of distribution preserving a bourgeois character lie at the basis of a new differentiation of society; (d) the economic growth, while slowly bettering the situation of the toilers, promotes a swift formation of privileged strata; (e) exploiting the social antagonisms, a bureaucracy has converted itself into an uncontrolled caste alien to socialism; (f) the social revolution, betrayed by the ruling party, still exists in property relations and in the consciousness of the toiling masses; (g) a further development of the accumulating contradictions can as well lead to socialism as back to capitalism; (h) on the road to capitalism the counterrevolution would have to break the resistance of the workers; (i) on the road to socialism the workers would have to overthrow the bureaucracy. In the last analysis, the question will be decided by a struggle of living social forces, both on the national and the world arena."

—*The Revolution Betrayed*

Not only is the Maoist illusion of a restoration of capitalism in the USSR wrong and profoundly anti-Marxist, but it serves to justify an increasingly open counterrevolutionary alliance of the Peking bureaucracy with U.S. imperialism against the Soviet Union. In contrast, as the Russian Left Oppositionists were taken from arctic concentration camps to be shot in 1938-39 they again vowed their unconditional defense of the Soviet Union against imperialist attack. Their struggle was not one of bureaucratic intriguing in the interests of one clique against another, but rather to defend and extend the world-historic gains of the October Revolution by ousting the parasitic usurpers. It is because the Trotskyists know how to defend past conquests of the workers that the Russian Left Opposition will arise again from the ashes, while there never has been and never will be a significant Maoist opposition in the USSR. ■

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