

“Market Socialism” in Eastern Europe

The Bankruptcy of the Yugoslav Model

_____ PAGE 2 _____

Hungary: “Goulash Communism” Goes Bust

_____ PAGE 9 _____

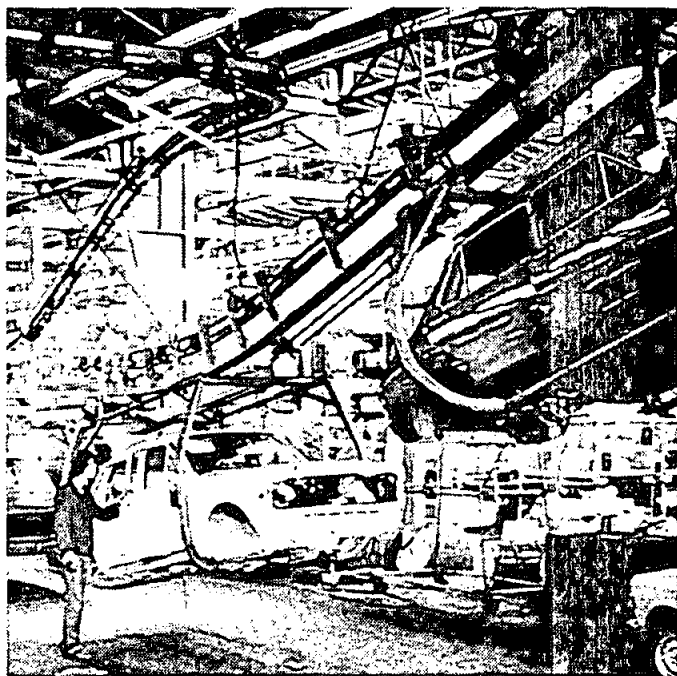
For Central Planning Through Soviet Democracy

_____ PAGE 16 _____

Gorbachev Rehabilitates Leader of Right Opposition

The Bukharin Dossier

_____ PAGE 32 _____



Yugoslav Review



Der Spiegel

Auto plant in Serbia (left). Serbian chauvinists in anti-Albanian march in Belgrade (right). Economic inequality fueled by "market socialism" has exacerbated regional and national divisions, threatening to tear Yugoslavia apart.

The Bankruptcy of the Yugoslav Model

As of New Year's Day 1988, a majority of factories and other enterprises in the Soviet Union began operating on the basis of market competition. "Self-management" is now all the rage in Russia. Announcing a radical restructuring (*perestroika*) of the economy last June, Soviet leader Mikhail Gorbachev called for "full profit-and-loss accounting and self-management of the basic links of the national economy." A few months later a manifesto issued by the newly formed unofficial Federation of Socialist Clubs called "to switch the economy to self-management," even demanding that the state "lease the social means of production, such as factories and workshops, to collectives of self-managing enterprises."

What we are seeing in Russia is a *convergence* between reform-minded Stalinism and the liberal prejudices of much of the intelligentsia. If Gorbachev renounces what bourgeois Sovietologists call the "command economy," it is because the Kremlin bureaucracy can

no longer command the productive effort of Soviet workers and managers. Within the Stalinist framework of building "socialism in one country," the bureaucrats see no alternative but to subject workers and enterprise managers to the discipline of the market, putting the ruble in command. For leftist intellectuals in groups such as the Socialist Clubs, self-management is viewed as a step toward freeing society from the deadening hand of the *apparatchiks*, allowing the masses to participate in economic decision-making.

However, enterprise self-management is *not* the road to workers democracy and socialism. Socialism means a democratically administered, centrally planned, egalitarian and internationally organized economy. Before the rise of Stalinism practically no one who considered himself a socialist disputed these fundamental principles. The program of "market socialism" is basically a product of liberal Stalinism. Enterprise self-management and self-financing is the

road to economic chaos. It generates unemployment and inflation, widens inequalities within the working class and throughout society, creates dependency on international bankers, intensifies national divisions and conflicts, and enormously strengthens the internal forces of capitalist restoration. Just look at Yugoslavia!

The Yugoslav Road to IMF Austerity

The ghost of Marshal Tito might find ironic satisfaction in hearing Stalin's heirs in the Kremlin voice the same formulas he did after breaking with Stalin in 1948. The Yugoslav leader declared:

"The transfer of the factories and mines etc. to management by workers' collectives will prevent the infectious disease known as bureaucracy becoming endemic in our economy...."

"Well, therein lies our path towards socialism, and it is the only right way since it is a matter of the withering away of the functions of the State in the economy. Let the Cominformists [Moscow-line Stalinists] bear in mind

that their slanderous uproar cannot darken our well-lit path of building socialism."

—Josip Broz Tito, *Selected Speeches and Articles 1941-1961* (1963)

Today, after four decades, the "Yugoslav path of building socialism" has led to an unemployment rate approaching 20 percent, an inflation rate approaching 200 percent a year—the highest in Europe, East or West—and a savage austerity program dictated by the world bankers' cartel, the IMF (International Monetary Fund). And the economic crisis has enormously intensified national conflicts which threaten to rip the Yugoslav federation apart. Last fall, the defense minister, Admiral Branko Mamula, declared, "The crisis is approaching the point at which the integrity of the country and the existing social system may be endangered" (London *Financial Times*, 25 September 1987).

Between 1981 and 1985 real earnings per worker fell 20 percent, fixed investment by 40 percent. To halt this slide, in late '85 the Belgrade regime moved to stimulate the economy through expansive fiscal and monetary policies. The predictable result: hyperinflation as skyrocketing prices reached an annual rate of 140 percent in early 1987. The dinar fell through the floor of the foreign-exchange market, Yugoslavia teetered on the edge of international bankruptcy. To roll over the country's nearly \$20 billion in foreign debt, the IMF demanded the kind of shock treatment it usually prescribes for Latin American juntas.

So last spring the Yugoslav Stalinists froze and even rolled back wages while raising the prices of consumer goods between 25 and 60 percent. In response some 150,000 workers in over 1,000 enterprises walked out (see "Yugoslavia in Turmoil," *WV* No. 429, 29 May 1987). Coal miners in Labin, Croatia struck for two months, by far the longest strike in Yugoslavia's postwar history. Faced with working-class resistance of this magnitude, the regime backed off a bit by announcing a 90-day price freeze for certain basic necessities. In November wages were frozen again in the face of even greater price increases—over 30 percent for bread, 100 percent for milk, 70 percent for electricity, 60 percent for rail travel.

Gorbachev and his advisers are, of course, well aware that the Yugoslav economy is a total mess, in every way far worse than Russia's. But Leonid Abalkin, a leading architect of *perestroika*, still holds up Yugoslavia as a model:

"...Mr. Abalkin points to the reaction of Soviet citizens who visit Yugoslavia. They are awed there, he said, by the vast selection of sausages even though they cost four or five times more than back home.

"You know, meat consumption per capita in Yugoslavia is lower than in the Soviet Union," he observed. "But there is a sense of abundance. If I want, I can always come and buy it, as much as I want, without a line. It's not simple to create that feeling here, but if we succeed it will have a colossal psychological effect!"

—*New York Times*, 4 July 1987

The long lines for consumer goods in the Soviet Union have nothing to do with centralized planning per se. For years the Kremlin bureaucracy has tried to create the *illusion* of rapidly rising incomes by increasing money wages faster than production. The result is *suppressed inflation* with people waiting for hours to buy at official prices, alongside a flourishing black market at far higher prices. Yugoslavia, by contrast, is an extreme case of *unsuppressed inflation*.

Workers Management or Bankers' Management?

Despite the economic collapse, Belgrade officials continue to proclaim that the Yugoslav system uniquely empowers the working class. At the very time he was announcing the IMF-dictated austerity program, Yugoslav prime minister Branko Mikulic reiterated: "We are convinced that Yugoslavia has no future without self-management. The mean-

ing of workers self-management is, indeed, that the workers themselves make decisions" (*Der Spiegel*, 23 March 1987).

Do the Yugoslav workers really manage? On paper the workers councils are masters of the enterprise. In reality they seldom exercise mastery. The English bourgeois economist Harold Lydall sees the Yugoslav experience as proof positive of workers' universal incapacity to manage:

"The management of a modern enterprise, even one of medium size, is a complex and specialized task, or group of tasks, requiring the full-time attention of a management team of specially qualified people. The ordinary worker can no more take responsibility for managerial decision-making than he can perform a surgical operation, write a symphony, or play in a champion football team."

—*Yugoslav Socialism: Theory and Practice* (1986)

This is, of course, the standard apologia for class rule. The lower orders are deemed too ignorant, too narrowly self-interested to govern society: that is a task for the qualified elite.

Yugoslav workers have enough sense of responsibility and economic savvy, however, to strike against the ruinous austerity prescribed by the ever so qualified savants of the International Monetary Fund. If these same workers do not exercise their nominal power at the enterprise level, it is because the enterprises themselves are *impotent*. Their major decisions on production, pricing,



Der Spiegel

Workers council meeting in Yugoslav factory—"self-management" is a sham. For central planning based on workers democracy!

investment, etc. are dictated by the forces of market competition on the one hand and the banks on the other.

The banks have become the real power in the Yugoslav economy. During the 1960s fixed investment financed by bank loans increased from just 5 percent to over 40 percent by the end of the decade. Since then, according to the former head of the National Bank of Yugoslavia, Ivo Perisin: "The decision-making power of Yugoslav banks (most of them small institutions by objective standards) continued to grow, with the economy becoming more and more dependent on them and their credits and

sufficient; it is dependent on a long and fragile chain of payments. It receives supplies from numerous firms on various terms of credit. Some suppliers are in other countries, thus involving the enterprise in foreign-exchange transactions. An enterprise, in turn, sells to numerous customers in the domestic and world markets on various terms of payment. Market relations thus make financial intermediaries the strategic link between producing units. It is entirely within the logic of "self-management" that the world bankers' cartel, the IMF, has a greater say in the Yugoslav economy than all of the work-

management." The social pressure for ever greater decentralization has come *not* from below—from workers in the shops—but from the bureaucracies in the richer republics, Croatia and Slovenia. The economic effects of devolution have in turn given rise to virulent national resentment in the poorest regions, especially in Kosovo, where the Albanian nationality in Yugoslavia is concentrated.

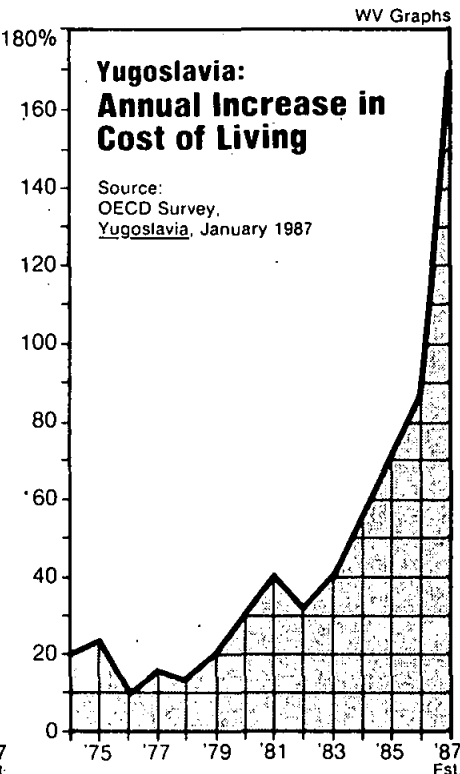
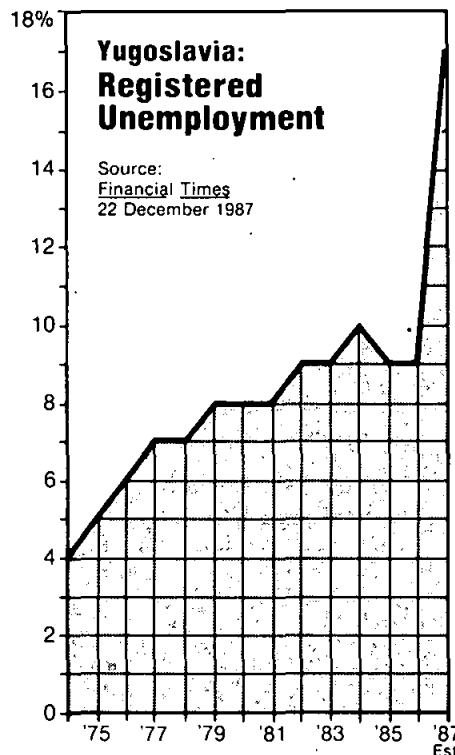
Leading Belgrade politicians now speak of "two Yugoslavias"—one in the north, the other in the south—and warn of the "Lebanonizing" of the country. The *New York Times* (1 November 1987) recently reported:

"Portions of southern Yugoslavia have reached such a state of ethnic friction that Yugoslavs have begun to talk of the horrifying possibility of civil war in a land that lost one-tenth of its population, or 1.7 million people, in World War II."

That fear of civil war was heightened when last September an Albanian conscript went berserk with a machine gun in an army barracks, killing five fellow soldiers (all Slavs) and wounding several others. After four decades of "market socialism" and "workers self-management," the historic gains of the Yugoslav Revolution are now at risk.

The Socialist Republic of Yugoslavia was forged in the Communist-led resistance to the Nazi German occupation during World War II. The strength of Tito's partisans lay in the fact that they fought for a resolution of the Balkan question on an *anti-nationalist* basis. Tito himself was a Croat while the ranks of the Communist movement were predominantly Serbian and Montenegrin. With myriads of nationalist groups—monarchist Serbian Chetniks, fascist Croatian Ustashi and quislings of every South Slav nationality—participating in genocidal slaughter, workers and peasants came to know they were safe when partisans with the red star on their caps arrived in town.

The partisans of the Communist Party of Yugoslavia managed the incredible feat of uniting the nationalities against the German occupiers, driving the Nazis out and exterminating the royalist and fascist movements of Yugoslavia. To defend its own position, the petty-bourgeois Stalinist formation in power had to throw representatives of the old state apparatus out of the government and nationalize the means of production, smashing the rule of capitalism. Having come to power through their own armed struggle, with enormous sacrifices, the Yugoslav Communists were unwilling to accept the



falling deeper and deeper in debt" (Radmila Stojanovic, ed., *The Functioning of the Yugoslav Economy* [1982]).

Nominally Yugoslav banks are controlled by the founding enterprises, communes (municipal governments) and the like. In reality they are creatures of the local and regional bureaucracies, although they sometimes play the role of Frankenstein's monster. An enterprise which falls afoul of the banks will find its loan requests rejected, its outstanding loans called in and its credit cut back.

The strategic power of banks in Yugoslavia is by no means an accident. Finance is the Achilles' heel of self-management and of the anarcho-syndicalist model in general. An enterprise cannot be financially self-

ers councils together. Only centralized management can enable the workers to democratically decide the direction of the economy.

National Conflict and Decentralization in Yugoslavia

The Yugoslav experience is extremely relevant to Gorbachev's Russia, and not simply because the current general secretary of the CPSU is talking about shifting the economy over to self-management. The Union of Soviet Socialist Republics and the Socialist Republic of Yugoslavia are both multinational, federated states. In Yugoslavia the national configuration is politically represented by six republics and two autonomous provinces.

The nationalities question has been at the heart of the politics of "self-



Yugoslav federation made up of six national republics, two autonomous provinces.

dictates of Moscow. They remained wedded to the Stalinist-nationalist dogma of "socialism in one country"... for their country. The break with Stalin in 1948 greatly enhanced the popular authority of the Tito regime.

Enjoying exceptional popular support, the Titoists undertook a series of liberalizing measures of which the most significant was self-management of the enterprises. Most Yugoslav workers doubtless welcomed this measure, because it gave them some protection against bureaucratic abuse in the workplace. For a number of years, however, the rhetoric of self-management far exceeded the reality. Enterprise managers continued to be chosen by the local party and government bosses. More fundamentally, the economic surplus remained concentrated in the hands of the state. In the late 1950s less than 10 percent of gross profits were retained by the enterprises; the rest was transferred to the government through taxes, interest payments on assets and other charges.

Roughly half of all investment in new plant and equipment was financed by the federal government. The Tito regime used these investment funds to narrow, to some degree, the vast economic differences between Yugoslavia's nationalities. Investment per worker was far higher in the poorest regions—Macedonia, Montenegro and Kosovo—than in the most developed republics of

Croatia and Slovenia. The effort to use the centralized control of investment funds to redistribute the country's productive resources triggered a nationalist backlash in Croatia and Slovenia, formerly provinces in the old Austro-Hungarian Empire.

In the late '50s Vladimir Bakarić, the veteran Communist boss of Croatia, launched a campaign for "de-statization" of the economy. By this Bakarić meant that the economic surplus generated in Croatia should remain in Croatia. The means: increasing the financial autonomy of the enterprises.

Thus, the movement to increase the economic surplus in the hands of the enterprises expressed a resurgence of nationalist centrifugal forces in Yugoslavia. A British historian of postwar Yugoslavia notes that the "de-statization" campaign of the late '50s marked the point "that the Yugoslav 'national question,' relatively dormant since the war, again became Yugoslavia's central question" (Dennison Rusinow, *The Yugoslav Experiment 1948-1974* [1977]).

The Bitter Fruits of "De-Statization"

The market-oriented "reforms" of the 1960s radically shifted the locus of economic power. The share of fixed investment financed by the government fell between the early and late '60s from over 60 percent to less than 10 percent! Thus began the stripping away of the economic power of the federal (central) government, so that by 1980 a prominent Yugoslav economist, Zoran Popov, could write that "the republics and provinces are almost exclusively in control of economic policy. The consistent implementation of this arrangement in the practical development of the system has made our system inflexible, sluggish and inefficient." Many tourists in Yugoslavia have experienced this inflexibility and inefficiency for themselves. Whenever a train crosses the border from one republic into another, the locomotive has to be changed!

The decentralizing measures of the '60s also radically altered the way in which the Yugoslav economy interacted with the world capitalist market. In 1967, enterprises were allowed to retain a portion of the foreign exchange which

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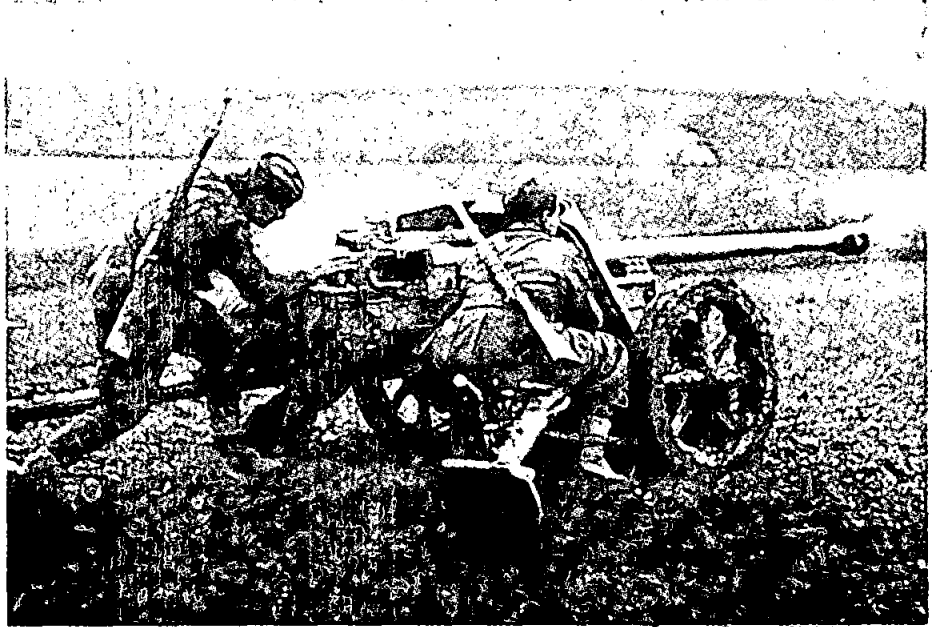
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Josip Broz Tito forged pan-Yugoslav anti-Nazi partisan movement, transcending national antagonisms through revolutionary struggle.

they earned. Since then the scramble over foreign exchange has been a major source of regional/national and inter-enterprise conflict, at times leading to outright economic warfare. For example, in 1980 a producer of x-ray film in Croatia, the only domestic supplier in Yugoslavia, demanded an increased foreign-exchange quota. To put pressure on the federal government, the enterprise cut back shipments of x-ray film to the other republics. In hospitals throughout Yugoslavia x-ray examinations had to be postponed.

Market competition between enterprises has produced stark inequalities at all levels of Yugoslav economic life. Even within the same republic, for example, Slovenia, some workers receive two and a half times as much as others doing the *same kind of work*. In the country as a whole these differences are significantly greater. A machine operator in one enterprise might receive four times as much as his counterpart in a less profitable enterprise. These income differences have nothing to do with the diligence of the individual workers or competence of the respective enterprise managements. The main factor determining enterprise profitability is the *age* of its plant, whether it is technologically up-to-date or obsolete. "Market socialism" *violates* the elementary principle, shared by trade unionists as well as socialists, of *equal pay for equal work*.

While grossly unequal pay for equal work doubtless causes resentment among individual workers, it is the stark

inequalities between regions which now threaten to rip apart the Socialist Republic of Yugoslavia. Slovenia enjoys a standard of living comparable to neighboring Austria's, while conditions in Albanian-populated Kosovo more closely resemble Turkey. The decentralizing measures of the '60s widened this gap. In the late 1970s resources per capita in Kosovo were less than 30 percent of those in Slovenia; resources per capita in Macedonia were less than half those of Slovenia. The economic collapse of the '80s has hit hardest the poorest regions. While the unemployment rate in Slovenia is still less than 2 percent, in Kosovo it is over 35 percent! No wonder many Albanians are violently hostile to the Yugoslav federation as it is presently constituted and managed.

The Soviet Union is far from free of Great Russian chauvinism and national conflict. But it is instructive to contrast Soviet Central Asia with south Yugoslavia. Two generations ago the Turkic-speaking peoples of the Central Asian republics were nomadic herdsmen, separated from European Russia by a vast social and economic gulf. However, centralized planning and management on the basis of collectivized property has enabled the USSR to appreciably narrow that gulf. Uzbek machine operators in Tashkent receive the same wage rates and benefits as their class brothers in Leningrad. Social programs in Central Asia are on the standard Soviet scale. Collective farmers in Central Asia receive relatively favorable prices for their main crops. Furthermore, the cen-

tral Soviet budget has earmarked additional funds for the Central Asian republics.

However, Gorbachev's market-oriented "reforms" will *reverse* these equalizing policies and *divert* resources back toward European Russia. Two American experts on the Soviet economy employed by the U.S. Congress, John P. Hardt and Richard F. Kaufman, write:

"Gorbachev's policies seem to favor the western regions of the Soviet Union as opposed to Central Asia, East Siberia, and the Far East. For example, the industrial modernization program defers new construction and emphasizes renovation of existing facilities, most of which are located in the developed, largely Slavic regions of the European Soviet Union."

—U.S. Congress, Joint Economic Committee, *Gorbachev's Economic Plans* (1987)

Despite rapid progress in recent decades, rural Soviet Central Asia remains the poorest, most backward section of the USSR. The main reason is the concentration of the Turkic-speaking population on collective farms where their labor productivity is very low.

A genuinely socialist (i.e., internationalist) policy on the national question calls for not only transferring productive resources to the Central Asian republics but also promoting the voluntary migration of Turkic-speaking people to the labor-short areas in European Russia, the Ukraine and Siberia. This would not only benefit the Turkic peoples but would raise labor productivity in the Soviet Union as a whole.

Such a policy would require occupational retraining for millions of people, massive housing construction, establishing multilingual schools in the major cities of European Russia and similar measures. In short, the economic integration of the numerous nationalities making up the USSR is possible only on the basis of centralized planning and management, workers democracy and a struggle against national inequality.

Behind the Economic Collapse

For two decades spokesmen for the "Yugoslav road to socialism" could and did point to one of the highest growth rates in the world. During the 1950s industrial production advanced 9.5 percent annually, in the '60s over 8 percent a year. However, this impressive economic performance was by no means proof of the superior virtues of enterprise self-management.

In the 1950s Yugoslavia enjoyed an advantage unavailable to the Soviet-bloc states: subsidization by U.S. imperialism. After Tito broke with Stalin in 1948, Washington regarded the Belgrade regime as a semi-ally against Moscow. In the first decade of the Cold War Yugoslavia received roughly a billion dollars in largesse from Uncle Sam. At the same time, Yugoslavia was running large balance-of-trade deficits with the West. Without the U.S. aid, balance-of-payments constraints would have retarded its economic growth.

In the early 1960s U.S. aid dried up, but Titoist Yugoslavia found another source of foreign exchange: exporting surplus labor to the West European Common Market, especially to West Germany. At its peak, just before the 1974-75 world depression, migrant workers amounted to 12 percent of Yugoslavia's total labor force. And the money they sent back to their families and returned home with amounted to 40-50 percent of Yugoslavia's earnings from the export of industrial and agricultural products.

The economic collapse of the 1980s had its origin in the world capitalist crisis of 1974-75. The quadrupling of oil prices engineered by the Seven Sisters/OPEC cartel greatly increased Yugoslavia's import bill, payable in dollars not dinars. As a result the balance-of-trade deficit jumped from \$1.6 billion in 1973 to \$7.2 billion in 1979. At the same time, the depression and subsequent stagnation of the West European economy sent a *quarter million* Yugoslav workers back home by the end of the decade.

The unemployment rate soared from 3.5 percent in the early '70s to 8.5 percent in the late '70s. In one important respect self-management has a *greater* built-in tendency to generate unemployment than does capitalism. The goal of a self-managed enterprise is not to maximize profits, much less output, but *profit per worker*. If a Yugoslav enterprise can increase its output by, say, 10 percent by spending a million dinars on new equipment or by spending half a million on new equipment and the rest on taking on more workers, it will always choose the *first* alternative. The system is strongly biased against young workers first entering the labor market.

Established enterprise workers councils, however, have had a certain political clout. If the market had been allowed to operate freely, hundreds of enterprises would have folded in the late '70s. To forestall this the Tito regime had recourse to inflationary finance and massive foreign borrowing. Firms running in the red were merged with profitable firms or pumped up with bank loans.

How the system operated was exposed by the Agrokomerc scandal which shook Yugoslavia last fall. The management of Agrokomerc, a huge food-producing firm, was closely linked to Bosnian party boss Hamdija Pozderac, one of the most powerful politicians in the country. Over several years Agrokomerc dumped on Yugoslav banks *nearly a billion dollars* in promissory notes backed by *nonexistent* assets. When the financial house of

cards finally collapsed, Agrokomerc head Fikret Abdic exclaimed: "Everybody in Yugoslavia has been doing it, so why is Agrokomerc being victimized when we were only trying to get funds to complete some of our big projects?" (*Economist*, 5 September 1987).

Indeed, everybody in Yugoslavia has been doing it for years. As a result, the inflation rate tripled during the '70s, reaching 30 percent by the end of the decade. The inflation ruined Yugoslavia's export competitiveness. To pay for necessary imports, the Tito regime turned to the loan sharks of the Frankfurt *Börse*, City of London and Wall Street. Foreign debt increased *ten-fold* during the '70s, from \$2 billion to \$20 billion. As Yugoslavia entered the 1980s, it was living on borrowed time.

For a Socialist Federation of the Balkans!

Marshal Tito's death in 1980 removed both a powerful symbol of Yugoslav unity and an authoritative political leadership. It signaled the passing of the generation which had made the Yugoslav Revolution by overcoming the age-old blood feuds of the Balkans. They were succeeded by political midgets pursuing the most parochial and shortsighted interests. As one dissident intellectual put it: "We live under a pluralist oligarchy, or better, eight oligarchies." Any republic can veto federal legislation for a year. The president of the federal government is rotated every year on a regional basis, one of Tito's most ill-fated legacies. Even within the framework of Stalinist rule the current

Soviet university students in Kalmyk ASSR in southern steppes. Centralized planning and management has dramatically narrowed gulf between backward regions of USSR and European Russia.



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Yugoslav bureaucracy has shown itself criminally and perhaps suicidally irresponsible.

The musical-chairs government in Belgrade has become little more than collection agents for foreign loan sharks. By putting the economy through the wringer, they squeezed out \$18 billion since 1981 for the bankers of Frankfurt, London and New York. And now the bankers are demanding further austerity measures which would make the past few years look like *la dolce vita* by comparison. Last summer the Belgrade regime, under pressure from the IMF, adopted a law eliminating all state subsidies and other aid for money-losing enterprises. Oskar Kovac, minister in charge of economic relations with the West, stated:

"There will be firms that will clearly have to go. I only hope it will not take such dimensions that it will cause serious social unrest. But even with that risk we must go ahead."

—*Washington Post*, 21 July 1987

Going ahead, the first round shut down 800 firms with 200,000 workers. If the law is stringently carried out, every fourth worker in Yugoslavia will be

thrown onto the streets.

The bankruptcy of the "self-managed economy" has enormously intensified the centrifugal forces in Yugoslavia. Last summer the house organ of the international financiers, the *London Economist*, titled an article on Yugoslavia "A Lebanon in the Balkans?" The imperialist hyenas are beginning to smell blood, salivating at the thought of the breakup of the Socialist Republic of Yugoslavia, that would undo the revolution and turn Serbia, Croatia, Slovenia, etc. into neocolonies of international capitalist finance. The wealthier regions of the north resent the economic burden of the impoverished south. Bozo Kovac, editor of Slovenia's leading daily newspaper, boasts: "Capacity in Slovenia is better utilized and managed than in the south."

The *London Independent* (8 October 1987) reports: "There is much political daydreaming of secession from the South Slav federation, which the 1.5 million Slovenes are inclined to see as a pure drain on their hard work and more European way of life." If secession is a daydream for the Slovenes, it is an angry

cry among the Albanians. The Kosovo question exploded in 1981 with Albanian student protesters demanding that the autonomous province be granted the status of full-fledged republic. Today the more extreme nationalists are demanding "an ethnic Albania that includes western Macedonia, southern Montenegro, part of southern Serbia, Kosovo and Albania itself" (*New York Times*, 1 November 1987). In recent years much of the Serbian minority has left Kosovo, driven out by the rising tide of Albanian nationalism and the deep economic depression.

The situation in Kosovo inflames all the national passions in Yugoslavia. The *Economist* (18 July 1987) noted: "Few people outside Yugoslavia have been paying much attention to Kosovo. But if the trouble there is not solved, it could rattle the whole of Yugoslavia." Recalling the effects of the assassination of an Austrian archduke by a Serbian nationalist in Sarajevo in 1914, which sparked WWI, it noted that "local conflicts in the Balkans have a nasty way of developing into wider ones."

Titoist Stalinism has not achieved and cannot achieve a lasting solution to the national problems of Yugoslavia. For example, the Albanian population of Kosovo should have the right to unite with their national brethren across the border in Albania. The Macedonians should have the right to become part of Bulgaria. Such policies would go a long way toward defusing the current national antagonisms within Yugoslavia, laying the basis for a genuine socialist federation of the Balkans within a Socialist United States of Europe.

Writing over a decade ago on "The National Question in Yugoslavia" (*WV* No. 110, 21 May 1976), we warned:

"Now even the great achievements of the Yugoslav revolution—the overthrow of capitalist property relations and the overcoming of bloody national conflicts which wracked bourgeois Yugoslavia—are themselves threatened by the bureaucracy's fostering...of centrifugal forces. The conditions are being accumulated for a bloody civil war...one which may well be cloaked in the form of a 'national liberation' struggle. This is the legacy of Titoism, of Stalinism 'with a human face.' It is the legacy that the working masses must overcome by constructing a Trotskyist vanguard party capable of carrying through a workers political revolution to oust the Tito bureaucracy and thereby create the conditions for international extension of the revolution."

Today, as the bankruptcy of "workers self-management" fuels resurgent national antagonisms, this program offers the only genuine path to socialism. ■

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Hungary: “Goulash Communism” Goes Bust



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Petty capitalism undermines Hungary's socialized economy: speculators trade bonds of state-owned enterprises (above). Liberal Stalinist Janos Kadar (below) tells Hungarian workers austerity lies ahead.

Burdened by massive debts to Western banks, much of East Europe is now racked by economic crises. In Romania buildings are kept so cold, due to shortages of electricity, that musicians perform concerts with gloves on. Last November thousands of workers from the Red Star truck factory in Brasov marched through the industrial city protesting a 50 percent wage cut and shortages of just about everything. They stormed the mayor's office, tore down portraits of Romanian Stalinist despot Nicolae Ceausescu and burned official papers in the town square. In Poland new economic "reforms" introduced by the Jaruzelski regime will increase the cost of living by 200 percent over the next few years. Even Hungary, not long ago held up as the economic showcase of East Europe, is facing ever more austere austerity.

Visiting Budapest last spring, the number two man in the Kremlin, Yegor Ligachev, stated that the Soviet lead-

ership "highly respected" Hungary's economic policies and declared: "We are facing similar economic problems and are progressing down a similar path...." Five years ago Alec Nove, a leading Western expert on the Soviet-bloc economies, wrote: "Hungary's experience shows clearly both the advantages and the difficulties which follow from an attempt to introduce what can be called 'market socialism.' On balance the positive features seem to predominate...."

The alleged advantages of "market socialism" certainly do not predominate today. Hungary has been economically stagnant for a decade and is now saddled with the *highest* per capita foreign debt in East Europe. Under pressure from Western bankers, the Budapest Stalinists have been imposing increasingly severe hardships on the working people. Last summer the prices of bread, fuel oil, electricity and other necessities were raised 20 percent, and on New Year's Day Hungarian citizens

were greeted with a consumption (value-added) tax and an income tax, the first ever in the Soviet bloc. Most Hungarians already work at two or more jobs just to make ends meet. Now, a top official of the finance ministry projects that 200,000 workers will be laid off under a new bankruptcy law designed to shut down unprofitable enterprises.

The austerity programs have hit hardest at the working class, while a new class of petty entrepreneurs has been enriching itself through the increasing privatization of the economy. Reportedly handbills spread in Budapest and the industrial center of Szombathely last year warn, "If you raise the prices, we'll burn down the factories!" Hungary's new prime minister, Karoly Grosz, admits:

"The public mood is deteriorating as the living standards of a considerable strata of society have stagnated over the last years and even decreased for a not negligible section of society.

"Confidence in the leadership has dwindled and sometimes the viability of socialism is put in doubt."

—*New York Times*,
17 September 1987

The era of "goulash communism" associated with the long reign of Janos Kadar, installed after the suppression of the 1956 Hungarian Revolution, has been played out. Conditions are rapidly building toward a major social crisis, pitting the working class and its allies against the growing milieu of petty entrepreneurs, pro-Western intellectuals and elements of the ruling bureaucracy.

From Horthy to the 1956 Hungarian Revolution

The contemporary Hungarian state was born out of the disintegration of the ramshackle Habsburg Empire with its defeat in World War I. Following the bloody suppression of the short-lived Hungarian Soviet Republic in early 1919, the country came under the fascist dictatorship of Admiral Horthy for the next quarter century. In the 1930s the Horthy regime aligned itself with Nazi Germany, and the Hungarian Arrow Cross fought alongside the Waffen SS when Hitler launched Operation Barbarossa against Russia in 1941.

The Third Reich was destroyed four years later as the Soviet red flag and hammer and sickle was raised over the Reichstag in Berlin while Hitler committed suicide in his bunker. In 1945 the Soviet Red Army also liberated Hungary from the nightmare of fascism. A few years later, reacting to the Cold War pressure of U.S. imperialism, the Stalinists carried out in East Europe a *deformed social revolution from above*.



Eastfoto

Icarus bus factory in Budapest. Western bankers are now demanding massive contraction of Hungary's state-owned industry.

The deformations were especially marked in Hungary. The regime of arch-Stalinist Matyas Rakosi was exceptionally bloody, including toward fellow Communists, even by the standards of what was later euphemistically called "the era of the cult of personality." Economically, the Rakosites pursued an extreme version of Stalinist autarky, vowing to make Hungary "a country of iron and steel." Massive, unbalanced investment in heavy industry—90 percent of all investment—drove down the living conditions of both workers and peasants.

The post-Stalin "thaw" in the Soviet Union cracked the totalitarian police-state apparatus which protected Rakosi and his cohorts. In October 1956 a popular uprising broke out against this universally hated regime. This was a bona fide proletarian political revolution. The main force in the revolution was workers councils, usually led by anti-Rakosi Communists. To be sure, the insurgent workers and radical intellectuals were by no means free of liberal and especially nationalist prejudices and illusions. But the clericalist-Horthyite counterrevolutionary forces around Cardinal Mindszenty were relatively small and widely despised.

The workers were fighting for a democratic, socialist Hungary. Likewise, the Revolutionary Committee of Hungarian Intellectuals declared: "Factories and land are to remain the people's property and nothing is to be given back either to capitalists or big landowners." The Kremlin leaders sent the Russian army in to crush the Hungarian workers' uprising not only to restore bureau-

cratic rule in that country but also to prevent political revolution from spreading to the rest of East Europe and into the Soviet Union itself, where the political order had just been shaken by Khrushchev's "secret speech" denouncing Stalin's crimes. (For a Trotskyist analysis of Hungary 1956, see "Political Revolution in Hungary—Ten Years After," *Spartacist* No. 8, November-December 1966.)

Introduction of the New Economic Mechanism

Following the suppression of the revolution, the Kremlin installed in power the liberal Stalinist Janos Kadar, who had been imprisoned and tortured under Rakosi. After an initial period of repression, Kadar set out to gain popular acceptance or at least tolerance for his regime. In the early 1960s he cautiously liberalized political and intellectual life. But the main thrust of Kadar's program was to redirect investment so as to rapidly raise consumption levels. Khrushchev himself welcomed Kadar's "goulash communism" for restoring social stability in Hungary.

By the mid-'60s it was becoming harder for the Hungarian bureaucracy to come up with ever more goulash. The economy was running into a labor shortage (as the Soviet Union would a decade later), thus blocking the traditional Stalinist path of extensive growth. To keep living standards rising, it was necessary to significantly increase labor productivity. The only way to do this in short order was to import from the West capital equip-

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Hungarian bureaucrats appeal to the Western capitalists for joint ventures.

ment embodying advanced technology. But to import more from the West, Hungary had to export more to the West.

Unlike the Soviet Union and Poland, Hungary's exports to the West were not raw materials dug out of the ground like oil and coal. Nor did it produce an agricultural surplus capable of financing its imports. In the 1960s (as well as today) about 80 percent of Hungary's exports consisted of machinery, manufactured consumer goods and semi-processed goods. That is, Hungary had to *compete* with Western and Japanese manufacturers in Western markets. It was shackled in this competition by poor quality goods, limited assortment, and inflexibility in changing output and prices to meet shifting demands.

The New Economic Mechanism (NEM), introduced in 1968, was designed primarily to better mesh Hungarian industry with the demands of the West European Common Market. Centralized planning and management was effectively scrapped. Enterprise managers were free to determine output and set prices. Profitability became the main criteria for managerial success, advancement and income. Workers' incomes were also tied to their enterprise's profits.

This profit sharing was, of course, rather unequal. The workers' attitude toward the New Economic Mechanism was captured in a joke making the rounds of Hungarian factories in the early '70s. Kadar visits a factory and

asks the manager: "Have you had a bonus under the economic reform, and what have you done with it?" Reply: "I bought a country cottage, and the rest of the money I put in the savings bank." He asks the chief engineer the same question. Reply: "I bought a car, and the rest of the money I put into the savings bank." Finally Kadar asks a worker. Reply: "I bought a pair of shoes." Kadar: "And the rest of the money?" Worker: "The rest of the money I had to borrow from my mother-in-law."

Working-class discontent was not limited to retailing jokes in the factory cafeteria. Opposition to the New Economic Mechanism made itself felt even through the rigidly bureaucratized trade unions, and this limited the scope of the "reforms." Higher taxes were imposed on more profitable enterprises, thus narrowing the income differences between workers in different enterprises. All workers were guaranteed a minimum wage, to be paid for if necessary out of the central government budget. Enterprises making losses were not allowed to go bankrupt but either merged with profitable ones or were subsidized by the state treasury. Thus, working-class pressure forced the Kadar regime to retain critical *elements of economic centralization*, much to the dissatisfaction of the advocates of "market socialism."

While working-class pressure limited income differentiation in socialized industry, the New Economic Mechanism spawned a new class of petty entre-

preneurs out of which have emerged Hungary's *nouveaux riches*. Practically the entire service sector is now privatized along with much of the construction industry. According to official figures, in the mid-'80s there were almost 200,000 petty capitalists in Hungary (*not* including cooperative farmers). Close to half had annual incomes between twice and six times that of the average worker. These official figures grossly understate the actual extent of private wealth, since there is a huge volume of illegal (untaxed) transactions.

The Boom-Bust Cycle, Hungarian Style

In its first years the New Economic Mechanism seemed to be wildly successful. A top official of the National Bank of Hungary, Janos Fekete, later wrote: "The performance of the Hungarian economy improved spectacularly after 1968. We had six golden years..." (*Back to the Realities* [1982]). As events would soon show, the first golden years had little to do with the virtues of "market socialism."

The Kadar regime stepped up its industrial exports to the Common Market at a time when the West European economy was experiencing an inflationary boom. At the same time, the Hungarian economy was being *subsidized by the Soviet Union* through cheap oil and other raw materials which East Europe got at well below world



Der Spiegel



AP

1956 Hungarian uprising topples hated Stalinist regime. Workers councils vowed to defend collectivized property.

market prices. Two American experts on the subject, Michael Marrese and Jan Vanous, calculated that Soviet trade subsidies to Hungary between 1968 and 1974 amounted to almost \$2 billion. This happy state of affairs would not last long.

As in the case of Yugoslavia, Hungary's current economic crisis has its origin in the 1974-75 world capitalist depression precipitated by the quadrupling of oil prices engineered by the Seven Sisters/OPEC cartel. World trade in machinery and consumer goods declined, industrial and agricultural protectionism increased in the West, and the world market price of manufactures fell sharply relative to raw materials.

At the same time, the Kremlin tops, faced with a slowdown in the Soviet economy, decided they could no longer afford to sell oil to their East European allies at little more than a third of what they could get on the world market. In 1975-76 the Soviets raised oil prices to East Europe about 70 percent, and also cut back their oil and natural gas shipments to East Europe, thus forcing Hungary to buy some of its fuel from the Seven Sisters/OPEC bandits. Overall during the 1970s, lower export prices and higher import prices cost Hungary the equivalent of *one year's total output*.

Had Hungary been a capitalist market economy, it would have experienced an acute economic crisis in the late '70s. Wages would have been cut to make exports more competitive; unprofitable enterprises would have been shut, producing large-scale unemployment; prices would have risen to reduce imports and free up more goods for export. But none of these things happened. Investment continued to expand, living standards continued to rise.

How was Hungary able to achieve this? Increasingly, both enterprise investment and wage increases were financed by the state treasury. The higher cost of fuel and raw material imports was offset by price subsidies. By the mid-1980s enterprise and price subsidies took up *one-quarter* of the total government budget. But where did the Kadar regime get these funds? It borrowed them from the loan sharks of Wall Street, the City of London and the Frankfurt *Börse*. Hungary's foreign hard-currency debt increased *ninefold*, from \$1 billion in 1970 to \$9 billion in 1980. Doubtless, the Budapest regime was hoping for a return to the favorable international economic conditions of the late '60s-early '70s.

But the second oil-price shock in 1979 finally convinced Kadar & Co. they

were living on a costly illusion. Their answer was austerity. Under siege by Western financiers, Hungary negotiated a settlement in 1982 through the world bankers' cartel, the International Monetary Fund (IMF). The IMF's terms: scrap enterprise and price subsidies; shut down unprofitable firms and operations; impose heavy taxes on consumption; increase the role of private capital in the economy.

The most ominous development in recent years is the degree to which petty capitalism has undermined the socialized economy. Factory managers routinely contract out maintenance, repair and small-scale construction to private outfits. Even socialized medicine is

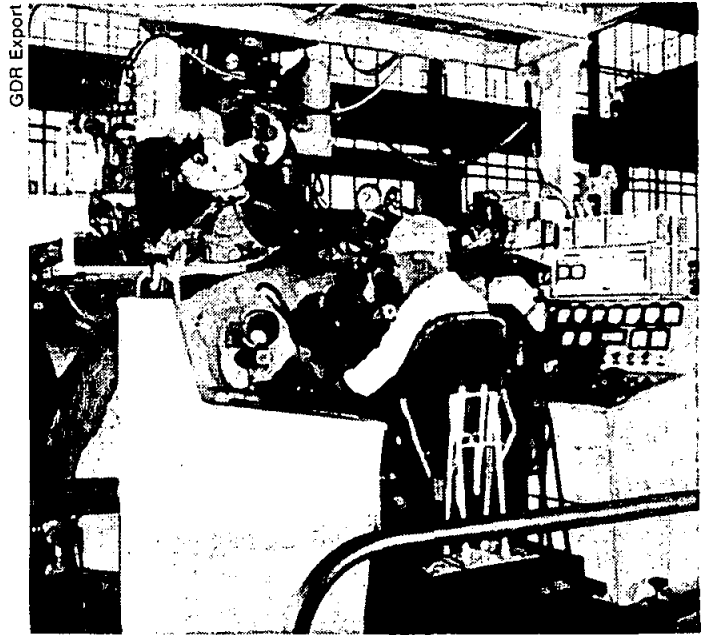
Hungary has now acquired a political dimension.

Before the Storm

Hungary's *nouveaux riches* entrepreneurs and their Western imperialist godfathers have found political and ideological support among the bureaucracy and intelligentsia. Leszek Balcerowicz, a leading "theorist" at the official State School of Planning (!), openly calls for the restoration of capitalism:

"The dream of an economic system better than capitalism is dead. There is no third way, no model between Stalinism and capitalism that works well. The only reasons to stop short of return-

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becoming *unsocialized* as doctors demand under-the-table cash payments for decent treatment. "We have set up a 'free' health service, but to have a baby in comfort it can cost a month's wages," a Budapest lawyer complained (London *Guardian*, 30 December 1986). Last November Hungary experienced a mini financial crash when speculators dumped the bonds of state-owned enterprises in order to hoard consumer goods, anticipating a sharp price rise. And now they're talking about selling shares in state-owned enterprises to the public.

More than any other East European country, Kadar's Hungary has geared its economy to the Western market and so has imported the boom-bust cycle inherent in capitalism. The present austerity is the direct outcome of 20 years' increasing commercial and financial dependence on the West. And the imperialist economic penetration of

ing to capitalism are pragmatic—and political."

—*Washington Post*, 6 April 1987

By "pragmatic and political" reasons for not returning to capitalism Balcerowicz means fear of the Soviet army.

The Western imperialists are beginning to see in Hungary the preconditions for counterrevolution—a Stalinist regime bankrupt politically as well as financially, popular disillusionment and discontent with "official socialism," a large class of petty capitalists, aggressively and openly pro-Western intellectuals. Looking at Hungary's economic crisis, the *New York Times* (4 January) writes: "Mr. Gorbachev's nightmare is the kind of crisis that rocked Poland in 1981, when the political troubles surrounding the independent Solidarity trade union were aggravated by a severe shortage of foreign exchange that rendered the country, for all practical purposes, bankrupt."

There is, indeed, a certain parallelism between developments in Hungary and Poland. In 1956 Poland stood on the brink of a proletarian political revolution, and in 1970 a workers' revolt in the Baltic ports toppled the Gomulka regime. To assuage working-class unrest the liberal Stalinist regime of Eduard Gierek, like Kadar in Hungary, promised and initially delivered a rapid rise in consumption levels. When international economic conditions turned sour in the mid-1970s, Gierek and Kadar mortgaged their respective countries to Wall Street and the Frankfurt *Börse*. Then came the day of reckoning when the imperialist loan sharks demanded their pound of flesh.

There is, however, a fundamental difference between Hungary and Poland in the consciousness of the working class and the lines of social polarization. In Poland the powerful Catholic church (which in Hungary is fairly weak) was socially based on the smallholding peasantry. In the mid-'70s pro-Western, social-democratic intellectuals like Jacek Kuron subordinated themselves to the church hierarchy and became agents of Cardinal Wyszyński and Pope John Paul Wojtyła within the working class. Thus, *Solidarność* was born in 1980 with a clerical-nationalist ideology and a year later demanded "Western-style democracy," i.e., capitalist counterrevolution. Fortunately, *Solidarność*' bid for power was stopped by General Jaruzelski's counter-coup in December 1981. Since then the *Solidarność* leadership has openly called for restoring capitalism (see "Solidarność Calls for Wall Street to Run Poland," *WV* No. 406, 20 June 1986).

Kadar's Hungary, however, has polarized along very different lines. The workers have been hostile to the New Economic Mechanism from its inception. They despise the pro-Western intellectuals, like Tibor Liska, who are the most ardent advocates of "market socialism." And they hate the wheeler-dealers who are growing rich off the NEM. Hungarian workers are not only hostile to the petty capitalists in their own country but also to the imperialist financiers whom they rightly see as the main architects of the economic crisis. The *Wall Street Journal* (5 November 1986) observed:

"Their workers, who have gained the least from liberal reforms, stand to lose most from an industrial shakeout....
"If the government charges ahead, it could face trouble from its workers. If it doesn't, the trouble may come from another quarter: the capitalist banks to whom Hungary owes billions of dollars."

East German
Stalinist chief
Erich Honecker (left)
with West German
chancellor
Helmut Kohl.
Bonn's *Ostpolitik*
aims to subvert
East German
deformed
workers state.



This mouthpiece for Wall Street here accurately conveys the *bonapartist* role of the Stalinist bureaucracy as a social stratum balancing between the imperialist bourgeoisie and the proletariat. In Hungary today the Stalinists' balancing act is tottering and could well crash. The situation is becoming ripe for a proletarian political revolution. What is lacking is a Trotskyist vanguard party which can channel the workers' instinctive opposition to "market socialism" into a struggle for soviet power and socialist planning.

In one sense the absence of proletarian leadership is more striking today than in 1956. Then the workers councils were typically led by dissident Communists, many of whom were groping toward an authentic Marxist program. Today a working-class revolt in Hungary would be anarchic and spontaneous. But the workers cannot take power through a spontaneous uprising. They must be led by a party which knows where it is going—toward an international socialist order. For Hungary cannot exist as an island of workers power and socialism amid a Europe divided between imperialist capitalism and the Stalinist bureaucracy. For communist unity against imperialism, through political revolution from Budapest to Moscow and Peking, and socialist revolution in the capitalist West!

The East German Key

The natural bridge between political revolution in Stalinist East Europe and socialist revolution in imperialist West Europe is East Germany, a deformed expression of proletarian power in the

divided industrial heartland of Europe. There is another reason that East Germany (officially the German Democratic Republic [DDR]) stands out in present-day East Europe. It has far and away the most successful economy in the Soviet bloc, especially in the 1980s, and is the only major country that hasn't tried to reform away centralized planning and management.

East Germany has become the tenth leading industrial country in the world with a per capita national income higher than Britain or Italy. Nor has its economic growth been the one-sided expansion of heavy industry characteristic of the Stalin era. In 1960 only 3 percent of East German families had automobiles and less than 10 percent had refrigerators or washing machines. Today about half of all East German households have cars and practically everyone has refrigerators, washing machines and televisions. The DDR's impressive industrialization and growth in living standards was achieved *without* recourse to the much-vaunted market-oriented "reforms" touted by bourgeois ideologues, social democrats and liberal Stalinists.

In the mid-1960s the East Berlin Stalinists did introduce a program of market-oriented "reforms" called the New Economic System. The results were not to their liking. The partial decentralization of investment, geared to enterprise profitability, produced imbalances and bottlenecks throughout the economy. Manufacturing output increased twice as fast as the generation of electrical power, leading to numerous power cuts and brownouts.

So in 1970 the New Economic System was scrapped and the economy was recentralized. The role of enterprise profitability was *de-emphasized*, especially in determining the distribution of investment funds.

Seeking to overcome the bureaucratic rigidity of traditional Stalinist planning, during the 1970s the East German economy was divided into *Kombinate*, huge, vertically integrated groups of enterprises. These amount to relatively self-sufficient industrial empires. In the late '70s the DDR faced the same adverse international economic conditions as did Hungary and Poland. Demand contracted in the West for its manufactured exports and their relative price fell. At the same time, the price of fuel and other raw-material imports soared. Like its counterparts in Budapest and Warsaw, the Honecker regime in East Berlin borrowed heavily from the Western bankers to maintain income levels. In fact, in 1980 the DDR's foreign debt per capita was *higher* than Poland's.

During the 1980s, however, East Germany has *reduced* its Western debt *without* an austerity program driving down living standards. The economy has continued to grow soundly, real wages have continued to improve and social programs, such as old-age pensions and maternity benefits, have continued to expand. In the face of a world capitalist depression, in the early 1980s the DDR increased its exports, predominantly manufactures, to Western markets by 60

percent! At the same time, it *reduced* its fuel and other raw-material imports. In Western parlance this would certainly be termed an "economic miracle." How did they do it? By *concentrating investment* in new technology designed to save energy and raw-material costs. Between 1980 and '83 national income increased by 12 percent as consumption of fuels and other raw materials decreased by 9 percent.

Here we encounter the striking superiority of centralized planning and management, even when bureaucratically deformed, over "market socialism." In the Hungarian and Yugoslav systems the investment funds available to a given enterprise or branch of the economy are determined primarily by its profits. Enterprises with high profits are, as a rule, those with new, up-to-date equipment. It is enterprises with old, obsolete equipment which urgently need to be retooled, and it is here that one gets the greatest improvement in productivity per forint or dinar invested. But in Hungary and Yugoslavia such unprofitable enterprises are starved for investment funds! Under "market socialism," investment is directed into areas that are *least productive* to the economy as a whole.

While the East German economy has certainly been more successful than Hungary, Poland or Yugoslavia, the *Kombinat* system has produced its own distortions, imbalances and a tendency toward building bureaucratic fiefdoms. Ultimately, the East Berlin Stalinists

cannot build socialism in half a country. Despite the DDR's impressive economic growth, its productivity and living standards remain well below those of West Germany, which therefore exercises a powerful counterrevolutionary pressure upon the deformed workers state east of the Elbe. The road to socialism lies neither in the bureaucratic commandism of old-line Stalinism or the market-oriented "reforms" of liberal Stalinism. That road lies through a democratically administered, centrally planned, egalitarian and *internationally* organized economy.

For the Revolutionary Reunification of Germany!

With few exceptions Western bourgeois economists deny any connection between East Germany's superior economic performance and its centralized planning. Instead they point to the DDR's special economic relationship with West Germany (officially the Federal Republic of Germany). East German exports to the Federal Republic are exempt from the Common Market tariffs which are levied on other East European countries, the Bonn regime has guaranteed bank loans to the DDR, etc.

But these factors *cannot* account for East Germany's economic achievements. Its remarkably successful export drive in the early 1980s was mainly directed at Western markets *other* than the Federal Republic, where the DDR enjoys no special tariff advantage. Access to Western loans cannot explain East Germany's ability to radically reduce its energy and raw-material costs per unit of production. Hungary, Poland and Yugoslavia had no problems borrowing billions of deutschmarks from Frankfurt bankers, and the only result was to deepen and ultimately intensify their economic crises.

To be sure, the Federal Republic does subsidize the DDR. Through the "swing" credit, West German manufacturers and middlemen have gotten the equivalent of half a billion dollars a year subsidy from the Bundesbank in Bonn to help cover their exports to East Germany. This is in part an export subsidy for West German capitalists (i.e., a disguised form of trade protectionism). However, Bonn's special economic relationship with the DDR is not primarily a means for Ruhr industrialists to sell more machine tools or construction equipment. Its main purpose is far more sinister.

The masters of the Fourth Reich aim to subvert and undermine the social-



Der Spiegel

17 June 1953—East German workers rise up against the Stalinist regime, call upon West German workers to "sweep out your crap in Bonn."

ized economy of East Germany and beyond the Oder-Neisse line (the post-WWII border with Poland), reconquering what Hitler lost when he launched Operation Barbarossa against the Soviet Union. (To this day West German publications frequently refer to the DDR as "Middle Germany"!)

The ultimate aim of Bonn's *Ostpolitik* and deutschmark diplomacy is clearly perceived by the French bourgeoisie, for whom the prospect of a reunified Germany—whether capitalist or socialist—is a historic nightmare. After Honecker's triumphant visit to West Germany last fall, former French foreign minister and rabid Gaullist Michel Jobert exclaimed:

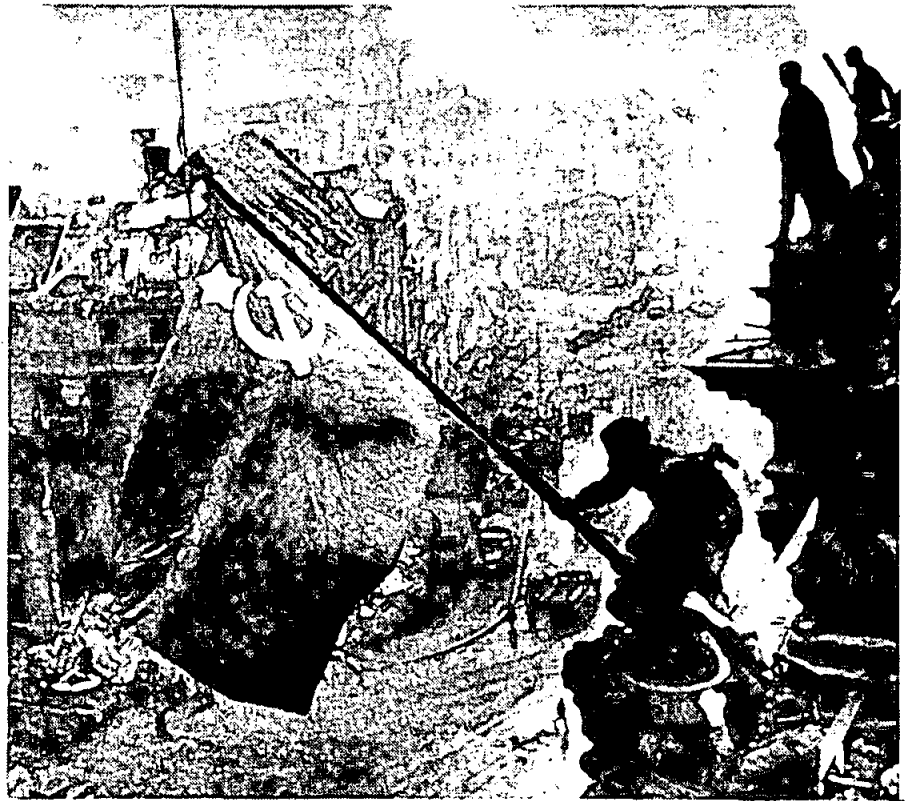
"Germany intends to go its own way in Mitteleuropa. It is a people that thinks it can make a deal with the Soviets, relying on the economic strength of the Federal Republic to buy back its unity—in whatever form."

—*Newsweek*, 14 September 1987

Meanwhile, West Germany is using that economic strength as a lever to promote and protect pro-imperialist forces within the DDR. Thus, Alfred Dregger, right-wing Christian Democratic leader in the Bundestag, stated that Bonn's economic and diplomatic concessions to Honecker were "the price for getting him to give a little more freedom to his own people" (*London Independent*, 9 September 1987). What the likes of Dregger are concerned with is freedom for the pro-Western "human rights" dissidents and "peace" movement grouped around the Lutheran church.

The Lutheran church is the only institution in the DDR that is allowed to exist to some degree independent of the Stalinist bureaucracy. But East Germany is not Poland. (Indeed, East Germans despised the clerical-nationalist *Solidarność*.) The DDR is a secularized society at its base with a socialist-minded proletariat and intelligentsia. This is not to say that East Germany is immune from the powerful pressures emanating from Western imperialism. The East German "peace" movement, several of whose members were recently arrested by the Stasi secret police and then expelled from the DDR, is in fact a channel for the introduction of social-democratic German nationalist ideology of the Green/pacifist variety.

The West German Social Democracy (SPD) is a potent force, both ideologically and organizationally, for counterrevolution in East Germany. Social Democratic sympathies persist in the DDR, where many see the SPD as a "democratic" alternative to their own Stalinist regime. This was shown by the



Yevgeni Khaldei

Red Army liberated Europe from nightmare of Nazi occupation. Soviet soldiers hoist red flag from Reichstag, Berlin, for May Day 1945.

ecstatic welcome Willy Brandt received when he visited Erfurt in 1970. In recent years the Brandt wing of the SPD, along with its Green fellow travelers, has been the main expression of resurgent German nationalism in pseudo-leftist and pacifistic colors. The slogan of a neutral, demilitarized and reunified Germany—independent of both Washington and Moscow—is a thinly disguised call for "democratic" counterrevolution in East Germany.

In the Frankfurt banking houses, Bonn chancelleries and SPD headquarters they are planning how to regain Prussia and Saxony for "free world" capitalism. However, as the Scottish poet Robert Burns observed, "the best laid schemes o' mice and men gang aft a-gley." Polls show huge majorities in both German states favor reunification. Reunification is a two-edged sword. It also has a *proletarian edge* which can sweep away the masters of the Fourth Reich and their Social Democratic lackeys. When youth in East Berlin protested last June, their cry "The Wall must go!" was accompanied by "We want Gorbachev!" and singing the *Internationale* (see "Divided Germany and Gorbachev's Glasnost," *WV* No. 438, 16 October 1987).

The sense of identity between workers on both sides of the Elbe, the

widespread fear that the madmen in Washington will trigger a nuclear war beginning on German soil, can be the basis for the revolutionary reunification of Germany—socialist revolution in the West, political revolution against the Stalinists in the East. The potential for revolutionary reunification was historically demonstrated in the June 1953 East German workers' uprising. A mass meeting of metal workers in East Berlin raised the slogan of a metal workers government based on strike committees. And in the Halle train station strikers greeted travelers from the West with a banner reading, "Now sweep out your crap in Bonn—in Pankow [East Berlin] we're cleaning house."

The future of divided Germany cannot and will not be determined solely within Germany. Germany is the leader of Europe—for socialism or for barbarism. Under the Nazis, German imperialism brought to Europe the unspeakable barbarism of Auschwitz and Dachau. But if the social power of the industrial proletariat of the two Germanys is united as an axis for socialist revolution in Europe, it will find allies in the working classes from Portugal to Russia. A Soviet Germany will take its rightful place as the industrial core of a Socialist United States of Europe. ■

For Central Planning Through Soviet Democracy

When Tito's Yugoslavia instituted workers' self-management of enterprises in the late 1940s, it was presented as and regarded as a fundamental challenge to Stalinism. When 20 years later Hungary introduced the market-oriented New Economic Mechanism, it was viewed as very much an anomaly among the Sino-Soviet states. But today "market socialism" has come to Deng's China and Gorbachev's Russia. Soviet economist Abel Aganbegyan, the leading intellectual architect of *perestroika* (restructuring), declared during his recent visit to the U.S.: "We're going to have a market for all of the factors of production, from raw materials to machine tools to consumer durables, everything, to replace the centralized distribution system."

We are seeing here a historical tendency among bureaucratically degenerated/deformed workers states, not merely a coincidence of economic policy zigzags. The drift toward "market socialism" is neither linear nor irreversible. East Germany experimented with the market-oriented New Economic System in the 1960s but then recentral-

ized its economy in the early '70s. Today, however, East Germany is the exception, the only major East European country to retain centralized planning and management. It is also, not accidentally, the most successful economy in East Europe.

There is an *inherent tendency* for Stalinist regimes to abandon central planning in favor of an economic setup with the following major elements: output and prices determined through atomized competition between enterprises; investment, managerial salaries and workers' wages geared to enterprise profitability; unprofitable enterprises are shut down, resulting in unemployment; price subsidies are eliminated, resulting in a higher rate of inflation; the role of petty capitalist entrepreneurs is expanded, especially in the service sector; increased commercial and financial ties to Western and Japanese capitalism, including joint ventures, are encouraged. These measures do not amount to creeping capitalism, as many Western bourgeois commentators and not a few confused leftists contend. But they do strengthen the internal forces

for capitalist counterrevolution.

At the same time, Gorbachev's *perestroika* means harsher conditions for Soviet workers. While the intelligentsia looks to a new wave of liberalization similar to Khrushchev's "de-Stalinization" in the mid-late 1950s, for the working class there is a partial return to the labor practices of the Stalin era. Instead of the expansion of consumer goods and relaxation of draconian labor discipline during the post-Stalin "thaw," there is now an *anti-egalitarian* campaign with the reintroduction of piece rates on a wide scale, a widening of income differences between workers and the managerial and technical elite. But as the *New York Times* (10 May) recently reported on the impact of *perestroika* in a Black Sea port, "the ruthlessness of the marketplace violates the sense of justice and equality reinforced by 70 years of Soviet rule."

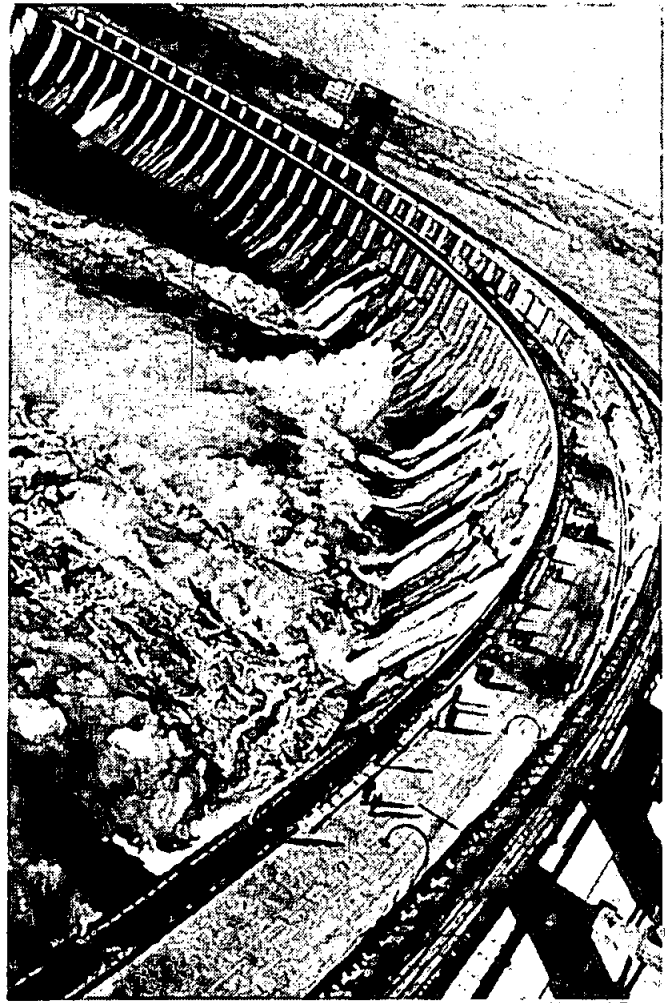
Thus Soviet workers are bound to resist the effects of "market socialism." Gorbachev's Russia is clearly heading toward serious labor unrest, although we cannot predict its magnitude, immediate demands or leadership. The explosive combination of market-oriented economic measures and political liberalization has created the best opportunity for the emergence of an independent workers movement since the 1920s. The central task for a reborn Leninist-Trotskyist vanguard in the USSR is to link the defensive economic struggles of the working class to the program of proletarian political revolution to oust the Stalinist bureaucracy, establishing a centrally planned economy on the basis of soviet democracy and restoring Soviet Russia as a bastion of world revolution.

The economic crises in much of East Europe and the drive toward market-oriented reforms demonstrate the impossibility of building socialism in one country. As early as the 1840s Marx and Engels insisted that "The communist revolution will therefore be no merely national one" ("Principles of Communism" [1847]). Achieving communism requires at least the combined effort of several of the most econom-



Der Spiegel

Long lines and empty shops in Warsaw as Polish Stalinist regime imposes austerity dictated by Western bankers.



Communism equals soviets plus electrification, said Lenin. Workers at Putilov metalworking factories meet to elect deputies to Petrograd soviet, 1920 (left). Dnieperstroy hydroelectric station, originally advocated by Trotsky (right). In 1926, Stalin said the mammoth power plant would be no more use to Russia than a gramophone to a peasant without a cow. Yet upon completion in 1932, Dnieperstroy generated more electricity than in all of tsarist Russia.

ically advanced countries. An isolated socialized regime would be subject to enormous military and economic pressures from the surrounding capitalist world, pressures which deform and will ultimately destroy a nationally limited workers state.

Stalinist Russia: From Bureaucratic Commandism to Perestroika

The advocates of "market socialism" in Gorbachev's Russia look back fondly on the New Economic Policy (NEP) especially of the mid-late 1920s, whose leading ideological apologist was Nikolai Bukharin and whose chief implementer was his then-bloc partner Joseph Stalin. Bukharin talked of building socialism "at a snail's pace," insisting that the expansion of industrial production in the Soviet Union should be determined by the *market demand* of the small-holding peasantry for manufactures. The Left Opposition, led by

Leon Trotsky, insisted on the need for rapid industrialization and central planning. As early as 1925, Trotsky warned that "if the state industry develops more slowly than agriculture...this process would, of course, lead to a restoration of capitalism" (*Whither Russia?*).

As the Opposition had predicted, by the late '20s the growing contradictions of NEP led to an acute "scissors crisis" as a sclerotic industry was unable to supply the peasantry, who sharply cut back grain deliveries, threatening to bring urban Russia to a standstill. Stalin reacted by switching to a policy of ultra-left economic adventurism—forced collectivization of agriculture, bureaucratic commandism and a breakneck tempo of industrialization. At the end of the first five-year plan, he boasted:

"The fundamental task of the five-year plan was, in converting the U.S.S.R. into an industrial country, to completely oust the capitalist elements, to widen the front of socialist forms of economy, and to create the economic

basis for the abolition of classes in the U.S.S.R., for the building of a socialist society."

—J.V. Stalin, "The Results of the First Five-Year Plan" (January 1933)

He declared that the success of the first five-year plan was "creating in the country the prerequisites that would enable it not only to overtake but in time to outstrip, technically and economically, the advanced capitalist countries."

Trotsky acknowledged the enormous historical significance of Soviet industrial construction, but pointed out the *limits and contradictions* of Stalinist industrialization and exposed the illusion of "building socialism in one country":

"The progressive role of the Soviet bureaucracy coincides with the period devoted to introducing into the Soviet Union the most important elements of capitalist technique. The rough work of borrowing, imitating, transplanting and grafting, was accomplished on the bases laid down by the revolution. There was,

thus far, no question of any new word in the sphere of technique, science or art. It is possible to build gigantic factories according to a ready-made Western pattern by bureaucratic command—although, to be sure, at triple the normal cost. But the further you go, the more the economy runs into the problem of quality, which slips out of the hands of a bureaucracy like a shadow. The Soviet products are as though branded with the gray label of indifference. Under a nationalized economy, *quality* demands a democracy of producers and consumers, freedom of criticism and initiative—conditions incompatible with a totalitarian regime of fear, lies and flattery.” [emphasis in original]

—*The Revolution Betrayed*
(1936)

Today Gorbachev admits that precisely in the sphere of quality, in technical and

Russia the Great Patriotic War). Hitler's Operation Barbarossa, although finally broken by the Red Army, devastated western Russia and the Ukraine. Twenty-five million people were left homeless, hundreds of towns and thousands of villages were completely destroyed. In 1945 industrial output in the areas which had been occupied by Nazi Germany was just 30 percent of the prewar level. Thus the fourth five-year plan (1946-50) largely had to *redo* the basic construction of the previous three. Soviet industrial production did not recover its prewar level until 1950.

Resistance to the Nazi invasion rekindled a spirit of patriotism among the Soviet peoples. This was intensified by the Cold War launched by U.S. imperi-

depicts the social malaise of the last Brezhnev years in the late '70s—the inward-turning personalism and political cynicism, the rowdy street gangs in Moscow's better-off suburbs. Gorbachev himself laments the loss of socialist idealism in the contemporary Soviet Union which he heads:

“Decay began in public morals; the great feeling of solidarity with each other that was forged during the heroic times of the Revolution, the first five-year plans, the Great Patriotic War and postwar rehabilitation was weakening; alcoholism, drug addiction and crime were growing; and the penetration of the stereotypes of mass culture alien to us, which bred vulgarity and low tastes and brought about ideological barrenness increased.”

—*Perestroika*

Gorbachev is lumping together and confusing very different kinds of social idealism. The workers who made the Bolshevik Revolution were imbued with the spirit of revolutionary internationalism; they believed they were leading all of mankind into a socialist future. When the Polish Jewish anarchist Hersh Mendel arrived in Moscow in October 1917, he asked a group of Red Guards what they were fighting for. One of them replied, for the brotherhood of peoples (see “Memoirs of a Revolutionary Jewish Worker,” *Spartacist* No. 41-42, Winter 1987-88). In contrast, the shock brigades of Stalin's first five-year plans believed they were building in a few short years socialism in one country. And in defending the “socialist motherland” against the Nazi German invasion, Soviet workers and peasants responded to Stalin's appeals for national patriotism.

Nonetheless Gorbachev is right in one important respect. In the last Brezhnev years *all* forms of social idealism atrophied in the Soviet Union. And this has had a profoundly negative impact on the economy, captured by the cynical formula common in the Soviet bloc: “we pretend to work, they pretend to pay us.” Gorbachev's answer is to reintroduce piece rates and tie wages to enterprise profitability. Other elements of the Kremlin elite want to go even further along these lines than Gorbachev. For example, the economist Nikolai Shmel'yov, a former son-in-law of Khrushchev and extreme partisan of *perestroika*, maintains that only the whip of unemployment can restore labor discipline:

“Today it is, I believe, clear to everyone that we owe disorderliness, drunkenness, and shoddy work largely to excessively full employment. We must discuss fearlessly and in businesslike terms what we could gain from a com-



TASS from Sovfoto

Gorbachev exhorts Soviet people to work harder, but his market-oriented perestroika (restructuring) means harsher conditions for workers.

scientific innovation, the Soviet Union has fallen increasingly behind Western and Japanese capitalism:

“A country that was once quickly closing on the world's advanced nations began to lose one position after another. Moreover, the gap in the efficiency of production, quality of products, scientific and technological development, the production of advanced technology and the use of advanced techniques began to widen, and not to our advantage.”

—*Perestroika: New Thinking for Our Country and the World*
(1987)

One might reasonably ask: why has it taken half a century for the economic contradictions of Stalinist Russia, which Trotsky wrote of in *The Revolution Betrayed*, to come to the fore? The answer lies in the effects, both economic and political, of World War II (called in

alism, whose leaders threatened to use their monopoly of nuclear weapons against Russia. Thus Soviet workers and peasants were willing to make the sacrifices and accept the labor discipline necessary for the rapid postwar reconstruction of the economy. Even bureaucratic parasitism and corruption was restrained in this period compared to the *la dolce vita* spirit of Brezhnev and his cronies in the 1970s.

Khrushchev's denunciation in 1956 of Stalin's monstrous crimes generated an expectation of socialist renewal, especially among the youth. The Soviet film *Moscow Does Not Believe in Tears* conveys the naive but genuine social idealism of peasant youth who come to the big city as factory workers in the early Khrushchev period. The film also

paratively small reserve army of labor. . . . A real danger of losing your job and going onto a temporary allowance or being obliged to work wherever you are sent is a very good cure for laziness, drunkenness and irresponsibility."

—quoted in U.S. Congress,
Joint Economic Committee,
Gorbachev's Economic Plans
(1987)

In his own way Shmelyov focuses on a basic contradiction of a bureaucratically degenerated workers state. Economic planning, one of the main benefits of which is full employment, can be effective only when the workers, technical intelligentsia and managers identify themselves with the government which issues the plans. When they are alienated from the ruling oligarchy, the plan will be ignored and subverted at the base. The formal plan targets may be met, but by poor quality and ill-assorted goods. Raw materials, energy and other inputs will be used wastefully. State-owned supplies and equipment will be diverted into the black market, undermining the socialized economy.

Within the framework of Stalinism, there is thus an inherent tendency to replace centralized planning and management with market mechanisms. Since managers and workers cannot be subject to the discipline of soviet democracy (workers councils), increasingly the bureaucracy sees subjecting the economic actors to the discipline of market competition as the only answer to economic inefficiency. The restoration of workers democracy in the Soviet Union is not just an abstract ideal but a *vital condition* for the renewal of the Soviet economy on a socialist basis.

Plan, Market and Soviet Democracy

To be sure, workers democracy is not a cure-all for the economic problems of the Soviet Union or elsewhere. In the early 1930s Trotsky observed that the Stalinist bureaucracy imagined it "could a priori draw up a faultless and exhaustive economic plan, beginning with the number of acres of wheat down to the last button for a vest." Neither would a genuine workers government be blessed with perfect foresight and the capacity to draw up a letter-perfect plan down to the last detail. Thus Trotsky wrote: "Only through the interreaction of these three elements, state planning, the market, and Soviet democracy, can the correct direction of the economy of the transitional epoch be attained" ("The Soviet Economy in Danger" [October 1932]).

There is of course no recipe book,

Stalin inspects limousine, symbol of privileged Kremlin oligarchy.



applicable to all times and places, on how to combine central planning, the market and soviet democracy. This will depend on the level of economic development, the international situation and countless other shifting conditions. Workers democracy and planning are not enough; there must also be an intelligent political leadership—a revolutionary party—to assess and adapt to the concrete situation facing a given workers state. We can, however, sketch out some general guidelines concerning the plan, the market and workers democracy.

Clearly, some economic activities are suitable for long-term planning and others are not. In building a new city or developing new oil fields in Siberia, a ten- or even fifteen-year plan might be desirable. For constructing new factories, a five-year plan may be optimal. On the other hand, the output mix of various factories—how many dresses and skirts, pots and pans they produce—might well be changed every week or two in line with changing market demand.

Long-term planning should be applied to the expansion of productive capacity (e.g., factories, railroads) and other major construction projects such as housing, schools, hospitals. The output of different consumer goods and intermediate products should be adjusted constantly on the basis of changing supply and demand conditions. The mechanism for this, however, need *not* be and should *not* be atomized competition between enterprises as in Yugoslavia or Hungary. Rather there should be a *centralized market mechanism*, for which a theoretical model was developed by the Polish socialist economist

Oskar Lange in the 1930s.

Stalin has given central planning a bad name. Many people assume it means a small group of bureaucrats or technocrats running the economy. How can planning be combined with soviet democracy? Generally speaking, the most fundamental economic decision facing society is the division of the total product between consumption and investment, and the division of investment between consumer goods and producer goods (e.g., machine tools). As a rule the larger the proportion of total output invested and the larger the proportion of investment in producer goods, the higher will be the long-term growth in income.

During the 1920s the Soviet economist G.A. Feldman, basing himself on Marx's model of expanded reproduction in the third volume of *Capital*, developed a theoretical model for long-term planning. (This pioneering work, "On the Theory of Growth Rates of National Income," has been translated into English in Nicolas Spulber, ed., *Foundations of Soviet Strategy for Economic Growth* [1964].) Feldman related the current level of investment and its division between consumer and producer goods to the future growth rates of per capita income, consumption and investment. On the basis of Feldman's work or similar models it is possible to draw up a series of alternative plans, ranging from one which maximizes near-term consumption to one which maximizes long-term growth in income. Alternative plans could be presented to the highest soviet body, which would then determine the basic future shape of the economy.

Once the growth of per capita income

is determined, it is possible to project—based on past experience, surveys and consultation with consumer cooperatives—the increased demand for the broad categories of consumption (e.g., food, clothing, household appliances, automobiles). The increased quantities of raw materials and intermediate goods (e.g., steel, plastics, textiles) required to produce the final array of goods can be projected through the input-output analysis first developed by Wassily Leontief. (Leontief was an economics student at the University of Leningrad in the mid-1920s before emigrating to the West. Input-output analysis should therefore be viewed as a by-product of the theoretically rich, as well as historically portentous, debate over industrialization and planning in the Soviet Union during the 1920s.) The rapid development of computer technology in recent years enormously increases the potential scope and accuracy of input-output analysis. It is thus possible to draw up an investment plan that is both internally consistent and in line with the democratically determined overall growth of investment and consumption.

As previously indicated, the current output mix of consumer goods and services should be determined through a centralized market mechanism. How would this work? Take the clothing industry, for example. A centralized distribution agency would be responsible for supplying a number of stores and consumer cooperatives. In turn it would command the resources of various clothing factories. If a particular style or

size shirt is in short supply, the agency would order the factory(ies) to produce more of this item and fewer items in relatively ample supply. The clothing factories would in turn be serviced by a centralized distribution agency commanding the resources of various textile mills. If a particular kind of synthetic fabric is in short supply, the agency would order the mills to increase the production of this fabric and reduce those in relative oversupply.

The idea that market competition is needed to adjust production of consumer goods to demand is a myth of bourgeois economics. In fact, it isn't even true of the highly monopolized economy of the advanced capitalist countries. Computerized stock control is now common in the U.S. and West Europe. When someone goes to one of the larger supermarkets the items they purchase are recorded at the checkout counter where a photoelectric cell reads the product code on the package. This information is fed into a complex distributional network linking factories to stores. A socialist economy would be even more efficient in constantly adjusting production to the shifting needs and wants of society.

Adjusting supply and demand is of course critically dependent on how relative prices are set. A dress which is immediately sold out of the stores at \$20 may be unsalable at \$40. How then should its price be determined? In general prices should be proportional to the cost of production, i.e., if one style dress costs twice as much to produce as

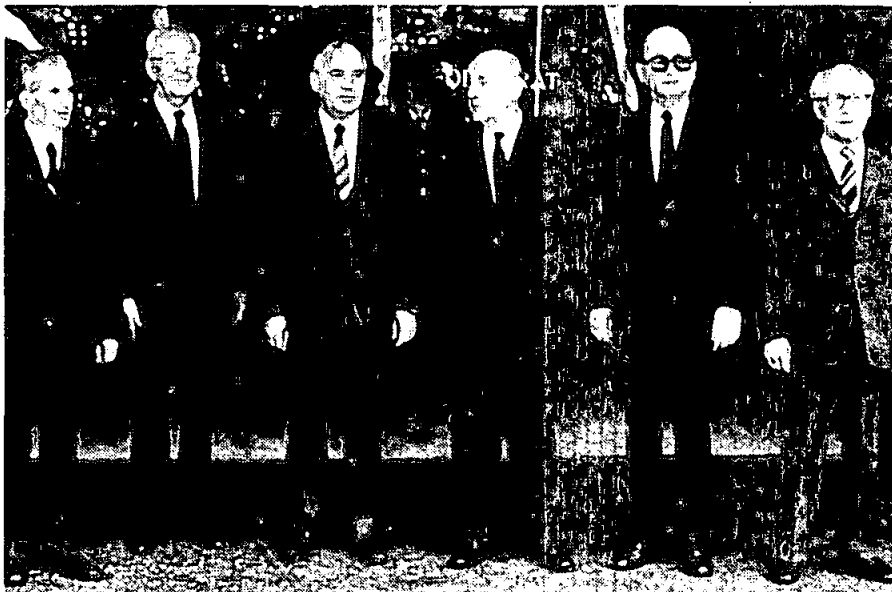
another style, consumers should pay twice as much for it. This does not rule out subsidies or additional taxes in special cases. For example, to encourage children to read, children's books might be priced below the publishing cost. The economic organization described above will not be totally immune from imbalances and bottlenecks. But no economic system can fully anticipate changing wants, resources and technologies. That's just life.

Workers Management Versus Socialist Planning

The question of workers management/control has become a boundless sea of confusion and confusionism. It has also become a common demand voiced by would-be leftist opponents of traditional Stalinist bureaucratic commandism. For example, the manifesto issued by the Federation of Socialist Clubs, formed in Moscow last summer, demands the "transfer of the social means of production (factories) to a system of leasing self-managed enterprises to collectives," while at the same time calling for the "democratization of the planning system" (*International Viewpoint*, 9 November 1987). Needless to say, the Socialist Clubs' manifesto does not indicate how it is possible to combine self-managed enterprises with democratized economic planning.

The principles of socialist economic organization sketched out in the previous section define the nature and *limits* of workers control *at the point of production*. Workers would certainly elect their own managers and make certain other managerial decisions (e.g., the organization of training programs). A small fraction of total investment—say, 10 percent—can be placed at the disposal of individual workers councils and their decisions worked into the upcoming investment plan. But to have individual workers councils determine production and prices is to recreate the anarchy of the market. Nor can enterprise councils decide the scope and composition of investment, since particular groups of workers cannot have unlimited claims on the state budget, i.e., on the *collective social surplus*.

In response to the first article in this series, "The Bankruptcy of the Yugoslav Model," we received a thoughtful letter from *WV* reader Bob Montgomery. He pointed out that Marx's "Critique of the Gotha Program" (1875) took aim at the conception of the proletariat as an agglomeration of groups of individual workers to be amalgamated into state-supported producer cooper-



Interfoto MTI via Eastfoto

Gorbachev (third from left) meets with heads of Warsaw Pact states. Economic crises, a product of Stalinist mismanagement, national autarky and imperialist pressure, now wrack much of East Europe.



New York Times



Newsweek

Polish socialist economist Oskar Lange (left) developed theoretical model for combining market calculation with centralized management. Soviet-educated economist Wassily Leontief pioneered input-output analysis, a key tool for central planning.

allowing workers to elect managers. And the Kremlin tops are willing to let workers make certain decisions over enterprise operations, especially when those decisions are determined by the need to maximize profits. As the Yugoslav experience demonstrates, workers management and "market socialism" weaken the *political consciousness* of the proletariat and intensify divisions especially along generational and national lines.

The advocates of workers management, East and West, have a conception of the economy that is fundamentally technologically stagnant. It is here that the outlook of syndicalist-minded radicals converges with that of Stalinist bureaucrats (both old-line and reform-minded) as well as of bourgeois ideologists. All assume that the same workers do the same work in the same factories or offices year after year. In striking contrast, the Marxist conception of socialism is of an economy so technologically dynamic that mechanical and mindless labor rapidly diminishes and is replaced by *creative* scientific and artistic activity:

"To economise on labour time means to increase the amount of free time, i.e. time for the complete development of the individual, which again reacts as the greatest productive force on the productive force of labour... Free time—which includes leisure time as well as time for higher activities—naturally transforms anyone who enjoys it into a different person, and it is this different

atives. This was the 19th-century version of workers' self-management.

Marx reminded philistine "socialists" that resources for the replacement and expansion of the means of production, provision for the aged and others unable to work, expenditure on schools and hospitals, etc., must be deducted from the total social product before distribution to individual workers. He pointed out that "what the producer is deprived of in his capacity as a private individual benefits him directly or indirectly in his capacity as a member of society." As Marx indicated, the difference between socialism and capitalism is that the worker functions *not* as a private producer of labor but as a member of the social collective. As our reader

put it, class consciousness of the revolutionary proletariat has nothing in common with the syndicalist fetish of workers managing their "own" means of production and exchanging their products with other groups of workers.

Many would-be leftist opponents of the Kremlin oligarchy, such as Boris Kagarlitsky, principal organizer of the Federation of Socialist Clubs, view enterprise self-management, by weakening the power of the *nomenklatura* (ruling bureaucratic caste), as the path of least resistance to workers democracy. In fact, enterprise self-management can serve as an effective *diversion* from a genuine struggle for soviet democracy. The Gorbachev regime itself has made a big to-do about

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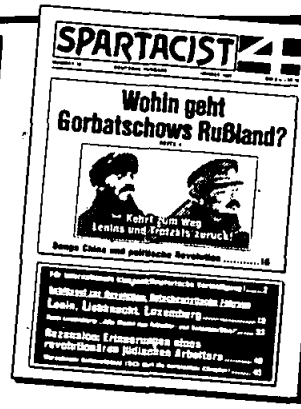
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person who then enters the direct process of production. The man who is being formed finds discipline in this process, while for the man who is already formed it is practice, experimental science, materially creative and self-objectifying knowledge, and he contains within his own head the accumulated wisdom of society."

—Karl Marx, *The Grundrisse*
(edited and translated by
David McLellan [1971])

This conception of a communist future presupposes a *global economic order*, which requires the appropriation of the productive resources of the *advanced capitalist countries* through proletarian revolution.

Toward a Global Socialist Order

The economic crises now wracking much of East Europe are a direct consequence of the Stalinist dogma of "socialism in one country." The Soviet bloc economic organization, the Council of Mutual Economic Assistance (COMECON, also abbreviated as CMEA), is *less integrated* than the Common Market of capitalist West Europe. COMECON trade is only one step more advanced than barter. For example, if East Germany runs a trade surplus with Poland, it cannot use the resulting credit balance to increase its imports from Hungary.

As a consequence of the bureaucracies' refusal to coordinate economic policies across national borders, COMECON trade is based on *world market prices* (with a time lag and subject to negotiation in special cases). This practice is adhered to even when world market prices are wildly distorted by international cartels, such as the Seven Sisters/OPEC manipulation of the world oil market. Recent proposals by Aganbegyan and others to eventually make the ruble convertible will only intensify the disruptive effect of the world market fluctuations on COMECON.

During the early 1970s, when the world market price of oil was inflated by 400 percent, the Soviet Union was selling oil to East Europe at an ever smaller fraction of the OPEC price. As a result the East European bureaucrats squandered energy instead of conserving it. New factories in Poland, Hungary and East Germany were designed to use energy as if cheap oil was a permanent condition. Then in 1975-76 the Soviet Union raised oil prices within COMECON by 70 percent and also cut back its oil and natural gas shipments to East Europe so as to sell more on the world capitalist market, taking advantage of the Seven Sisters/OPEC

price-gouging.

In the mid-'70s the East European countries were hit by a double blow from which (with the exception of East Germany) they have not recovered to this day. The world capitalist depression of 1974-75 collapsed their export market in the West, while the cost of fossil fuel and other raw materials (largely



Wide World

Leon Trotsky in 1917, co-leader with Lenin of the Bolshevik Revolution.

imported from the Soviet Union) skyrocketed. To maintain employment and living standards, the East European Stalinist regimes turned to the loan sharks of Wall Street, the City of London and the Frankfurt *Börse*. East Europe's debt to Western bankers increased *fivefold* between 1974 and 1980, from \$11 to \$55 billion. To meet their debt payments Poland, Hungary and Yugoslavia have since 1980 imposed ever more severe austerity programs dictated by the world bankers' cartel, the International Monetary Fund (IMF).

In Poland the economic crisis led to the brink of counterrevolution. The powerful Catholic church—one of whose sons, Karol Wojtyła of Kraków, became Pope John Paul II in 1979—was able to mobilize much of the working class through the "free trade union" *Solidarność*. Lech Walesa and the other clerical-nationalist leaders of *Solidarność* made a power bid only to be

stopped at the last possible moment by General Jaruzelski's counter-coup in December 1981. But the debt-ridden Polish economy, made worse by Jaruzelski's market-oriented reforms à la Gorbachev, has once again produced widespread worker unrest. And once again Walesa, the Gdansk agent of "free world" imperialism, is seeking to exploit (fortunately, without much success) the bankruptcy of Polish Stalinism.

It is the Kremlin oligarchy which is ultimately responsible for the political and economic bankruptcy of its East European clients. It was, after all, J.V. Stalin who formed present-day East Europe in his own image—bureaucratically deformed workers states. And it is the Soviet leadership which determines the basic economic order in East Europe. In the mid-late '70s the Brezhnev regime encouraged Gierek's Poland and Kadar's Hungary to borrow heavily from the West so as to ease the financial burden on Russia. Under Gorbachev Soviet economic relations vis-à-vis East Europe have become even more narrowly nationalistic and shortsighted. Michael Marrese, an American specialist in Soviet bloc economics, noted a few years ago:

"...the Soviets seem to have abandoned a multilateral approach to easing shortages of energy and raw materials among CMEA countries. It appears that the Soviets intend to negotiate bilaterally with individual East European countries and adjust their long-term supply commitments with respect to energy and raw materials, depending on the relative attractiveness of the exports which each country offers. Those countries more forthcoming with food, industrial consumer goods, or high-quality, sophisticated machinery will find it easier to secure adequate supplies of Soviet energy and raw materials."

—*International Organization*,
Spring 1986

Such is the logic of "socialism in one country."

The COMECON practice of basing trade on world market prices is fundamentally irrational, economically destabilizing and politically divisive. It makes no sense at all. Relative costs of production in East Europe and the Soviet Union are radically different from those prevailing in the capitalist world. Why, then, doesn't COMECON set prices proportional to costs of production? Because the nationally based bureaucracies have no control over production costs in their "socialist" trading partners. The Kremlin apparatchiks wouldn't dream of giving the East Germans some control over production costs in developing Siberian oil

Andor Heller



**Hungary, 1956:
Crisis of
"de-Stalinization"
leads to
proletarian
political
revolution as
Hungarian army
units go over
to insurgent
workers councils.**

fields. In turn, the East Berlin *Bonzen* do not allow the Muscovites to influence costs and internal prices for electrical machinery in Leipzig and Erfurt. So Russia and East Germany trade oil and machinery on terms set by the Rockefeller empire and Siemens!

Stalinist nationalism thus intensifies the pressure of the capitalist world market upon and within the Soviet bloc. The socialist economic integration—especially through large-scale investment projects—of East Europe is a vital necessity not only to raise productivity but to counter imperialist economic subversion and warfare. For example, a major research effort, pooling the technological resources from East Berlin to Novosibirsk, might make a breakthrough in producing cheap synthetic oil. Such a development would significantly reduce import costs for the East

European countries.

Proletarian political revolution in East Europe, to oust the bureaucratic caste which usurped political power from the Soviet workers and turned its back on Leninist internationalism, will raise on its banner: *repudiate the ruinous debt to Western bankers*. The Stalinist regimes in East Europe could not conceive of such a measure—indeed, they have increasingly become local collection agents for the IMF—because they cannot withstand the inevitable imperialist retaliation (e.g., trade boycotts). However, socialist economic integration would make East Europe less dependent on Western imports and credits, while revolutionary workers governments in East Berlin, Warsaw and Moscow would have the moral authority to appeal to West European and American workers against the blood-

sucking capitalist bankers. Imperialist economic warfare against East Europe would be transformed into *class warfare* within the heartland of world capitalism.

The Trotskyists do not propose to replace the dogma of socialism in one country with that of socialism in half a continent. As long as Wall Street financiers, German industrialists and Japanese *zaibatsu* own most of the productive wealth on this planet, the communist vision of a classless and stateless society cannot be realized anywhere. As long as world imperialism exists, the shadow of nuclear Armageddon will hover over mankind. The only road to a future of peace, material abundance, social equality and personal freedom is the road of Lenin and Trotsky, the road of international proletarian revolution leading to a global socialist order. ■

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In Honor of Christian Rakovsky

If the rehabilitation of Bukharin and Rykov was long expected, the same cannot be said of Christian Rakovsky. From 1923 to 1934, Rakovsky was a central leader—second only to Trotsky—of the Bolshevik-Leninist Opposition to the Stalinist bureaucracy. Three years after the 1938 Moscow Trial, where he stood in the dock, he was shot. Notably, the 25 March *Novoe Vremya* carried a eulogistic piece on Rakovsky, even mentioning that he had been expelled in 1927 for participation in “the Trotskyist opposition.” The article described his courageous behavior in Stalin’s prisons, where he told an NKVD man: “So, I’ll be dead soon; I’ll be a corpse.... Some day the corpses will start to talk.”

Born in 1873 in Romania of Bulgarian parents, Christian Rakovsky went on to play a leading role in the revolutionary movements of Bulgaria, Romania and Russia (and was also active in the French, Swiss and German movements), following his first arrest at age 14. Six years later he was a delegate to the Zurich congress of the Second International. When the Bulgarian Social Democracy split into “broad” and “narrow” wings, paralleling the split between Mensheviks and Bolsheviks in Russia, Rakovsky sided with the *Tesnyaki*, the “narrow” socialists who insisted on a revolutionary cadre organization. His authority among the Romanian workers was so strong that when he was arrested in 1909 they went into the streets and took on the Bucharest police in a bloody battle. He headed the first Soviet government in the Ukraine, and was elected to the Executive of the Communist International, whose founding proclamation he wrote.

Rakovsky was one of the first Bolshevik leaders to openly attack Stalin’s bureaucratic methods, particularly over his chauvinist treatment of the non-Russian nationalities. At the 12th Party Congress in 1923, Rakovsky warned of “the fundamental discrepancy being created daily and growing larger and larger between our party, our programme on the one hand, and our state apparatus



Wide World

Veteran revolutionary Christian Rakovsky (left), with Trotsky in 1927, was the second leading figure in the Left Opposition.

on the other.” When, while Soviet ambassador in Paris in 1927, he signed an Opposition statement calling on workers and soldiers in the capitalist countries to defend the USSR in case of war, he was declared *persona non grata* and expelled by France. Shortly thereafter, he was declared *persona non grata* by Stalin as well.

Deported from one internal exile to another after the suppression of the Left Opposition, his health broken, demoralized by Hitler’s unchallenged rise to power, he finally capitulated to Stalin in 1934. In “The Meaning of Rakovsky’s Surrender” (March 1934), Trotsky wrote:

“Rakovsky’s declaration is the expression of a subjective impasse and of pessimism. Without exaggerating by a hair’s breadth, we can say that Stalin got Rakovsky with the aid of Hitler.... “We have no time to weep long over lost

friends—be it even comrades of thirty years of struggle. Let every Bolshevik say to himself: ‘A sixty-year-old fighter with experience and prestige left our ranks. In his place I must win three twenty-year-old ones and the gap will be filled.’ Among the twenty-year-old ones, new Rakovskys will be found who, with us or after us, will carry forward our work.”

While Bukharin’s and Rykov’s works have now been made available to the Soviet public, Rakovsky’s writings remain banned to all but a handful: his powerful indictment of the Stalinist bureaucracy, his eloquent defense of Leninist internationalism, his leading role as Trotsky’s comrade in the Left Opposition, represent a dagger at the throat of Stalin’s heirs in the Kremlin. The Kremlin seeks only to “rehabilitate” Rakovsky the victim. We honor the memory of Christian Rakovsky, Left Oppositionist and fighter. ■

Bukharin...

(continued from page 32)

Red Army and the murder of millions of Soviet Communists. Half a century later, on 4 February 1988, the Supreme Court of the USSR concluded that "unlawful means" and "falsified" evidence had been used in the 1938 Moscow Trial. All but one of the convictions have now been overturned. The one left standing is that of Genrikh Yagoda who, until his own arrest, had been Stalin's chief hatchet man and torturer. On June 13, the Soviet Supreme Court rehabilitated Zinoviev, Kamenev, Radek and Pyatakov and 29 other leading Bolsheviks framed up in the 1936-37 Moscow Trials and then killed. *Izvestia* declared, "Now it is clear ... that they are not guilty before the law, the state or the people."

After Bukharin's execution, his young wife, Anna Larina, the daughter of another Old Bolshevik, spent the next 20 years in prison camps and in exile. Courageously she continued to fight to fulfill her husband's last request, that he be exonerated before future generations. "For me," the 73-year-old Larina recently said, "time doesn't exist. Truth exists." After she was granted a private audience with Khrushchev in 1962, a leading Soviet spokesman admitted: "Neither Bukharin nor Rykov, of course, was a spy or a terrorist." Yet it took 50 years for Stalin's heirs in the Kremlin to officially acknowledge even this tiny sliver of truth.

So Bukharin, Rykov, Rakovsky and other Old Bolsheviks have finally been juridically "rehabilitated." Today the Soviet press is rife with references to the "tragic year of 1937," when they were arrested, as the bureaucracy seeks to disencumber itself of lies no one believes, of crimes whose immediate benefactors have long since perished. *Ogonyok* and *Moscow News*, flagship organs of *glasnost*, feature interviews with Bukharin's widow and his Princeton hagiographer, Stephen Cohen. Now Cohen's biography of Bukharin is being published in the Soviet Union under contract. *Sputnik*, the Soviet *Reader's Digest*, highlights a biographical paean under the headline "*Glasnost*, Democracy, Personality." Yevgeny Yevtushenko, the "poet of the possible" of the Soviet bureaucracy, has dedicated a poem to him. The Soviet Academy of Sciences has reinstated Bukharin and pronounced him "in tune with our thoughts today." Why?

Nikolai Bukharin is seen as the best

choice to fill that emptiest and most glaring of "blank spaces" in the Gorbachev regime's restructuring of Soviet history: who opposed Stalin? With "market socialism" increasingly seen as the way to reinvigorate the flagging Soviet economy, Bukharin is identified with the New Economic Policy (NEP) of the 1920s and hailed as the "forefather of *perestroika*." There is a desperate need to find some historical alternative to the discredited Stalin *on the same political ground of "socialism in one country."* In his speech on the 70th anniversary of the Russian Revolution, Gorbachev praised Bukharin for playing "an important part in defeating Trotskyism ideologically," as opposed to Kamenev and Zinoviev, who made common cause with Trotsky.

Gorbachev, however, criticized the Right Opposition for having "underrated the practical significance of the time factor in building socialism in the 30's," and he explicitly defended Stalin's collectivization of agriculture. A subsequent article in *Literaturnaya Gazeta* (9 December 1987) was more explicit:

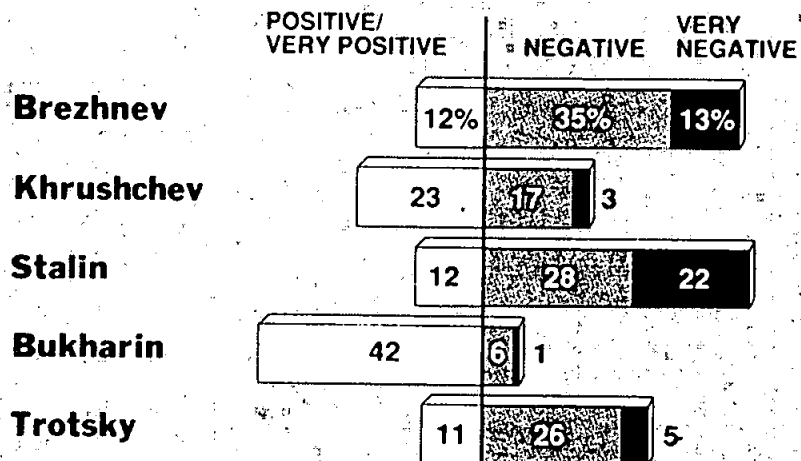
"Today, one can assert that if Trotsky had taken the helm of the Party it could have expected even greater ordeals, ordeals fraught with the loss of socialist gains—especially because Trotsky did not have a clear and scientific program of building socialism in the USSR. Bukharin did have such a program; he had his own vision of goals for the Party as a whole. However, despite all his personal attractiveness, his great intellect,

his gentleness and humaneness, Bukharin for a long time did not understand the historical need for the country to make a sharp spurt forward in building up its economic might."

Leon Trotsky, who was the principal "defendant" in absentia in the Moscow Trials and was felled by one of Stalin's assassins in Mexico City in 1940, remains un-"rehabilitated." (The June 13 Soviet Supreme Court decision cleared "everyone involved" in the Moscow Trials. Yet Trotsky and his son Leon Sedov had been convicted, in absentia, of "terrorism" in the same trials as Zinoviev, Kamenev, Radek and Pyatakov.) *Glasnost* notwithstanding, Trotsky cannot and will not be restored to his rightful place by Stalin's heirs, the bureaucracy whose intransigent foe he remained until his death: Trotsky fought for Lenin's program of world socialist revolution which was and remains anathema to the Stalinists. Bukharin, on the other hand, was part and parcel of the bureaucracy, a fervent proponent of Stalin's nationalist dogma of "socialism in one country." Now they want to make of Bukharin the embodiment of "Stalinism with a human face," who fought Stalin's excesses but also opposed the "Trotskyite heresy."

The current wide-ranging debate in the Soviet Union over the "Stalin question" is missing the central ingredient of the foundation of the Soviet state: *internationalism*. For their grandparents cared, passionately, about world

Soviet Leaders: View in Moscow



Based on 939 Moscow residents interviewed by telephone May 7, 8, 14, and 15 by The Institute of Sociological Research of the Soviet Academy of Sciences for The New York Times and CBS News. Those who gave neutral answers are not shown.

New York Times/27 May 1988

Recent Moscow public opinion poll shows Bukharin is now most highly regarded past Soviet leader since Lenin.

Спутник

May 1988

Sputnik, the Reader's Digest of the Soviet Union, runs glowing article on Bukharin under the heading "Glasnost, Democracy, Personality."



Гласность. Демократия. Личность.

СУДЬБА
БУХАРИНА

Фото Льва
ШЕРСТЕННИКОВА и из
архива А.М.ЛАРИНОЙ

О Николае
БУХАРИНЕ —
«любимце партии»,
члене Политбюро ЦК,
репрессированном при
Сталине.
Корреспондент
журнала «Огонек»
беседует с его вдовой
Анной ЛАРИНОЙ

Время, которое самым человеком, называемым в народе двадцать пятым, явля...

socialist revolution—they lived day-to-day on the hope of extension of the revolution, the key to the significance and survival of the newborn Soviet workers republic they had fought and sacrificed for. Today this is presented as an esoteric "Trotskyite heresy" of "export of revolution." So even the pride of Soviet Afghanistan war veterans in having fulfilled their "internationalist duty"—as best they understood it under the stodgy conservative Brezhnev—is now subject to deprecation as a "mistake" of the "old thinking."

Recently, an important article by Otto Latsis, deputy editor of the Soviet party journal *Kommunist*, argues that Bukharin was the real heir to Lenin and that the year 1929, when the Right Opposition was smashed by Stalin, represented a "counterrevolution" (*New York Times*, 11 June). But there are clearly a lot of problems with elevating Bukharin to some kind of "Anti-Stalin." Not only did Bukharin *not* fight Stalin, this "gentle" and "humane" man was for many years Stalin's chief ideologue and henchman. And when the "Great Leader" turned against him, he capitulated with scarcely a whimper. As for Bukharin's "program of building socialism," it would have left the Soviet Union a backward, peasant-dominated country, easy prey for counterrevolutionary forces within and hostile imperialist enemies without.

Like "Soft Wax"

In his 2 November 1987 speech, Gorbachev quoted Lenin's *Testament*, writ-

ten on the eve of his final illness, characterizing the key party leaders:

"Bukharin is not only a most valuable and major theorist of the Party; he is also rightly considered the favourite of the whole Party, but his theoretical views can be classified as fully Marxist only with great reserve, for there is something scholastic about him (he has never made a study of dialectics, and, I think, never fully understood it)."

The reference to Bukharin as the party's favorite is quoted with nauseating regularity in the Soviet press these days, as though it can somehow retrospectively bestow Lenin's mantle on him. It is no accident that Bukharin was not perceived by any of his colleagues as a possible successor to Lenin. Lenin observed earlier: "We know how soft Comrade Bukharin is; it is one of the qualities which endears him to people, who cannot help liking him. We know that he has been ribbed for being as 'soft as wax.' It turns out that any 'unprincipled' person, any 'demagogue,' can leave any mark he likes on this 'soft wax.'"

It was this impressionistic, scholastic quality that shifted Bukharin from the extreme left to the extreme right of the party spectrum in a matter of several years. Bukharin was scarcely 30 years old when the revolution occurred. His theoretical works to that time had been characterized by a rigid ultraleftism: a Luxemburgist opposition to Lenin on the right of national self-determination, an anarchist impulse to dismiss the need for a state following the proletarian revolution, a tendency to collapse the program of world revolution into an immediate perspective of military-

revolutionary offensive.

Bukharin led the Lefts who were opposed in principle to the signing of the Brest-Litovsk treaty with Germany in 1918, counterposing revolutionary war against Germany at a time when the Soviet state scarcely had an army to speak of. The Stalinists falsely attribute this position to Trotsky. In fact, Trotsky's difference with Lenin was tactical—whether to accept the humiliating German peace terms outright or to force the Germans to break the truce and thus make it clear to the international proletariat that the Bolsheviks had no other alternative. In the upshot, Lenin was proved correct, as the Germans swept over the front and imposed much harsher terms than had originally been proposed. In the final vote in the Central Committee, Trotsky abstained in order to allow Lenin to win against Bukharin.

When it became clear that the world revolution was not around the corner, Bukharin, in knee-jerk reaction, anticipated the nascent bureaucracy's conciliationism toward hostile class forces. By 1922 he (and Stalin) were advocating the abandonment of the state monopoly over foreign trade, one of the chief economic bulwarks of the isolated workers state against imperialist encroachment. This prompted Lenin to charge him with "acting as an advocate of the profiteer, of the petty bourgeois and of the upper stratum of the peasantry in opposition to the industrial proletariat" ("Re the Monopoly of Foreign Trade," December 1922).

NEP and Perestroika

Bukharin's biographer Stephen Cohen credits him with being the "forefather of perestroika":

"Anti-Stalinism is an essential part of Gorbachev's program. Perestroika is an effort to dismantle the system created in the thirties. Bukharin was the real defender of NEP...the idea of cooperative socialism, the role of the market, the role of private farming, the role of competition...."

—*New York Times*, 19 January

The NEP was a temporary retreat after the devastation of the Civil War in a backward, overwhelmingly peasant economy in which industry had broken down and was utterly disorganized. *Perestroika* is an attempt to regulate the Soviet economy through market forces and "enterprise competition," with potentially far-reaching consequences of dismantling central planning, the centerpiece of the socialized economy.

It was Trotsky, not Bukharin, who first proposed what became known as

Socialism Through World Revolution

From Castro's Cuba to Gorbachev's Russia, the Stalinist bureaucracies repudiate international proletarian revolution in the name of building "socialism in one country." This is the most decisive evidence of their repudiation of the Leninist program of the 1917 October Revolution, which declared itself to the world's workers and oppressed as the first, but only the first, step on the road to the overthrow of capitalism internationally. In his 1928 "Critique of the Draft Program of the Communist International," Trotsky explained how the Stalinists' nationalist perspective endangered not only the world proletariat but also the Soviet state.

"The new doctrine proclaims that socialism can be built on the basis of a national state if only there is no intervention. From this there can and must follow (notwithstanding all pompous declarations in the draft program) a collaborationist policy towards the foreign bourgeoisie with the object of averting intervention, as this will guarantee the construction of socialism, that is to say, will solve the main historical question. The task of the parties in the Comintern assumes, therefore, an auxiliary character; their mission is to protect the U.S.S.R. from intervention

—Leon Trotsky, *The Third International After Lenin* (1928)

and not to fight for the conquest of power....

"The lever of economic construction is of tremendous significance. Without a correct leadership, the dictatorship of the proletariat would be weakened; and its downfall would deal a blow to the international revolution from which the latter would not recover for a good many years. But the conclusion of the main historical struggle between the socialist world and the world of capitalism depends on the second lever, that is, the world proletarian revolution. The colossal importance of the Soviet Union lies in that it is the disputed base of the world revolution and not at all in the presumption that it is able to build socialism independently of the world revolution."

NEP, in February 1920, in the form of a "tax in kind" based on a percentage of production, to replace the forced requisitioning of surpluses from the peasantry necessitated by the harsh conditions of civil war—the policy of "war communism." While Trotsky's proposal was defeated in the Politburo, a year

later Lenin put forward a similar plan, which became the core of the NEP. In an attempt to lend Lenin's authority to *perestroika*, supporters of "market socialism" claim that he saw NEP as defining the transition to socialism, citing his statement (at a May 1921 party conference) that the NEP was meant

"seriously and for a long time." Lenin happened to be (favorably) quoting another speaker, who argued it meant 25 years. "I am not that pessimistic," replied Lenin, referring in the same paragraph to NEP as a "retreat." Earlier in the debate he emphasized:

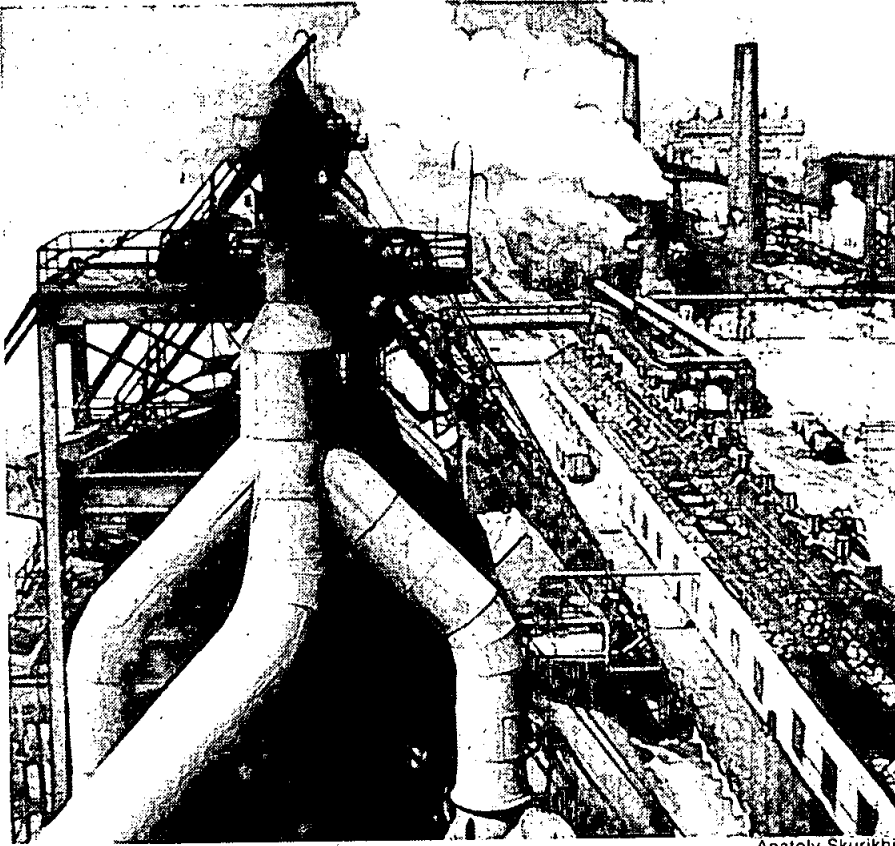
"We tell the peasants frankly and honestly, without any deception: in order to hold the road to socialism, we are making a number of concessions to you, comrade peasants, but only within the stated limits and to the stated extent; and, of course, we ourselves shall be the judge of the limits and the extent."

It took far less than 25 years to approach the limits of the NEP. On the eve of his final, incapacitating illness in late December 1922, Lenin made a bloc with Trotsky against the developing bureaucracy. One of the issues in the bloc was the need to proceed urgently with *planned industrialization*. He communicated to the Politburo that Trotsky's proposal to grant broad legislative powers to the State Planning Commission (Gosplan) was "a sound idea," and "I think we can and must accede to the wishes of Comrade Trotsky." However, Stalin, Bukharin & Co. greeted the proposal for a five-year plan "with mockery in the spirit of the petty bourgeois who fears 'a leap into the unknown'" (Leon Trotsky, *The Revolution Betrayed* [1936]). At the 12th Party Congress in 1923, Trotsky gave a vivid exposition of the "scissors crisis," showing a sharp rise in industrial prices over agricultural prices. This was a danger signal: if there were not sufficient manufactured goods to exchange for agricultural produce, the peasants

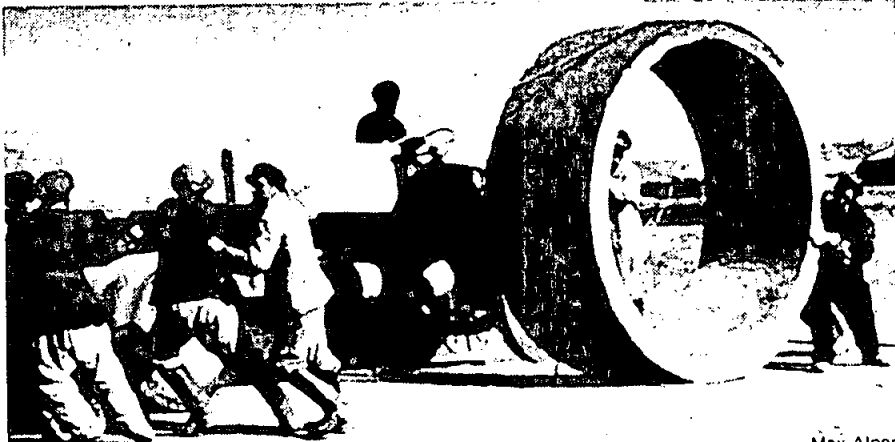


Stalin's forced collectivization at its height: Banner calls for "Liquidation of Kulaks as a Class." Left Opposition advocated voluntary collectivization with the incentive of tractors produced by planned industrial growth.

Wide World



Anatoly Skurikhin



Max Alpert

Magnitogorsk iron and steel complex being constructed in early 1930s. As contradictions of NEP came to a head, Stalin undertook brutal, forced-draft industrialization.

would begin hoarding and withholding foodstuffs from the cities.

Addressing the Fifth Congress of the Communist International in 1924, even Bukharin acknowledged that the NEP had not been intended as a long-term policy:

"The opinion prevails abroad that NEP was introduced in order to preserve power; and so indeed it was. But later we became convinced that NEP was more than a simple manoeuvre."

—cited in E.H. Carr, *Socialism in One Country*, Vol. 3

In this case, "we" was Bukharin/Stalin, for whom conciliating the peasantry and

encouraging the petty-bourgeois "Nepmen" (speculators and entrepreneurs) had become part of a full-scale assault on the principles of socialism. The year 1924 marked the consolidation of power by a bureaucratic layer in the Soviet party and state, a *political counterrevolution* which usurped control from the hands of the proletarian vanguard.

Bukharin grotesquely urged the peasantry, "Enrich yourselves!" and declared that socialism would proceed at "a snail's pace." Kulaks and Nepmen were welcomed into the party, where they became a significant wing of the

now ascendant bureaucracy. The *early* NEP legislation, drawn up under Lenin's direct guidance, while allowing free trade in agricultural produce, severely *restricted* the hiring of labor and acquisition of land. However, in 1925 these restrictions were greatly liberalized. Thus Stalin/Bukharin's post-1925 policies were far more permissive toward agrarian capitalism than Lenin's NEP. Against these policies, the Left Opposition called for increased taxation of the kulaks to finance industrialization and for "the systematic and gradual introduction of this most numerous peasant group [the middle peasants] to the benefits of large-scale, mechanized, collective agriculture" (*Platform of the Opposition* [1927]).

The Left Opposition advocated speeding up the tempo of industrialization not only to relieve "the scissors crisis," but also to increase the social weight of the proletariat. For the Trotskyists, socialist construction within Russia was linked to the spread of proletarian revolution internationally. Against this Leninist perspective, the bureaucracy signaled its seizure of power when Stalin proclaimed the possibility of building socialism in a single country.

Following the defeat of the 1923 German Revolution, Bukharin propounded the theory of the "stabilization of capitalism," denying the prospect of the international extension of the revolution "perhaps for a considerable time." The erstwhile advocate of revolutionary war became the hatchet man for the attack on Trotsky's permanent revolution, denouncing it for sowing "the seeds of doubt about the possibility of building socialism in one country." The idea that socialism—a classless society requiring qualitatively higher levels of production than even the most advanced capitalism—could be built in one country, moreover one as backward as Russia, was so flagrantly anti-Marxist that not only Lenin, but Stalin and Bukharin themselves, had always denied it.

Bukharin the Anti-Stalin?

The "gentle," "humane" Bukharin threw himself into the struggle against the Leninist Left Opposition with a vindictiveness and viciousness which at the time surpassed even Stalin's. It was Bukharin who initiated one of the hallmarks of the Stalinist method of "polemic," dredging up disparaging quotes from Lenin out of context to use for character assassination. In 1925,

Bukharin admitted to Trotsky, "We have no democracy because we are afraid of you." At a November 1926 party conference Bukharin railed at the Joint Opposition of Trotsky/Zinoviev/Kamenev in the language of an Orthodox priest, demanding the groveling confessions which were to become the *sine qua non* of the Stalin regime: "come before the party with head bowed and say: Forgive us for we have sinned against the spirit and against the letter and against the very essence of Leninism." Stalin, crowed, "Well done, Bukharin, well done. He does not speak, he slashes." When Kamenev and Zinoviev did "confess," Bukharin reviled them and sneered: "You have done well to make up your mind—this is the last minute—the iron curtain of history is just coming down."

Thus was Trotskyism "ideologically defeated." Trotsky and other leading Oppositionists who refused to capitulate were not only expelled from the party but exiled from Moscow. Bukharin raised no objection. In January 1928, Trotsky and his family were placed under arrest in their Moscow apartment and forcibly evicted and deported to Alma-Ata. His wife Natalia recalled, "Later on, we were informed that the 'political direction' of the send-off had been Bukharin's." Yet Stalin's "iron curtain" was soon to fall on the head of Bukharin as well. In a matter of months, the head of the Right Opposition was secretly appealing for a bloc with the Left Opposition against Stalin, saying in terror, "He will strangle us—He will slay us." Trotsky was adamantly opposed to a political bloc, insisting that the economic program of the Right Opposition was the more immediate threat to the preservation of proletarian state power.

Bukharin's policy fueled the forces of *social counterrevolution in the Soviet Union*. The policy of "enriching" the kulaks predictably led not only to the exacerbation of class distinctions in the countryside, as the poor peasants were virtually reduced to their prerevolutionary status as sharecroppers, but also to blackmail of the cities by the kulaks. Meanwhile, the Nepmen had continued to grow in strength: at the end of 1926, nearly 60 percent of the total industrial labor force worked in privately owned small-scale industry, under the grip of petty capitalists who controlled supply and distribution. By 1928, the kulaks were organizing grain strikes, threatening to starve the cities. In Smolensk, Byelorussia kulaks were toasting the upcoming liquidation of all



Basil Blackwell Inc.

Leaders of the Left Opposition in 1928: Seated, left to right: Serebryakov, Radek, Trotsky, Boguslavsky, Preobrazhensky. Standing, left to right: Rakovsky, Drobnis, Beloborodov, Sosnovsky.

Communists. Stalin saw no other recourse than to lash out with an unplanned, ill-conceived and brutal policy of forced collectivization and forced-march industrialization.

And he necessarily lashed out at his erstwhile allies of the Right Opposition. Subjected to the same treatment he had earlier meted out to Trotsky, Bukharin not only capitulated but crawled. He disowned his pro-peasant policy and his opposition to collectivization with grotesque paeans to Stalin's infallibility, even outdoing Stalin in his praise for a policy he opposed. A recent letter to the *New York Times* (28 February) points out that only eleven days before Stalin's cynical article, "Dizzy With Success," which tried to lay the blame for the catastrophic tempo of the collectivization on lower-level cadre, Bukharin wrote an article for *Pravda* (19 February 1930) entitled "Great Reconstruction," which happened to be the last defense of unrestrained collectivization.

For a few years, Stalin "rewarded" Bukharin for his good behavior. For a while he was editor of *Izvestia*. In 1936 he drafted the notorious "Stalin Constitution," which proclaimed the advent of socialism in the midst of the most hideous police-state terror. Having authored what was deemed to be the "most democratic constitution in the world," Bukharin was arrested. Faced with Stalin's threat to murder his young wife and son should he resist, Bukharin verbally fenced with his accusers, in the

manner of Bertolt Brecht's Galileo. He sought to mock his persecutors, denying specific allegations while absurdly declaring: "I plead guilty to... the sum total of crimes committed by this counter-revolutionary organization, irrespective of whether or not I knew of, whether or not I took a direct part in, any particular act."

Bukharin supporters like Cohen call this his "finest hour." But if he did not grovel in the pitiful manner of the rest of the "defendants" in this show trial, he did, nevertheless, confess. In his book, *Nikolai Bukharin—The Last Years* (1980), Roy Medvedev quotes Bukharin's abject confession to the 17th Party Congress in 1934, when the noose was not yet hanging over his head and that of his family: "Comrade Stalin was entirely correct in speaking out so eloquently, making brilliant use of Marxist-Leninist dialectics, against many of the theoretical premises of rightist deviation which I myself had previously formulated." After quoting this, Medvedev comments: "Bukharin could scarcely have been sincere in saying all this but sometimes it is necessary to act against one's conscience." This is hardly a commendation for a Communist leader, much less one now claimed to be the leading opponent of Stalinism.

Return to the Road of Lenin and Trotsky!

What was posed in the factional struggles of the '20s was the very existence of the Soviet state. It was Trotsky



Basil Blackwell Inc.

Left Oppositionists in Siberian exile demonstrate on anniversary of Bolshevik Revolution, 1928. Banner at left says: "Turn the Fire Against the Right, Against Kulak, Nepman and Bureaucrat...."

and the Left Opposition who fought Stalin and Stalinism, who had a program for developing and strengthening the Soviet workers state while fighting for its only sure defense, international extension of the revolution. And this is precisely why Trotsky remains anathema to the bureaucracy. In his 70th anniversary speech Gorbachev regurgitated timeworn Stalinist attacks on Trotsky:

"Trotsky and the Trotskyites negated the possibility of building socialism in conditions of capitalist encirclement. "In foreign policy they gave priority to export of revolution, and in home policy to tightening the screws on the peasants, to the city exploiting the countryside, and to administrative and military fiat in running society."

So now that they've stopped trying to pass Trotsky off as the agent of Hitler, the Mikado and the King of England, the line is to portray Trotsky as "Super-Stalin," addicted to "military fiat." But in an incisive commentary on Gorbachev's speech titled "Trotsky Still Shrouded in Non-Personality Cult" (*New York Times*, 8 November 1987), Christopher Wren explained that "Trotsky's theory of 'permanent revolution' is embarrassing when Mr. Gorbachev says he wants to cooperate with the West." Wren added, "Trotsky's castigation of Stalin as the 'gravedigger of the revolution' was far harsher than Mr. Gorbachev's description of the dictator as 'an extremely contradictory personality'...."

Stalin was not only the gravedigger of

the world revolution—in China, in Spain, in Greece—he almost succeeded in digging the grave of the Soviet Union itself. Much of the hostility to Stalin within leading circles in the Soviet Union, particularly among the military, derives from his catastrophic destruction of the leading cadres of the Red Army in 1937, including Marshal Tukhachevsky. As many as 82,000 Red Army officers, including virtually all of the general staff, were slaughtered in Stalin's purges. (Twelve years earlier, Mikhail Frunze, a Civil War hero who succeeded Trotsky as war commissar, died in mysterious circumstances when Stalin insisted he have an unnecessary operation.)

The war against Nazi Germany, in which 20 million Soviet citizens died, understandably looms large in the consciousness of the Soviet population. At a recent public appearance in the New York area, Anatoly Rybakov, author of the anti-Stalin novel *Children of the Arbat*, said bitterly, "It was because of Stalin that the Germans got as far as Moscow.... We won the war despite Stalin."

Stalin's heinous crimes represented the end logic of his defense of the privileged interests of the bureaucracy, whose overthrow of the revolutionary-internationalist program of the October Revolution necessitated the "liquidation" of the cadres who had led it. The bureaucracy's anti-revolutionary policies internationally reinforced the isolation of the Soviet Union. Stalin's

grotesque confidence in Hitler's assurance of peaceful intentions following the signing of the Hitler-Stalin pact, his destruction of the cream of the Soviet officer corps, cost the Soviet peoples millions of lives. If the policies of the Bukharinist Right Opposition had won out, there likely would have been no Soviet Union by 1941.

From the 1956 Khrushchev speech "On the Cult of Personality and Its Consequences," to contemporary Soviet works, Stalin is treated primarily as an aberrant, brutal personality. That he was. But, as Trotsky said, "it is not a question of a match between Stalin and Trotsky, but of an antagonism between the bureaucracy and the proletariat" ("Stalinism and Bolshevism," August 1937). It is hardly an accident that Stalin's apparatus was populated by many who had been on the other side of the barricades in 1917. The chief prosecutor in the third of the Moscow Trials, Andrei Vyshinsky, was not only a Menshevik official in Kerensky's Provisional Government, but reportedly personally signed an order for the arrest of Lenin as a German spy during the reaction of the "July Days."

With its policies of *glasnost* and *perestroika*, the Gorbachev regime is simultaneously encouraging a re-examination of Stalin's crimes against the Soviet working people and the revolution they made, while trying to pursue economic and international policies which cut deeply against the interests of the Soviet and international proletariat. The Soviet Union is headed toward serious internal turmoil, as the working class seeks to defend its economic interests from the "market economy" and austerity measures of *perestroika*.

The *only* revolutionary alternative to the crimes of Stalinism lies in the program and history of the Trotskyist Left Opposition. The archives of Soviet history must be made available to the masses. There, in the record of earlier struggles, they will find a revolutionary answer to the problems that face them today: the perspective of international socialist revolution to defend and extend the gains of October, the program of proletarian political revolution to oust the bureaucratic usurpers. As we wrote ten years ago in "The Campaign to 'Rehabilitate' Bukharin" (*WV* No. 220, 1 December 1978): "The real historical reckoning will only come as a result of the proletarian political revolution to oust Stalin's heirs, together with social revolution in the capitalist countries." *Return to the road of Lenin and Trotsky!* ■

reprinted from *Workers Vanguard* No. 452, 6 May 1988

Refuting Assassins' Slanders

Honor Ignace Reiss

We print below a letter to the editor of the *New York Times Book Review* responding to a scurrilous slander of Ignace Reiss, a Communist murdered by Stalin's NKVD in 1937. Similarly, a recent piece on Trotsky in the *Times* (16 November 1987) echoed the Stalinist Big Lie with the disingenuous claim that "it was never proved that Stalin ordered Trotsky's assassination."

As the flagship organ of U.S. imperialism, the *New York Times* has a long record of retailing anti-communist "disinformation," going right back to the hoary slander that Lenin and Trotsky were German agents (see illustration). During the infamous Moscow Trials in the late 1930s, its Moscow correspondent Walter Duranty dutifully parroted Stalin's deadly lies that the Old Bolsheviks were a pack of Nazi spies. Whether drawn from tsarist or Stalinist arsenals, for the *Times* any anti-Bolshevik lie is deemed "fit to print."

Readers are also referred to Theodore Draper's informative article in the 14 April *New York Review of Books*.

SPARTACIST PUBLISHING
COMPANY.

28 March 1988

New York Times Book Review

To the Editor:

Your recent exchange on "Stalin's Killerati" (March 6) contains a gross historical falsehood that must not remain unanswered. A letter by Vadim



Vladimir Kibalchich

Stalin murdered Ignace Reiss, heroic Soviet spy who embraced Trotsky's Fourth International.

Kondratiev described Ignace Reiss as "a K.G.B. defector who was selling important military intelligence in 1938 to the highest bidder, which happened to be Nazi Germany." In slandering Reiss as a Nazi spy, Kondratiev is retailing in a new form the universally discredited Stalinist lie that Leon Trotsky and the Left Opposition (as well as the entire generation of Old Bolsheviks) were all agents of Hitler and the Mikado.

Contrary to the utterly unsupported claim of Vadim Kondratiev, the son of one of the NKVD assassins of Reiss, Ignace Reiss lived and died fighting for communism and to defend the Soviet Union. For a truthful account of the life and struggle of Ignace Reiss, see the memoirs of his widow, Elisabeth Poretzky, *Our Own People* (University of Michigan Press, 1970). He personified that tendency within the Soviet apparatus which sought to restore the authentic traditions of the October Revolution, traditions betrayed by the usurping Stalinist bureaucracy.

A Galician communist won to Bolshevism in 1919, Ignace Reiss joined Soviet intelligence in 1922. He was finally driven to break with Stalinism

and to join with Trotsky when the frame-ups of the first Moscow Trial and the execution of the Old Bolsheviks, together with the Kremlin's strangling of proletarian revolution in Spain, convinced him that Stalin's counterrevolutionary policy threatened the survival of the USSR. For this Reiss was assassinated by the NKVD near Lausanne, Switzerland on 4 September 1937 (despite Kondratiev's claim he was selling secrets to the Nazis in 1938).

It was not Reiss and the courageous Russian Left Oppositionists who aided Hitler's cause and endangered the gains of the October Revolution of 1917—centrally the collectivized property forms. It was Stalin who beheaded the Red Army, murdering Marshal Tukhachevsky and the cream of the Soviet officer corps on the eve of Hitler's invasion (they too were falsely accused of being German spies). Ignace Reiss eloquently expressed his views in an open letter "To the Central Committee of the Communist Party of the U.S.S.R.," dated 17 July 1937, written a few weeks before his execution by Stalin's assassins:

"The working class must defeat Stalin and Stalinism so that the U.S.S.R. and the international workers' movement do not succumb to fascism and counter-revolution...."

"I intend to devote my feeble forces to the cause of Lenin. I want to continue the fight, for only our victory—that of the proletarian revolution—will free humanity of capitalism and the U.S.S.R. of Stalinism."

"Forward to new struggles! For the Fourth International!"

Historical justice to the memory of this devoted communist demands this correction.

Very truly yours,
James Robertson
President

cc: Leon Trotsky Museum, Coyoacán,
Mexico
Institute for Social History,
Amsterdam
Prometheus Research Library,
New York
Institute of Marxism-Leninism of
the Central Committee, Communist
Party of the Soviet Union, Moscow
Cahiers Léon Trotsky, Paris
Revolutionary History, London

15 September 1918

The New York Times

**DOCUMENTS PROVE
LENINE AND TROTSKY
HIRED BY GERMANS**

Communications Between Ber-
lin and Bolshevik Govern-
ment Given Out by Creel.

Gorbachev Rehabilitates Leader of Right Opposition

The Bukharin Dossier



Nikolai Bukharin (center) served as Stalin's ideological hatchet man against Trotskyist Left Opposition during the 1920s. (At right is Stalin's lieutenant Sergo Ordzhonikidze.)

Today Nikolai Bukharin is the most popular historical figure in the Soviet Union since V.I. Lenin, according to a recent Moscow survey. He is praised and eulogized in article after article in the Soviet press. Now a major piece by the deputy editor of the Communist Party's theoretical journal declares Bukharin to be Lenin's true heir.

Fifty years ago, in March 1938, Nikolai Bukharin stood amid the ornate surroundings of what had once been the Nobles' Club, vilified by Stalin's prosecutor Vyshinsky as a "mad dog" and a "crossbreed between a fox and a pig," charged with being a lifetime counter-revolutionary and anti-Soviet saboteur. Beside him stood Alexei Rykov, Christian Rakovsky and 18 others, defendants in the third and last of the frame-up Moscow Trials against the "Anti-Soviet Bloc of Rights and Trotskyites."

They had been leaders of Lenin's party, organizers of October. Bukharin edited the leading party organ, *Pravda*,

for 12 years and was president of the Communist International for three. Rykov succeeded Lenin as president of the Council of People's Commissars, head of the Soviet government. Rakovsky was a founding member of the Executive Committee of the Communist International.

During the stormy years following the death of Lenin in 1924, they became bitter political opponents. Bukharin and Rykov were leading exponents of the Right Opposition and, for many years, Stalin's allies. Rakovsky, until his capitulation to Stalin in 1934, had been a central leader of the Trotskyist Left Opposition.

In the end, they all died victims of Stalin's terror. Bukharin and Rykov were shot immediately; Rakovsky, aged 65, was imprisoned, then shot on Stalin's orders three years later. Of this monstrous frame-up, Trotsky wrote:

"Bukharin has thirty years of revolutionary work to his credit, Rykov almost forty, Rakovsky nearly fifty.

These three men are now accused of having suddenly become 'spies' and 'agents' of foreign powers, aiming to destroy and dismember the USSR and establish capitalism....

"Whoever tries to judge the events unfolding in Russia finds himself faced with the following alternatives: (1) either all the old revolutionists—who led the struggle against czarism, built the Bolshevik Party, achieved the October Revolution, led the three years of civil war, established the Soviet state and created the Communist International—either all these figures, almost to a man, were at the very moment of these achievements, or in the years immediately following, agents of capitalist states; or (2) the present Soviet government, headed by Stalin, has perpetrated the most heinous crimes in world history."

—"Behind the Moscow Trials"
(March 1938)

The Moscow Trials of 1936-38, and the blood purges which accompanied them, resulted in the slaughter of virtually the entire leadership of Lenin's Bolshevik Party, the decapitation of the

continued on page 25