

‘State Capitalism’ in the Soviet Union

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Introduction

The aim of this paper is to explore the reactions to the Bolshevik Revolution of one group of critics from the left: those who saw it as ushering in a new form of capitalism. The controversy over state capitalism had both theoretical and practical significance. At the analytical level it presented an important test of Marx’s conception of historical materialism, which had been formulated in a largely successful attempt to explain the transition from feudalism to capitalism in Western Europe but had encountered difficulties when applied to other epochs and other continents. In political terms, the class character of the Soviet Union was a crucial question for those who wished to understand its internal dynamics, the nature of its contradictions and the potential that it offered for revolutionary change. It remained central, even after 1991, to any serious Marxian analysis of post-Mao China, though this is not a topic that we develop at any length here.

Our treatment is broadly chronological. We begin by outlining the origins of the state capitalism hypothesis before the October Revolution, and then describe the use of the term by socialist critics of the Bolsheviks between 1917 and 1929. Next we discuss the revival of interest in the idea during the 1930s experience of Stalinism, show how Frankfurt School theorists extended it to denote contemporary developments in Western capitalism, and consider the further evolution of the notion of state capitalism that occurred after 1945. Finally we summarise the arguments, for and against the hypothesis, that emerged from these debates, and conclude by briefly considering the principal deficiencies of the state capitalist hypothesis.

‘State Capitalism’ Before 1917

The conservative claim that socialism would inevitably degenerate into tyranny is probably as old as the socialist ideal itself. What is often overlooked is that the accusation came from the Left, no less than from the Right. The anti-democratic views of Owen and Saint-Simon were frequently criticised by their socialist contemporaries, while William Thompson charged Thomas Hodgskin with promoting the interests not of the masses but rather of an intellectual elite. Karl Marx aroused similar suspicions. Long before 1917, some of the left (that is, socialists and anarchists) were already claiming that there might be serious problems with the Marxian project. Based on his experiences in the First International, Mikhail Bakunin concluded that any regime led by Marx or his followers was likely to be oppressive and dictatorial:

You can see quite well that behind all the democratic and socialistic phrases and promises in Marx’s program for the State lies all that constitutes the true despotic and brutal nature of all states, regardless of their form of government. Moreover, in the final reckoning, the People’s State of Marx and the aristocratic-monarchic state of Bismarck are completely identical in terms of their primary domestic and foreign

objectives. In foreign affairs there is the same deployment of military force, that is to say, conquest. And in home affairs the same employment of armed force, the last argument of all threatened political leaders against the masses who, tired of always believing, hoping, submitting, and obeying, rise in revolt. (Bakunin 1872 [1973], pp. 319-20)

Bakunin's own political practice may have been elitist, manipulative and authoritarian, but he deserves credit, perhaps, for having been the first to foreshadow the Bolshevik dictatorship. According to Alvin Gouldner his insights went much deeper, leading him to formulate an original and incisive critique of Marxism as 'the ideology, not of the working class, but of a new class of scientific intelligentsia...who would corrupt socialism, make themselves a new elite, and impose their rule on the majority' (Gouldner 1982, pp. 860-1). The basis of their domination would be knowledge or 'cultural capital' (*ibid.*, p. 867)¹, together with their monopoly of political power. Thirty years later the Polish anarchist Jan Wacław Machajski reasserted Bakunin's position, arguing that the intelligentsia's rise to power as a new ruling class might be facilitated by a Marxist dictatorship. His analysis was taken seriously enough in Stalin's Russia for a campaign to be mounted, in 1938, against 'Makhaevism' (Avrich 1965). At about the same time as Machajski, in 1904, Leon Trotsky expressed similar fears, this time in the context of Lenin's assertion that the party should become a hierarchy of professional revolutionaries. In what is with hindsight a chilling article, attacking Lenin's Jacobin tendencies that led him towards 'Substitutism', Trotsky predicted the replacement of the revolutionary working class as the source of political authority first by the party, then by its leadership, and finally by a single party dictator (Deutscher 1954, pp. 88-97).

Control of the state was central to all these arguments, but none of these writers speculated on the potential emergence of a new, statist form of capitalism. The concept of 'state capitalism' was not, however, entirely absent from the socialist literature before 1917, though it was generally used to describe 'the takeover of industries by a state controlled by or for private capitalists' (Buick and Crump 1986, p. 118). Marx himself had predicted an ever-increasing role for the state as capitalism continued to evolve (Marx 1867 [1961], chapter XV, section 9), and in *Anti-Dühring* Engels had written that

The modern state, whatever its form, is an essentially capitalist machine, the state of the capitalists, the ideal aggregate capitalist. The more productive forces it takes over into its possession, the more it becomes a real aggregate capitalist, the more citizens it exploits. The workers remain wage-workers, proletarians. The capitalist relationship is not abolished, rather it is pushed to the limit. (Engels 1878 [1976], p. 360)

Later Marxists acknowledged the part played by the state in developing capitalism in both Russia and Germany, with Lenin (for example) describing a 'Prussian path' by which the Tsarist regime hoped to save itself by incorporating some aspects of the bourgeois system and thereby reconstructing the *ancien régime* from above (Howard and King 1989, chapter 11). This process was seen to have deepened in the early stages of the First World War, leading some Marxists to argue that the extension of state involvement in the capitalist economy was not only irreversible but also entailed a profound systemic change. Nikolai Bukharin, for example, identified a new stage in the development of capitalism, in which all sectors of national production and all important social institutions had come under state

management; he termed this new stage ‘state capitalism’ (Bukharin 1915 [1972], p. 158). Rudolf Hilferding’s interpretation of the German war economy was very similar, although he preferred the term ‘organised capitalism’ (Howard and King 1989, chapter 14) and – as we shall see later – was always deeply critical of the concept of state capitalism.

The 1917 Revolution

Those socialists who opposed the October Revolution did so for two reasons, which were closely related. First, they objected to the dictatorial nature of the Bolshevik regime, and in particular to the suppression of working class democracy and the imposition of one-party rule. Criticism of this type came from Rosa Luxemburg (1918 [1961]), Bertrand Russell (1920), Emma Goldman (1923) and Karl Kautsky (1918), respectively a revolutionary socialist, a Guild Socialist, an anarcho-communist and a social democrat. Second, the more orthodox among the socialist critics reaffirmed the traditional Marxian position on the impossibility of a socialist revolution in Russia, which was deduced from the fundamental premises of historical materialism. On this view, socialism was possible only in an advanced capitalist society with a mature and class-conscious proletariat. Since these preconditions were demonstrably lacking in Russia, any revolution there could only be a bourgeois (hopefully, a bourgeois-democratic) one, which would overthrow the autocracy, eliminate the remnants of feudalism and greatly accelerate the development of capitalism. This, to repeat, was the mainstream position, which had been defended against the Russian Populists by two generations of Marxian theorists and was shared (before April 1917) by almost everyone except Leon Trotsky (Howard and King 1989, chapters 11-12).²

Karl Kautsky reiterated this line from the very beginning. Writing in August 1918, he insisted that conditions in Russia made socialism impossible: ‘We have already shown how overwhelming is the preponderance of the peasants. Their cooperation with the proletariat has made possible the victory of the revolution, but it also testifies to the middle-class character of the revolution’ (Kautsky 1918 [1964], p. 120). Thus the Soviet government could not achieve its stated aims:

That it has radically destroyed capitalism can be accepted by no one. It can certainly destroy much capitalist property, and transform many capitalists into proletarians, but this is not equivalent to the establishment of a Socialist system of production. So far as it does not succeed in doing this, capitalism will again arise, and must arise. Probably it will reappear very quickly and bring a change in the personnel of the dictatorship of the proletariat. In the place of the former capitalists, now become proletarians, will enter proletarians or intellectuals become capitalists. These people will always skim off the cream, and will remain on the side of the Government which is last on the field, and brings order out of chaos. (*Ibid.*, pp. 124-5)

In the following year, Kautsky went even further:

It is only the old feudal large landed property which exists no longer. Conditions in Russia were ripe for its abolition but they were not ripe for the abolition of capitalism. Capitalism is now once again celebrating a resurrection, but in forms that are more oppressive and harrowing for the proletariat than of old. Instead of assuming higher industrialised forms, private capitalism has assumed the most wretched and shabby

forms of black marketeering and money speculation. Industrial capitalism has developed to become state capitalism. Formerly state officials and officials from private capital were critical, often very hostile towards each other. Consequently the working man found that his advantage lay with one or the other in turn. Today the state bureaucracy and capitalist bureaucracy are merged into one – that is the upshot of the great socialist revolution brought about by the Bolsheviks. It constitutes the most oppressive of all despotisms that Russia has ever had to suffer. (Kautsky 1919 [1983], p. 146)

The same point was made, in the United Kingdom, by the (anonymous) leadership of the remorselessly orthodox Socialist Party of Great Britain (Jerome and Buick 1967, pp. 58-9; Buick and Crump 1986, pp. 120-1). Less critical of the Bolsheviks, the Austro-Marxist Otto Bauer anticipated a gradual mellowing of the regime, so that with increased democracy 'there will emerge from dictatorial state capitalism', as he predicted in 1920, 'a socialist order of society' (Bauer 1920, cited in Jerome and Buick 1967, p. 60).

Inside Russia the 'Proletarian Communist' faction of the Bolshevik party, which included Bukharin, Radek and Ossinsky, denounced the new 'state capitalism' in their paper, *Kommunist* (Jerome and Buick 1967, p. 65). This provoked Lenin's famous polemic against 'Left Wing Childishness and Petty Bourgeois Mentality', in which he denied the existence of state capitalism in Russia, and regretted its absence. Precisely what the protagonists in this debate meant by 'state capitalism' is unclear. The Left Communists called for a 'general socialisation of industry' and attacked the emergence of 'immense trusts directed by industrial captains, which from the outside appear to be state enterprises' (cited by Jerome and Buick 1967, p. 65 n31). Lenin's use of the term is equally ambiguous. On one reading he was referring to a mixed economy with a role for private capitalists (Nove 1986, pp. 25-6). An alternative interpretation is that he simply meant the use by state-owned firms of well-established capitalist techniques for efficient production, above all the principles of 'scientific management' advocated by F.W. Taylor. Neither side, at this early stage, seems to have viewed state capitalism as a new and distinctive mode of production (Howard and King 1989, chapter 15).

After Lenin's death in 1924 the term continued to be used by dissident Bolsheviks, including Zinoviev and Kamenev, and by the (anti-Leninist) Council Communists, who asserted the need for direct democracy through workers' councils emancipated from party domination. 'The dictatorship of the party is commissar-despotism', the German Council Communist Otto Rühle wrote in 1921; '[it] is state capitalism' (Rühle 1921 [1974], p. xvii, cited by Buick and Crump 1986, p. 122). Three years later he distinguished nationalisation from socialisation: 'Through nationalisation you can arrive at a large-scale, tightly-centrally run state capitalism, which may exhibit various advantages as against private capitalism. Only it is still capitalism' (Rühle 1924 [1974], p. 15, cited by Buick and Crump 1986, p. 123). As the Menshevik, Aron Yugoff, put it, 'the nationalisation of industry in Russia has not produced a socialist economy, but only a bureaucratic and badly functioning State capitalism' (Yugoff 1930, p. 336, cited by Jerome and Buick 1967, p. 62).

The Impact of Stalin

There is a lack of precision, indeed, a sloganeering quality, about these references that was not dispelled – possibly could not be dispelled – before the Stalin revolution in the Soviet Union that began in 1929. With the liquidation of Lenin's New Economic Policy, forced collectivisation of peasant agriculture and rapid industrialisation, the Russian state could no longer plausibly be described as a prisoner of private capital, or even as a collaborator with it. Instead the Soviet bureaucracy seemed to be carrying out much of the historical task of the Russian bourgeoisie, which it had itself failed, dismally and in due course fatally, to achieve before 1914. Comparison with the transition from feudalism to capitalism and with industrialisation in the West made Marxists begin to ask whether it was not possible, by a profound irony of history, that the mission of the first successful workers' revolution was the construction of capitalism. There was a precedent for this sort of speculation in the thinking of Marx and Engels after the collapse of the 1848 revolution, when a weak, timorous and divided middle class had proved incapable of establishing liberal democracy in Germany. This, they argued, had been left for the working class to achieve (Marx 1847-9 [1978]). And this is in fact how it happened, in Germany and many other parts of Western Europe (Sassoon 1996).

One indication of the revival of interest in the concept of state capitalism after 1929 is provided by George Orwell's references to it in *Homage to Catalonia*, when describing the counter-revolution in Spain in 1937: 'Since the previous year direct power had been gradually manoeuvred out of the hands of the syndicates, and the general movement was away from working-class control and towards centralized control, leading on to State capitalism or, possibly, towards the reintroduction of private capitalism' (Orwell 1938a [1952], p. 152; cf. *ibid.*, p. 104 and Orwell 1938b [2001], p. 32). Orwell was not a systematic or original political theorist, but he was very widely-read and had an informed, intense and intelligent commitment to socialism; in Britain he associated with members of the Independent Labour Party and in Spain with the heretical Marxists of the P.O.U.M. If he had not taken the idea of state capitalism to Barcelona in December 1936 he certainly brought it back to London six months later.

There were at least three potential sources from which he might have drawn, at first or secondhand: Mensheviks, Council Communists and dissident Trotskyists. Among the exiled Mensheviks there was after 1929 an intense and continuing discussion of the long-term implications of Stalin's revolution. Theodore Dan, who had previously taken the quasi-Trotskyist position that the Soviet Union was a form of workers' state with bureaucratic deformations, now maintained that it had

...entered a necessarily transitory phase of state-capitalist development. Objectively speaking, this phase represented real progress vis-à-vis the earlier primitive forms of capitalism. Industrialization and collectivization in particular were achievements that no future democratic regime in Russia should attempt to undo. On the international level too, the transformation of Russia marked an advance for the working class inasmuch as it encouraged and strengthened the proletariat in the world-wide confrontation with capitalism and fascism.

In the course of the 1930s this argument was to gather increasing weight. (Liebich 1987, p. 228)

The Council Communists took a much less optimistic view. In 1934 the Group of International Communists in the Netherlands denounced the USSR as 'nothing but a capitalist economy taken over by the State and directed from the outside and from above by its bureaucracy. The Bolshevik socialism is state-organized capitalism' (cited by Buick and Crump 1986, p. 123). Paul Mattick, a German Council Communist exiled in the United States, was equally scathing:

....the disappearance of the individual capitalist alone does not end the capitalist form of exploitation. His transformation into a state official, or his replacement by state officers, still leaves intact the system of exploitation which is peculiar to capitalism. The separation of the workers from the means of production and, with this, class rule, are continued in Russia, with the addition of a highly centralised, single-minded exploitative apparatus that now makes more difficult the struggle of the workers for their objectives, so that Russia reveals itself only as a modified capitalistic development expressed in a new terminology. (Mattick 1939 [1978], p. 80)

But the most systematic and coherent presentation of the case that state capitalism was in existence in Soviet Russia came from one of Trotsky's former political secretaries, Raya Dunayevskaya (Howard and King 2000a). Criticising Max Shachtman's characterisation of the Soviet Union as 'bureaucratic state socialism', Dunayevskaya insisted that

The determining factor in analyzing the class nature of a society is not whether the means of production are the private property of the capitalist class or are state-owned, but whether the means of production are capital, that is, whether they are monopolized and alienated from the direct producers. The Soviet Government occupies in relation to the whole economic system the position which a capitalist occupies in relation to a single enterprise. Shachtman's designation of the class nature of the Soviet Union as 'bureaucratic state socialism' is an irrational expression behind which there exists the real economic relation of state-capitalist-exploiter to the propertyless exploited. (Dunayevskaya 1941 [1992], unpaginated; original stress)

Trotsky had denied the existence of state capitalism in Russia on the grounds that state ownership of the means of production had been secured by the proletariat in a revolution, not by the bourgeoisie in the form of 'state trustification'. For Dunayevskaya, this position was profoundly mistaken:

But is it necessary for Marxists to stress the fact that socialization of the means of production is not socialism but as much an economic law of capitalist development as is monopoly. The weak Russian bourgeoisie was incapable of accomplishing either the democratic tasks of the revolution or the further development of the productive forces. 'Its' task was accomplished by the masses with the method of social revolution.....

To prove that the particular state-monopoly capitalism existing in Russia did not come about through state trustification but by methods of social revolution explains its historical origin but does not prove that its economic law of motion differs from that analyzed by Karl Marx, Engels and Lenin. (Ibid.)

What, then, was this ‘economic law of motion’? The answer soon came, from within the system. In 1944 the *American Economic Review* published Dunayevskaya’s translation of an article from the Russian theoretical journal *Under The Banner of Marxism*, on ‘The Teaching of Economics in the Soviet Union’ (Anon. 1944), along with her critical commentary. Up to now, she noted, Stalin’s ideologists had always denied that the Marxian law of value operated in the USSR. Now, in ‘a startling reversal of Soviet political economy’ (Dunayevskaya 1944, p. 534), the official line had changed. The law of value was now deemed to apply to the Soviet economy, but in the service of socialism and without implying the continued existence of exploitation. This, however, was in blatant contradiction to the position of all previous Marxian theorists, for whom ‘the law of value entails the use of the concept of alienated or exploited labor and, as a consequence, the concept of surplus value’ (*ibid.*, p. 533; original stress removed). The new Soviet line was no accident, Dunayevskaya maintained. It simply expressed ‘the ideas and methodology of an “intelligentsia” concerned with the acquisition of “surplus products”’. What is important is that this departure from “past teaching of political economy” actually mirrors economic reality’ (*ibid.*, p. 537). Above all, it reflected the sharp class antagonism between the workers and the new ruling class, the intelligentsia.

State Capitalism in the West

Dunayevskaya’s analysis was itself severely criticised by Paul Baran and Oscar Lange, whose arguments will be considered below. First, however, some reference must be made to the similarities that were thought to be becoming increasingly obvious between Stalin’s Russia and the growing role of the state in the ostensibly capitalist economies of the West. As Mattick put it,

...bourgeois economists from Marshall to Mitchell, from the neo-classicists to the modern institutionalists, have concerned themselves with the question of how to bring order into the disorderly capitalist system, the trend of their thought paralleling the trend of an ever greater intrusion of the State into competitive society, a process resulting in ‘New Deals’, ‘National-Socialism’, and ‘Bolshevism’, the various names for the different degrees and variations of the centralization and concentration processes of the capitalist system. (Mattick 1939 [1978], p. 81; original stress)

Similar arguments can be found in the work of the maverick American Communist Lewis Corey (1935), in the contemporary Fabian literature on economic planning (e.g. Cole 1937), in the later writings of the eminent ‘non-socialist Marxist’ Joseph Schumpeter (1943),³ and of course in James Burnham’s derivative but immensely influential book, *The Managerial Revolution* (Burnham 1941).

The most rigorous version of the ‘state capitalism’ thesis as applied to the West came from Marxists of the Frankfurt School, most notably from Friedrich Pollock. State capitalism, for Pollock, was a theoretical term. It denoted ‘a model that can be constructed from elements long visible in Europe and, to a certain degree, even in America’ (Pollock 1941 [1978], p. 71), where the influence of the market had been greatly reduced and the economic role of the state had correspondingly increased. Under state capitalism a general plan had replaced the market as the principal means of directing production, consumption, saving and investment. Prices were administered by bureaucrats, and ‘profit interests’ were

'strictly subordinated to the general plan' (*ibid.*, p. 76). The principle of rationalisation⁴ and the techniques of scientific management were employed in state capitalism at the expense of economic laws, which had ceased to operate. The capitalist had been reduced to 'a mere rentier' (*ibid.*, p. 80), and in time would probably disappear altogether.

Pollock distinguished democratic and totalitarian variants of state capitalism, the former being relatively undeveloped both in practice and in theory, and possibly constituting no more than 'a transitory phase leading either to total oppression or to doing away with the remnants of the capitalistic system' (*ibid.*, p. 93). In totalitarian state capitalism there was very clearly a new ruling class, consisting of 'an amalgamation of the key bureaucrats in business, state and party allied with the remaining vested interests' (*ibid.*, p. 90). The new system appeared to face no significant economic limitations:

Forewarned as we are, we are unable to discover any inherent economic forces, 'economic laws' of the old or a new type, which could prevent the functioning of state capitalism. Government control of production and distribution furnishes the means for eliminating the economic causes of depressions, cumulative destructive processes and unemployment of capital and labor. We may even say that under state capitalism economics as a social science has lost its object. Economic problems in the old sense no longer exist when the coordination of all economic activities is effected by conscious plan instead of by the natural laws of the market. Where the economist formerly racked his brains to solve the puzzle of the exchange process, he meets, under state capitalism, with mere problems of administration. (*Ibid.*, pp. 86-7)

There were, however, natural limits to growth, which were revealed in both Nazi Germany and Soviet Russia by chronic raw material shortages, together with potential political difficulties, on which Pollock was rather vague (*ibid.*, pp. 88-9). His colleague Max Horkheimer took a rather different view: 'State capitalism is, to be sure, an antagonistic, transient phenomenon. The law of its collapse is readily visible: it is based on the limitation of productivity due to the existence of the bureaucracies' (Horkheimer 1940 [1978], p. 109). He did not, however, elaborate on this suggestive but rather enigmatic statement.

After 1945

After 1945 the state capitalism hypothesis appeared to be even more plausible, despite the destruction of its fascist variant. The very survival of the Soviet Union made the proposition that it was in some sense a temporary or 'transitional' phenomenon much less credible. It was also very difficult to describe Stalin's satellites in Eastern Europe as 'workers' states', since – with the exceptions of Albania and Yugoslavia – the Soviet system had been implanted there by the bayonets of the Red Army. Moreover, a mechanism was now at hand to explain how the allocation of resources in the Soviet Union was in fact dictated by the forces of capitalism, albeit in an indirect manner. The Stalinist regime was subject to intense military competition, first from Nazi Germany and then from the United States in the First Cold War (1945-1972). This competition forced it, as a matter of survival, to accumulate as rapidly as possible, and thus to intensify the exploitation of the working class. This compulsion was every bit as powerful as that imposed on

private capitalists by the need to compete on the world market. As the maverick Trotskyist Tony Cliff put it:

The Stalinist state is in the same position *vis-à-vis* the total labour time of Russian society as a factory owner *vis-à-vis* the labour of his employees. In other words, the division of labour is planned. But what is it that determines the actual division of the total labour time of Russian society? If Russia had not to compete with other countries, this division would be absolutely arbitrary. But as it is, Stalinist decisions are based on factors outside of control, namely the world economy, world competition. From this point of view the Russian state is in a similar position to the owner of a single capitalist enterprise competing with other enterprises. (Cliff 1955 [1974], p. 209)⁵

Later writers sympathetic to Cliff emphasized the importance of military competition in what they described as a ‘permanent arms economy’ (Kidron 1970). The destruction of the Soviet mode of production as a result of the Second Cold War (1976-1991) testifies, according to this school of thought, to the strength of this uneven but unremitting competitive pressure (cf. Howard and King 2000b).

A further attraction of the state capitalism hypothesis after 1945 was that it offered a way of preserving orthodox Marxism against a new form of populist heresy. Many Marxists claimed (following Lenin) that capitalism as a global system was moribund, and in particular that it no longer possessed the ability to revolutionise the means of production in backward areas. In the nineteenth century, imperialism had extended capitalist property relations to pre-capitalist regions and had thereby played a progressive role – violent, intensely exploitative, but nevertheless progressive – just as Marx and Engels had predicted in *The Communist Manifesto*. By the early twentieth century this was no longer possible, as Lenin had demonstrated, and the experience of the Great Depression appeared to confirm the view that capitalism had become a barrier to human development. Imperialism was now seen, by a substantial majority of Marxists, as a retrograde force that served only to extract surplus value from colonial and ex-colonial territories and to foster reactionary and parasitic regimes whose sole interest was in obstructing social and economic change. It followed that socialism was no longer an inevitable consequence of economic development, as earlier Marxists had always maintained, but rather a precondition for progress in the ‘Third World’ (a classic text in this tradition is Baran 1957, and a survey of evolving ideas on imperialism is provided by Howard and King 1999).

Defenders of orthodox Marxism reasserted the view that imperialism was indeed a ‘pioneer of capitalism’ (Warren 1980), and also began to scrutinise the class nature of the new post-colonial regimes. It was a relatively simple step to apply the state capitalist hypothesis, first to Mao’s China⁶ and then to a wide range of African, Asian and Latin American countries whose rulers claimed to be socialists, dismissing the mixture of nationalism, vulgar Marxism and dependency theory that prevailed there as nothing more than the ideology of a new ruling class. One of the first to do so was Cliff, writing under his birthname Ygael Gluckstein, who (as we have seen) was also the author of an influential critique of state capitalism in the Soviet Union. In 1957, Cliff described China as a form of ‘Bureaucratic State Capitalism’ very similar to that in Russia and revealing interesting parallels with the old ‘Oriental society’. But there were also

...big differences. While the old autocratic state managed the irrigation system – which was a key sphere of contemporary economic life – it

left the greater part of production proper in the hands of private persons. The Maoist State manages the key sectors of industry, banking and trading, and is bent on enlarging its control to the management of all production and distribution both in industry and agriculture.With Mao's bureaucratic management of the whole economy, the Party and state bureaucracy willassume totalitarian control over all aspects of life' (Gluckstein 1957, p. 315).

The state capitalism hypothesis was again applied to China, and more generally, by later writers in the same tradition (e.g. Birchall 1974).

In Yugoslavia, the thesis that Communism had created a new class society was advocated by the former Vice-President Milovan Djilas. The new ruling class, he argued, was 'the bureaucracy, or more accurately the political bureaucracy', whose 'ownership privilege....manifests itself as an exclusive right, as a party monopoly, for the political bureaucracy to distribute the national income, to set wages, direct economic development, and to dispose of nationalized and other property' (Djilas 1957, pp. 38, 44-5). Djilas did not, however, regard the new class society as a form of capitalism, since its underlying dynamic was not the pursuit of profit. 'The Communists cannot attain complete control over production', he wrote, 'but they have succeeded in controlling it to such an extent that they continuously subordinate it to their ideological and political goals. In this way, Communism differs from every other political system' (*ibid.*, p. 106). Lenin had been right to describe capitalist politics as 'concentrated economy'. But this had been reversed under Communism, when 'economy has become concentrated politics' (*ibid.*, p. 122).

The Central Issues

It is now time to draw together the various strands of the argument. While the starting-point for discussion of state capitalism after 1917 was invariably the ironic historical role of a victorious working class in a pre-capitalist or backward capitalist country, the analysis did not end there. It was easy enough to demonstrate that wage labour had not been abolished in the Soviet Union, and that the proletariat had no more control over the allocation and use of the means of production than its counterpart in the West. It also seemed clear that the extraction of surplus labour and its appropriation by the minority which did control the means of production in the interests of accumulation – in short, their exploitation – was proceeding on an ever-increasing scale and (until the late 1960s) at what appeared to be an ever-increasing pace, allowing the Soviet Union first to catch up and then to overtake the West. Clear analogies could be drawn with Marx's own analysis of 'primitive accumulation' in sixteenth century England, when a predominantly peasant society was ravaged by a process of 'fraud and force' in which the state played a central role. The outcome was a massive expansion of the proletariat and the concentration of productive resources in the hands of a new, avaricious and ruthless capitalist ruling class. As for the Soviet Union, there could be no doubt as to the extent of the power and privileges of the new class. By 1945 Dunayevskaya could refer her critics to a number of Western sources documenting the wide income differentials in the Soviet Union, and also to statements by Molotov and Stalin on the economic status of the intelligentsia. These differentials, she argued, provided clear evidence of 'the actual production relations' in Russia, which were based on exploitation (Dunayevskaya 1945, p. 663; cf. Howard and King 2000b, pp. 280-3).

More orthodox Marxists objected that the exploitation of wage labour was only a necessary condition for the existence of capitalism; it was not sufficient. For a system to qualify as capitalist, it was also necessary that the means of production were capital, that is, that they were privately owned, capable of being bought and sold, and allocated according to the criterion of maximum profit. In short, it was necessary for the law of value to prevail, and in the Soviet Union it evidently did not. Moreover, the means of production were not private property in the Soviet Union and therefore could not be sold, bequeathed or inherited. Output and investment decisions were made by bureaucrats in accordance with the dictates of the plan, not the market. There was no competition between Soviet enterprises, and hence no basis for the operation of the law of value (Mandel 1969). As Rudolf Hilferding put it:

A capitalist economy is governed by the laws of the market (analysed by Marx) and the autonomy of these laws constitutes the decisive symptom of the capitalist system of production. A state economy, however, eliminates precisely the autonomy of economic laws. It represents not a market but a consumers' economy. It is no longer price but rather a state planning commission that now determines what is produced and how. Formally, prices and wages still exist, but their function is no longer the same; they no longer determine the process of production which is now controlled by a central power that fixes prices and wages. (Hilferding 1940, p. 266)

Hilferding claimed that those who defended the state capitalism hypothesis had been misled by the rapid rate of accumulation in the Soviet Union. But '[t]he mere fact that the Russian state economy accumulates does not make it a capitalist economy, for it is not capital that is being accumulated'. To argue otherwise involved 'a gross confusion between value and use value' (*ibid.*, pp. 267-8).

Paul Baran criticised Dunayevskaya on similar grounds. In the Soviet Union exchange ratios between commodities⁷ were determined by the state, together with the quantities produced and the allocation of the labour force. None of these magnitudes was therefore subject to the law of value, which applied – in the words of Paul Sweezy – only to 'a society of private producers, who satisfy their needs by mutual exchange' (Sweezy 1942, p. 53, cited by Baran 1944, p. 867). The Soviet economists' references to 'value' were nothing more than 'a terminological muddle' and had served only 'to deprive the "law of value" of all its meaning and significance and to turn it into a night in which all the cats are gray' (Baran 1945, p. 869; cf. Meyer 1944, pp. 81-2).

Oscar Lange, by contrast, maintained not only that the law of value did apply to socialism but also that this was the position of Marx himself. It had been denied by earlier Soviet economists, and the article attacked by Dunayevskaya thus represented a return to the original Marxian doctrine:

There is, of course, a difference in the mode of operation of the 'law of value' under capitalism and under socialism. Under capitalism it asserts itself through the impersonal automatism of the market; in a socialist society it serves as a normative principle for the allocation of resources by the planning authorities. (Lange 1945, p. 128)

Under socialism, then, the law of value was a planning principle – in Lange's opinion a very imperfect one (*ibid.*, pp. 131-3). Its use in the Soviet Union entailed inefficiency but it did not imply the existence of either exploitation or a class society:

There is no contradiction between the view that the theory of value can serve as a basis for socialist planning and the fact that Marx applies it as a basis for his theory of exploitation. Marx's theory of value is not equivalent to his theory of exploitation. According to Marx, the law of value holds not only under capitalism, but under 'commodity production' (i.e., exchange economy) of any kind. In particular, it also applies to what Marx calls 'simple commodity production', i.e., an exchange economy of small independent producers who do not employ wage-labor. In such an economy there is no exploitation (in the Marxian sense), there is no surplus value, and there are no classes, and yet the 'law of value' applies. (*Ibid.*, p. 129)

Lange concluded that Dunayevskaya was 'entirely mistaken' in claiming that 'the Marxian law of value entails the concepts of surplus value and exploited labor' (*ibid.*, p. 129n6). She had failed to understand that capitalist production was not equivalent to commodity production, but only a special case of it.

Defenders of the state capitalism thesis replied to their critics that effective control over the means of production was much more important than the legal formality of ownership. Dunayevskaya, for example, criticised the 'fetishism of state property' that she detected in Trotsky:

Neither the fact that the workers had lost all their control over production through factory conferences, nor the fact that the trade unions themselves had been incorporated into the state apparatus, nor the fact that the means of production were increasing at the expense of the means of consumption, exactly as under private capitalism, would move him from making statified property into a fetish: nationalized property = workers' state. (Dunayevskaya 1973, p. 142)

'Legal property forms', that is to say, 'tell us something about the way a society is organised, but they are not the most important element. At best they only reflect the real social relationships; at worst they disguise or distort them' (Buick and Crump 1986, pp. 16-17). Moreover, inter-generational transmission of the means of production was irrelevant. The deceased estate of each generation of capitalists might be taxed away at a rate approaching 100% or be disposed of (à la Carnegie) in charitable donations, and the shares resold, without the society ceasing in any way to be entirely capitalist.

The more orthodox Marxists responded in the following terms. First, while there was no denying the intensity of the exploitation, oppression and alienation of the Soviet worker, the nature of wage labour was profoundly different. Job security was institutionalised, at both the macro level (through sustained over-full employment) and the micro (where labour hoarding was the universal rule). It followed from this that the extraction of labour from Soviet labour power was unusually difficult, since the classic capitalist sanction – the fear of the sack – scarcely applied. 'They pretend to pay us, and we pretend to work', as the old saying put it. After 1953, at least, the Soviet worker enjoyed a significant and increasing degree of control over the labour process:

....because the members of the norm-setting committee include manual workers, and it is in the interest of the factory management to collude with them in order to achieve an orderly result, the whole drive of the enterprise is toward the acceptance of a rate of work largely determined by the worker. (Ticktin 1992, p. 85)

It was therefore very much more difficult to introduce new technology than was the case in the West, so that the productivity of labour inevitably lagged behind. And a very large proportion of the Soviet worker's consumption bundle was provided outside the market, through the 'social wage' supplied by the state (pensions, education, health care, sometimes housing) and by the enterprise (housing, holidays, social welfare). The sale of labour power was either altogether absent from the Soviet system (as Ticktin argued) or it occurred under very peculiar circumstances (as maintained, for example, by Sweezy 1980, p. 149).

Second, a capitalist class cannot be conceived of in the absence of a mechanism for transmitting wealth between the generations. In Western capitalism no death duties or capital transfer taxes had ever been successfully imposed at near-confiscatory rates. This very fact suggests that mere control over the means of production is not enough to permit the existence of a capitalist class. Contrary to the views of the social democratic revisionists of the 1950s (e.g. Crosland 1956), ownership matters, and it matters a very great deal. The Roman Catholic hierarchy (to use one example inadvisably cited by Cliff) is not a class, and certainly not a capitalist class. Neither, Rudolf Hilferding insisted, was the Soviet bureaucracy:

Bureaucracy everywhere, and particularly in the Soviet Union, is composed of a conglomeration of the most varied elements...In reality, the bureaucracy is not an independent bearer of power. In accordance with its structure as well as function, it is only an instrument in the hands of the real rulers. It is organized as an hierarchy and subordinated to the commanding power...It is not the bureaucracy that rules, but he who gives orders to the bureaucracy. And it is Stalin who gives orders to the Russian bureaucracy (Hilferding 1940, p. 268)

Thus the Soviet Union was not a class society but a 'totalitarian state', which 'subjects the economy to its aims'. In consequence, '[t]he economy loses the primacy which it held under bourgeois society'. The character of the Soviet (and fascist) system, Hilferding maintained, was not determined by the character of the economy. 'On the contrary, it is the economy that is determined by the policy of the ruling power and subjected to the aims and purposes of this power', as had been the case in the late Roman empire (*ibid.*, pp. 269, 270).

Third, without the ability to buy and sell the means of production, there was no way in which Soviet bureaucrats were able to enforce efficient operation on individual enterprises, which had repeatedly to be rescued from the effects of their mistakes. In other words, budget constraints were invariably non-binding, or 'soft'. Hayek had argued this, in his debate with Oscar Lange in the 1930s, and he appears to have been correct (Hayek 1935, p. 237). Even in Hungary, where two decades of economic reform after 1968 were intended to impose market discipline on state enterprises, the actual outcome was the persistence of 'millions of micro-interventions in all facets of economic life; bureaucratic micro-regulation has continued to prevail' (Kornai 1986, p. 1700). In the Soviet Union, matters were very much worse (Ticktin 1992). This would have come as no great surprise to Djilas, who described 'the Communist economy' as 'perhaps the most wasteful economy in the history of human society' (Djilas 1957, p. 118), nor to Rudolf Hilferding. Since the law of value did not operate, Hilferding claimed, its most important consequences failed to occur. There were no crises of realisation, tendencies to rising unemployment or a falling rate of profit; neither was there constant mobility of resources between sectors and regions, nor continuous rationalisation of production. The inevitable result was the deceleration of the

Soviet growth rate, after the initial phases of primitive accumulation and postwar recovery, and failing economic performance was in turn the underlying material cause of the political stagnation and increased repression that set in after 1964. The Soviet Union's competition with the United States in the Second Cold War was thus inevitably a losing one.

Conclusion

'State capitalism' came to designate the persistence in the Soviet Union of many phenomena associated with capitalism: alienation, exploitation, wage labour, inequality and the law of value. However, apart from the widespread use of wage labour, all these characteristics were also evident in precapitalist forms of production, too. They are not specific to capitalism (Howard and King 1999, pp. 21-3). Not surprisingly, then, the state capitalist designation turns out to be rather blunt analytically; theoretical elucidation takes second place to description and condemnation. Thus the state capitalist hypothesis fails to illuminate either those events intimately linked with Stalinism or the so-called de-Stalinisation that occurred after 1953. Neither the purges that devoured so many of the 'new ruling class', nor the subsequent waves of reform and mushrooming corruption that proved so important in the malfunctioning and eventual collapse of the system, are made any easier to understand by classifying Soviet production relations as capitalist. Quite the reverse, in fact. The state capitalist hypothesis places the emphasis on general, structural characteristics, and not on their specific Soviet forms, which differentiate the Soviet mode of production from that of the capitalist West and must therefore constitute the materialist basis from which any explanation of the unique history of the Soviet Union must start.

Theorists of state capitalism who stressed the importance of the Soviet Union's military competition with Western capitalism did point to a crucial factor in both the ascendancy and the disintegration of the Soviet bloc. But emphasising the capitalist nature of the Soviet Union is no more enlightening here than it is with regard to the productive relations. The Soviet failure to compete militarily in the Second Cold War reflected a contradiction between the productive relations and the new technologies that were required to maintain parity in weaponry (Howard and King 2000b). This in itself, however, implies that the Soviet system was *sui generis*, and not a form of capitalism.

Thus the state capitalist hypothesis is unpersuasive, in either its 'internalist' or 'externalist' form. It is more appropriate to see the Soviet Union as a challenger to all forms of capitalism. Not a genuine socialist challenge, certainly, but a real menace which for several decades was regarded as the principal threat to their power by the ruling classes of all actual capitalisms. As it turns out, somewhat paradoxically, both the initial successes of the Soviet Union and its ultimate failure are understandable in terms of historical materialism. But it was not a form of capitalism.

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Notes

- 1 The term 'cultural capital' is, of course, Gouldner's, not Bakunin's.
- 2 In the last decade of his life, however, Marx had shown some sympathy for the Populist heresy that Russia might skip an entire stage of historical development, missing out on capitalism and going straight to communism (Shanin 1983).
- 3 This apt description of Schumpeter is by Kurt Rothschild (1981).
- 4 Pollock's Weberian conception of rationalisation was given even greater emphasis by one of his Frankfurt School colleagues, Herbert Marcuse (1941, 1964).
- 5 Cliff's version of the state capitalism hypothesis can be regarded as a special case, or a particular example, of Immanuel Wallerstein's world systems theory. See Howard and King (1992, pp. 178-81).
- 6 The Chinese regime itself used the term 'state capitalism' to refer to 'joint State-private enterprises', which were created when private capitalists were 'inveigled into investing in State companies by lavish promises' of high profits (Gluckstein 1957, p. 203).
- 7 Given his argument, Baran might have been well advised to avoid the use of this term.

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