



**Criticism which Does Not
Withstand the Test of Logic**
Chris Harman

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A Reply to Ernest Mandel

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The article is a reply to Ernest Mandel: *A theory which has not withstood the test of facts*, also in *International Socialism Journal 2 : 49*, which in turn is a reply to Chris Harman: *From Trotsky to state capitalism*, a review of Ernest Mandel: *Beyond Perestroika in International Socialism Journal 2 : 47*.

The coincidence of economic crises East and West present revolutionary Marxists with a great challenge. The old Stalinist ideology which dominated so much of the workers' movement in the West and the Third

World has collapsed. Its collapse has left a vacuum which the opponents of Marxism and of class politics are trying to fill with claims that 'the market' offers the only way forward for humanity. Such claims receive encouragement from the reaction of very large numbers of workers in the countries of the former Eastern bloc to the economic crisis that besets them: believing the old order to be some variant of socialism they themselves reject talk of socialism and turn towards people like Walesa or Yeltsin who preach the wonders of Western capitalism.

There is only one way for revolutionary socialists to meet this challenge. It is to provide an analysis of the world system which shows the interaction between crisis in the East and crisis in the West. Unfortunately, Ernest Mandel fails to do this.

His account of modern Western capitalism is simplistic in the extreme. He presents us with a precis of what he claims was Marx's account 120 years ago in **Capital**. He tells us that under modern capitalism:

The organisation of labour depends in the first place on the private decisions of the factory owner, which are then corrected by competition, by the market. He has to submit to these corrections or face extinction. Under capitalism there is only one measure of performance – profit ... It is post-sales profits that determine everything. The capitalist economy is based on profits, and profit can only be realised and measured in the form of money. Capitals move out of enterprises and sectors below average profit into those of above average profit ...

At the first sign of a loss or of below average profits he (the capitalist) attempts to change the way production is organised... The law of value

only rules any economy insofar as it is one of generalised commodity production, that is, one in which labour is basically private labour.

This account is not, of course, completely wrong. But it is hopelessly inadequate when it comes to dealing with the empirical reality of the system since Marx's time. To deal with that you cannot simply talk in terms of 'private decisions' made by the 'factory owner'. You have to analyse what happens as monopolies come to dominate the national economy, when there is the nationalisation of productive sectors of the economy, when 'peaceful' competition for markets gives way to military conflict between capitalist states, when states override the workings of the law of value inside their economies so as to ensure expansion of the sectors vital for military success.

It was precisely these issues which Lenin and Bukharin began to confront with their writings on imperialism. [1] Their writings took for granted Marx's account in **Capital**, but saw the need to build on it. Far from simply talking about 'competition for markets' they recognised that capitalism was beginning to go beyond this stage of its history (already, in 1915 and 1916!). Mandel, by contrast, is content to stick with his summary of Marx, without even referring to what Lenin and Bukharin wrote 75 years ago!

If that is not enough, he dismisses out of hand those of us who have attempted to build on their insights for accepting 'the myth of "organised capitalism" and Hilferding's "Generalkartel"'. Yet Engels could write, more than a century ago:

When we move on to the trusts which control and monopolise whole branches [of industry] then that means an end not only

to private production but also to planlessness. [2]

Presumably, he too accepted ‘the myth of organised capitalism’. Presumably Lenin did also, when he wrote a very favourable introduction to Bukharin’s **Imperialism and the World Economy**, with its insistence (already in 1915) that, ‘Competition is reduced to a minimum within the boundaries of “national economies”’ but ‘flares up in colossal proportion’ as ‘the struggle between state capitalist trusts’, a struggle which ‘is decided in the first place by the relation between their military forces’. [3] Finally, presumably Trotsky made the same mistake when he wrote, in **The Manifesto of the Communist International to the Workers of the World**:

The statisation of economic life, against which the capitalist liberalism used to protest so much, has become an accomplished fact ... It is impossible to return not only to free competition but even to the domination of trusts, syndicates and other economic octopuses. Today the one and only issue is: Who shall hereforth be the bearer of statised production – the imperialist state or the victorious proletariat? [4]

Lenin, Bukharin and Trotsky all recognised that once capitalism enters its monopoly, imperialist, phase it is dominated by gigantic concerns which certainly do not organise the processes of production inside them on the basis of exchange of commodities at market prices, but by a planned interaction of inputs and outputs. It is something of which those who today run the giant corporations are only too aware. So a recent

account of the workings of South Korea's giant *chaebol* conglomerates can tell:

The performance of Korea's big businesses cannot be measured by profitability, because profit data are manipulated, nor can it be measured by volume of exports, which may merely reflect subsidisation. Good performance must be measured by physical indicators of production and operations management – say, productivity, quality and inventories, as well as changes in export values. [5]

Inside the firm there is a form of 'planning', often running counter to the relations between commodities which would follow from the law of value.

What is true inside the giant firm is just as true inside the enormous military sectors of modern states – which during the two world wars came to dominate virtually the whole of each national economy. Even when the state does not produce arms directly, it ensures that private contractors are paid on a 'cost plus' basis, thus keeping them in business regardless of whether this involves subsidising unprofitable sectors of the economy at the expense of more profitable ones. No modern state allows the internal workings of the market – of the law of value – to destroy its ability to wage war.

But this is not the end of the matter. The law of value which is banished from the internal operation of the giant corporation or the military preparations of the state, nevertheless exercises a vital determining force on them from the outside. The direction which this 'planning' takes is not an arbitrary one. It has to enable each giant concern to compete with others – in military or economic terms – in the long run.

A giant corporation which cannot make an overall profit on the sum total of its transactions, profitable and

unprofitable combined, will eventually go out of business. A national state which does not use its resources in such a way as to enable it to outshoot its rivals will eventually risk military defeat.

External competition determines the parameters according to which the 'planners' inside each concern operate. It is this external competition which forces managements to worry continually about their internal production costs, that is, to try to impose the law of value on the various production processes under their control.

But, of course, the vagaries of external competition continually make nonsense of the attempt at internal planning, upsetting old cost calculations, compelling managements to enlarge certain production facilities much more than was 'planned' and to leave others half finished. Attempts at 'organisation' within the national economy are continually disrupted by competition at the international level. And that does not just mean economic competition for markets. It also means the form of competition typical of the epoch of imperialism, military competition.

Mandel's myths about the East

Mandel's mythical account of the functioning of modern Western capitalism is followed by a mythical account of what has happened inside the Eastern states. He argues that:

In the USSR the key essential investments are not distributed by the law of value. They are decided by the bureaucracy, mostly at state level. It is a planned economy, planned as far as direct allocation of resources is concerned. For 70 years, loss making enterprises required large subsidies and have received preferential allocation of productive resources. These have

been systematically diverted from 'more profitable' enterprises or sectors. Such phenomena are unthinkable under capitalism and the law of value.

So it was that 'from 1928 onwards ... growth really was regular and uninterrupted ... unlike the capitalist economy, the USSR has experienced no recession, no crisis of overproduction leading to an absolute fall in production from more than half a century.' Finally, although 'the rate of growth began to fall about 20 years ago' and 'this fall may become "zero growth" ... there is no law making it inevitable'.

If there is a dynamic in the economy of the USSR, he argues, it is certainly not the one to which the theory of state capitalism points, of accumulation of means of production, since much of this accumulation turns out to be waste goods. 'Here we have the secret of the command economy: it is Department III which is over expanded, not Department I.'

This is proved, he claims, by the way the USSR's agriculture is so unsuccessful, although 'the USSR is the biggest producer of chemical fertiliser in the world', producing 'nearly as much as the USA and Western Europe put together'. Apparently 'more than half the fertiliser is lost in transit'. 'Such wastage has nothing to do ... with any drive to accumulate capital.'

Let's look at each of his claims in turn. First, the claim that growth has been 'regular and uninterrupted' is refuted by the most perceptive East European economists. They long ago recognised that the development of the Stalinist command economies has been cyclical in character, repeatedly creating crisis situations. And the fluctuations in the course of the cycles have often been greater than those

which the Western economies experienced during the long boom of the 1950s and 1960s. As the Czechoslovak economists Goldman and Korba told in 1969:

Analysis of the dynamics of industrial production in Czechoslovakia, the German Democratic Republic and Hungary supplies an interesting picture. The rate of growth shows relatively regular fluctuations ... These fluctuations are even more pronounced if analysis is confined to producer goods. [6]

These fluctuations were substantially greater for Czechoslovakia in the 1950s and 1960s than for France. In the period 1966–74, the difference between growth rates in minimum growth years and maximum growth years averaged 50 percent for East Germany, 100 percent for Bulgaria, 130 percent for the USSR and 228 percent for Poland.

A Western academic study 20 years ago, showed that such unevenness was already visible in the Soviet Union at the time of the First Five Year plan. [7] We now know, from post-perestroika Soviet accounts, that the massive expansion of industrial output in the early plan years led in 1932–33 to an exhaustion of food supplies and a famine which killed more than 5 million people, mostly in the Ukraine and Kazakhstan.

What is more recession – negative growth – was not completely ruled out in the way that Mandel claims: it occurred in Yugoslavia in 1951–52 and 1967, and in Czechoslovakia in the early 1960s. And it is occurring in the USSR today (October 1990), *before* reforms intended to introduce Western style market mechanisms.

In the early 1970s the Yugoslav economist Branko Horvat was able to publish a book called **Business Cycles in Yugoslavia** [8] which pointed out that even before the

market reforms of 1968, the Yugoslav economy was ‘significantly more unstable’ than ten other economies that were cited, ‘including the United States’. [9] The very title of the book should have been an impossibility according to Mandel.

Today, of course, Mandel no longer repeats his old claim that crises cannot occur in the Eastern states: he can hardly assert that the whole Russian leadership are wrong when they point to such a thing. But he does still insist:

If there is a crisis ... it is one of underproduction of use values (of scarcity) and not of overproduction of exchange values (of commodities). To claim that the first is only a variant of the second is a gross fallacy. An empty shop is not ‘a variant’ of a shop stuffed with unsellable goods.

It simply is not good enough to assert that because two things are opposites they can have no connection with each other. As a Marxist, Mandel should understand that much. In fact, ‘overproduction’ is, according to Marx’s analysis, only one moment in the development of the internal contradictions of capitalism. That is why Marxists could continue to insist on the reality of these contradictions throughout the long boom when generalised crises of overproduction did not materialise in many Western countries. [10]

As Marx points out in volume III of **Capital**, overproduction of commodities is a by-product of something else – overproduction of capital. But this is not some absolute overproduction in relation to the needs of society – which can always be expanded and, in fact, are never fully satisfied when ‘overproduction’ arises. It is overproduction

of capital – overaccumulation – in relation to the surplus value being pumped from the workforce.

Marx spells out how overproduction comes about. At a certain point in any boom the competitive drive of capitalists to invest leads to a drying up of existing supplies of raw materials, labour and loanable capital (ie non-invested surplus value). The prices of all these things – commodity prices, money wages and interest rates – begin to rise until the least profitable firms suddenly find they are operating at a loss. Some go out of business. Others survive, but only by abandoning planned investments and closing down factories. Their actions in turn destroy markets for other capitals, forcing them to abandon investments and close down factories. The ‘excess demand’ (Mandel’s ‘underproduction’) of the boom gives rise to the overproduction of the slump. But the slump, in turn, prepares the way for a new boom by raising the proportion of surplus value to capital: on the one hand, some capitals are driven out of business reducing the total stock of capital; on the other, slump conditions allow capitalists to increase the rate of exploitation and to enter a new cycle of accumulation with a greater amount of surplus value.

The secret of the Western long boom of the 1940s, 1950s and 1960s lay in the way the national state could reduce the pressures leading to over-accumulation (by diverting a portion of capital into non-productive, military channels), take direct action to try to maintain a high rate of exploitation (through wage controls etc.), intervene to slow down the boom before it led key firms to become unprofitable and maintain a minimum guaranteed level of demand through military orders. The state monopoly capitalist arms economy was not able to do away with the cyclical pattern of capitalist accumulation. But it was able to

prevent it leading to slumps of the pre-Second World War sort.

The situation was very similar with the Stalinist command economies of the Eastern states. As in Marx's picture of capitalism there was over-accumulation. The attempt to compete with bigger and more advanced foreign capitalisms led to a scale of investment in excess of the surplus available within the national economy. And the overaccumulation led to a cyclical pattern of development, involving crisis. Attempting an excessive level of investment inevitably led to growing shortages of raw materials, intermediate components and labour.

Bottlenecks arose throughout the economy, threatening the closure of vast sectors of production through shortages of inputs. Output never rose nearly as rapidly as planned. The monetary funds paid out by enterprises for materials and labour exceeded the output of the economy, giving rise to inflationary pressures which found direct expression as price rises or 'hidden' expression as acute shortages of goods in the shops.

Left to itself, the crisis of excess demand – the product of excess accumulation – would eventually have spilled over into the wholesale closure of enterprises and the destruction of the markets for the output of other enterprises. It would have become a crisis of overproduction of commodities. But as in the West in the long boom, the state stepped in to try and pre-empt this by 'cooling down' the economy. It ordered enterprises to 'freeze' certain investments and to divert resources to others. This involved factories suddenly switching from one sort of output to another. The myth of the pre-planning of production – a myth which Mandel still accepts when he speaks of 'a priori allocation' – gave way to the reality of after the event, 'a posteriori', allocation, with a repeated shifting of inputs and outputs.

One plan target which always suffered in the process was that for consumer goods production. Directly cutting into 'wage fund goods' released resources for completing other investments. The balance between investment and surplus value was restored, in part, by physically limiting consumption levels so as to raise the rate of exploitation. The result, of course, was to increase still further the discrepancy between the funds laid out by enterprises on wages and the goods available for these wages to buy – to increase open or hidden inflation.

Overall, the economy was subject to periodic crises, even if these did not express themselves exactly in accordance with Marx's model.

But that is not the end of the matter. Mandel is wrong in his second contention, that there was even growth until '20 years ago'. In fact, all the Eastern economies suffered for decades from a long term trend for average growth rates to decline. And this was not, as Mandel claims, something which only became visible in the course of the 1960s. Official USSR figures give the following growth rates:

Average annual growth of national income produced

| | |
|---------|--------------|
| 1951–55 | 11.3 percent |
| 1956–60 | 9.2 percent |
| 1961–65 | 6.5 percent |
| 1966–70 | 7.8 percent |
| 1971–75 | 5.7 percent |

Other authoritative estimates show lower average growth rates, but the same trend. [11]

The difficulty in attaining the old rates of growth were certainly clear to the Soviet leaders as early as December 1956 when, for the first time, they abandoned a peace time 'plan' for being 'too taut', that is, for setting impossible investment targets. As one of the standard Western academic works on the Soviet economy notes, 'a slowdown in growth became quite noticeable after 1958'. [12]

Khrushchev's repeated and unsuccessful attempts to reorganise the economy in the mid-1950s and early 1960s (his 'hare brained schemes', as they were called in the Brezhnev years) arose precisely because of these economic failings. Yet Mandel's theory led him to deny the reality of such failings at the time, and leads him now to claim that it was not until '20 years ago' (i.e. in 1970, not the mid-1950s) did 'the rate of growth began to fall'!

By contrast, whether Mandel was aware of it or not, Tony Cliff's theory did enable him in the mid-1950s to locate the economic problems behind Khrushchev's failures. [13]

When it comes to the present, Mandel's claims are even more amazing. He tells us that although the decline in Soviet growth rates 'may become zero growth ... there is no law making it inevitable'. In fact, while he was writing these words in the early summer of 1999, there was already not just 'zero growth' in the USSR, but the beginning of a sharp decline in total output. By October 1990 Tolkushin, the deputy chairman of the USSR state committee for statistics, was announcing, 'During September, by comparison with September of last year, industrial output was down by 3.1 percent.' [14]

The question Marxists have to be able to answer is how this economic contraction came about. And it is not good enough to try to duck that question by saying it was 'not inevitable'. That is to put yourself in a no better position than apologists for Western capitalism who claim that

recessions are ‘not inevitable’ but just a result of mistakes in economic policy, without saying from where those mistakes come.

Mandel’s claim that there cannot be accumulation because there is waste, is amazing. He would have us think there is not great waste in the West! In fact, calculations of waste in the West, whether by muck rakers of the Vance Packard school, by Baran and Sweezy [15] or by Mike Kidron [16] suggest that it exceeds the ‘30 or 40 percent of available productive resources’ of which Mandel talks in the case of the USSR.

The claim that the USSR is a uniquely wasteful economy has long come from a group of theorists around the magazine **Critique**. They hold that the USSR is neither socialist nor capitalist. More recently, it has been taken up by many East European economists and political leaders who see it as justifying a turn towards an untrammelled market model which, they believe, exists in the West.

But, as Mandel himself used to recognise (in debate with **Critique** editor Hillel Ticktin), it is not a contention that can stand up to even the most cursory historical examination of the Soviet economy. For between the late 1920s and the 1960s the USSR did ‘catch up’ with the Western economies sufficiently to become the world’s second economic power. It could not have done so if it was only the waste sector of the economy, Department III, which grew.

In fact, as every serious study of the USSR has concluded, there was massive growth of the means of production, of Department I. The ability of the USSR to defeat Nazi Germany and then to match the US in the arms race (at least until recently) was testimony to this: although things like tanks, atomic submarines and nuclear missiles are part of Department III, they cannot be produced unless there exists

a huge, productive, heavy industrial sector. And that requires a massive accumulation of means of production, a massive growth of Department I.

What is more, Mandel is completely wrong to say such accumulation could not be the cause of waste. The forced growth of heavy industry in the Stalin years could only take place because other sectors of the economy, especially those providing for the living standards of workers, were systematically robbed of resources. So under Stalinist 'collectivisation' there was a very low level of investment in agriculture, and those who worked the land did so for minimal wages. They survived mainly on the potatoes they grew on their own dwarf private plots, while the state took from them virtually all the grain to feed a burgeoning industrial workforce in the cities – and in the worst famine years of the 1930s, to export to pay for machinery imports.

In the first two decades after Stalin's death there were repeated attempts to improve the situation in agriculture, but every increase in military tension with the US led to a diversion of resources to heavy industry and armaments and away from rural investment.

Khrushchev's failure to improve agricultural output substantially was an important factor in bringing about his fall in 1964. Yet those who overthrew him were unable to pour the resources into agriculture which they at first promised: tractor and truck output in 1970 was only about half that laid down in the 1966–70 'plan', while fertiliser output was about 30 percent under target. [17] As Brezhnev's statisticians explained:

Owing to the international situation it has not been possible to allocate as many resources as intended to agricultural investment and whilst the 1969 figure exceeds that for 1968, it is below that envisaged in the directives for 1966–70. [18]

The cumulative result of the low level of agricultural investment was a continual haemorrhage of young workers from the countryside until it was populated mainly by old people, and a failure to build an infrastructure of roads, storage equipment and so forth. So even when the regime did, out of desperation, boost agriculture after the grain crisis of 1972, it lacked both the skilled, motivated workforce needed to take advantage of the most modern methods and the facilities for shifting the crop in the years when there was a good harvest. [19]

And once 'dÃ©tente' gave way in 1979–80 to the second Cold War, agricultural investment was again sacrificed for industry and the arms budget: the capital stock in agriculture grew faster than that in industry between 1971–80, only to fall behind again in 1991–86. [20]

Mandel's example of fertiliser illustrates the point very well. The diversion of resources from investment in fertiliser plants to heavy industry meant that in 1968 Soviet agriculture was using only 62 kilogramme of fertiliser per hectare, as against 227 kilogramme per hectare in the US and 766 per hectare in Britain.

Of course, waste contributed to the low Soviet level, but it was not the *main* cause. And what is more, the waste itself could be a by-product of the forced accumulation – as when the pressure to switch resources to 'priority' heavy industrial projects prevented the completion of a factory which was due to produce bags to carry increased fertiliser output, leading to much of it going to waste. [21]

Today, 20 years on, total mineral fertiliser consumption has indeed overtaken the US figure, as Mandel states. But he is grossly ill informed if he believes it is 'nearly as much' as

that of 'the USA and West Europe put together'. Soviet consumption in 1996 was 23.08 million tonnes, combined US and Western European consumption 41.07 million tonnes. [22] The amount of fertiliser per hectare of arable land is only slightly higher than the US figure, although the innate average fertility of US land is considerably higher than that of Soviet land (although there is about the same amount of arable land in the USSR as the US, most of it lies in more northerly latitudes) and much Soviet fertiliser is low grade. [23] But, most significantly, low levels of agricultural investment mean there are 40 percent fewer tractors in the USSR than the US, making it much more difficult to transport and spread fertiliser without wastage. [24]

So inferior fertiliser is used on less fertile land by a workforce which has lost most of its younger, skilled members to the towns and heavy industry. And that fertiliser has to be distributed by an inadequate tractor fleet across a vast area of countryside lacking even the most minimal investment in roads and storage facilities. It is not surprising that Soviet agriculture remains much less productive and much more wasteful than that in the US. But you cannot see why unless you recognise the way in which the economy as a whole is dominated by the drive to accumulate.

But Mandel does not just accept fashionable 'new class theorist' arguments about waste. He also repeats arguments which used to be the basis of Stalinist apologetic for the Eastern states.

So he claims that 'unemployment has played no role in the USSR for more than half a century'. This 'gain from the October revolution' is something 'which has never existed in capitalist society and never will'. Yet the Soviet press has admitted in the last year to high levels of structural unemployment in whole regions of the USSR. **Pravda** has

told that in 1996 there was 27.6 percent unemployment in Azerbaijan and 18 percent in Armenia [25] and **Moscow News** has spoken of 6 million unemployed in the Asiatic republics. [26] Even in its early, centrally directed version, perestroika included the sacking of workers by technologically backward factories. So a spring 1990 estimate by **Izvestia** of total Soviet unemployment of 8 million could be correct [27] – even though it would mean an unemployment rate in the USSR similar to that in a Western capitalist country like the US [28] and considerably greater than that of Japan!

More incredibly, Mandel claims that ‘the proportion of working class consumption in the USSR’ is ‘much bigger’ than in other countries with a similar level of economic development. In fact, it was possible last year for one of the heads of the official, state run unions to declare that ‘the proportion of the wages’ fund of workers and office workers in the country’s national income, at 35 percent, is considered one of the world’s lowest’. [29] He may have been exaggerating. But if Mandel is going to claim the proportion of workers consumption is ‘much bigger’ than in comparable countries elsewhere in the world, he had better provide some evidence.

Even more astonishing, however, than Mandel’s propensity to indulge in apologetics that even the Stalinists themselves have abandoned, is his ability to contradict himself over something which is central to his whole understanding of how the Soviet economy has functioned. ‘We have never defended the thesis’, he writes, ‘that the economic development of the USSR is dominated by the production of consumption goods for the bureaucracy.’ Yet only two paragraphs later he argues:

In order to preserve and extend its privileges the Soviet bureaucracy ... has to develop the economy up to a certain

point ... Without car factories 3 million middle and top bureaucrats cannot acquire cars. Without enough steel, electricity or iron ore, the car industry cannot be developed satisfactorily.

If this is not saying that the bureaucracy's need for consumption goods is the driving force of the economy, what is it saying?

He then goes on to see this drive for bureaucratic consumption as responsible for both the fast rate of economic growth under Stalin and its slower growth more recently:

For as long as the shortage of consumption goods kept them thirsty for more, the bureaucrats were fanatical about accumulation, about 'production for the sake of production' and about 'technological progress'. But as soon as the *nomenklatura* as a whole had reached a satisfactory level of consumption, this thirst began to disappear.

I can only explain such contradictory utterances in one way. Mandel momentarily grasped the stupidity of trying to explain in terms of the consumption needs of the bureaucracy an economy, like the Soviet one, characterised by a massive tendency for heavy industry to expand. But then he slipped back into his old explanations, for the only rational alternative would have been to locate the drive to accumulate in terms of competition with the West. That would have driven him to accept the contentions of the theory of state capitalism. He preferred to contradict himself than to travel that path!

There is a close connection between Mandel's theoretical starting point and his factual errors. Because he refuses to recognise the fundamental forces behind economic

development in the past, Mandel cannot grasp the scale of exploitation of the Soviet workers, the crisis ridden cycle of economic development, the coexistence of labour shortages in parts of the USSR alongside vast pools of unemployment in other parts, the long term decline in the growth rate, and the sudden outbreak in recent years of generalised crises which have made ‘inevitable’ a fall in output and a catastrophic contraction of the economy.

By contrast, those of us who see the USSR as state capitalist have long recognised the way things are going. Tony Cliff *did* in 1948 locate the main factors leading the Soviet economy inexorably from the dynamism of the Stalin years to eventual economic crisis and he *did*, in the mid-1950s, spell out how this damned the Khrushchevite dream of reform. I myself pointed out 15 years ago how the long term decline in growth rates made it increasingly difficult for state planners to resolve the cyclical crises caused by overaccumulation. [30]

It became more and more difficult for the state planners to find the resources needed to overcome bottlenecks in the economy. Growing sectors of the economy simply could not get the inputs they needed to turn out goods for which there was demand; other sectors produced goods which were stockpiled on a massive scale, since they were intended as inputs for investments that had been abandoned. ‘Underproduction’ in certain sectors of the economy (particularly ‘wage goods’ sectors) was accompanied by ‘overproduction’ in other sectors (particularly certain ‘capital goods’ sectors). The central planners could no longer prevent a physical decline in output and open inflation on a massive scale. This point was already reached in Poland in 1979–80 and has now been passed in the USSR, Bulgaria and Romania as well.

Those who ran the economy were driven to try to deal with bottlenecks by turning to the international economy. Cyclical crises in East Europe always led to foreign trade deficits as well as to inflationary trends. And in the 1970s Poland and Hungary turned to the world economy on a massive scale, seeking funds from the West for accumulation and expecting to repay them by sales on Western markets. In the 1990s the USSR and Bulgaria responded to internal crisis by beginning to move in the same direction, on a scale that has only become clear with official revelations over the last year.

But even if the turn to the international market provides temporary relief from the internal crisis (as it did in Poland in the early Gierek years, 1971–75), this soon gives way to aggravation of the crisis. The bureaucracy has to cope with the ups and downs of the world economy as well as the ups and downs of the internal economy. And the need to repay foreign debts forces the bureaucracy to worry lest the internal ratio of surplus value to investment (the rate of profit) falls below the international average.

The internal dynamic of bureaucratic state capitalism leads it into a crisis from which it tries to escape by opening itself up to the world market. But that opening reduces still further its ability to employ old mechanisms for coping with the effects of the internal crisis. Economic contractions do, indeed, become ‘inevitable’.

State capitalism in the West

There is a final, very important, theoretical point that escapes Mandel’s understanding. The loss of the state’s ability to suppress certain symptoms of economic crisis in the last two decades is not

something unique to the Eastern states. There has been similar change throughout the West and the Third World.

The merger of the state and capital had been a trend throughout the world capitalist system between the 1930s and the 1970s, of which what happened in the Eastern states was the most extreme expression. In country after country there had been, for a longer or shorter period, the direct domination by the state of whole sectors of productive industry, the growth of an enormous military sector, the subordination of much of the economy to the dictates of military competition, and the overriding of the play of market forces by state direction.

The role of the state, and of military expenditure in particular, had influenced the way in which the crisis of the system expressed itself. In looking at capitalism during the 'long boom' of the 1940s, 1950s and 1960s it had not been good enough *simply* to talk in terms of a 'crisis of overproduction' (as Mandel does). This was not the characteristic form of economic crisis in the West. In Britain, for instance, there was no generalised recession, no fall in economic output due to lack of markets, between 1940 and 1971. What occurred was 'stop-go' – repeated intervention by the state to reduce 'excess demand' ('underproduction') and to head off inflation and balance of payments deficits.

There was in those years, as Tony Cliff pointed out at the time, a great similarity between the sort of economic crisis experienced in the advanced Western states and that experienced under Stalinism:

It can be shown that the process that leads to contradictions in the permanent war economy – subordination of means of consumption to means of destruction, the appearance of crises of underproduction, of disproportions between branches of

the economy, lack of raw materials, etc, etc – are equally applicable to Western capitalist countries and to the ‘socialist’ third of the world. [31]

But all this had begun to change by the early 1970s. The state capitalist arms economy began, inevitably, to be undermined by the very economic expansion it had brought about. The forces of production began to grow beyond the bounds of national states as never before. World trade grew faster than world output, and production itself was increasingly organised internationally. Capitalists were forced to operate internationally or, at least, to link up with other capitalists internationally, if they were not to lose out in terms of technological advance and competitiveness. And states which did not recognise this found the economies over which they presided in relative decline.

There was an ‘opening up’ to international investment and the world market of partial state capitalisms as varied as Argentina and Brazil, Spain and Ireland, South Korea and Egypt. And the internal economies of the established Western capitalisms were increasingly ‘restructured’ in accordance with a changing world division of labour.

These changes meant that the state began to lose its ability to suppress symptoms of crisis, to stop overaccumulation of capital (the ‘crisis of underproduction’) giving rise to a crisis of overproduction. Hence the generalised recessions of the mid-1970s and early 1990s. [32] Hence the sudden discovery by numerous Western and Third World states that the old ‘Keynesian’ methods or ‘import substitutionist development strategies’ could no longer work.

The same considerations were increasingly affecting the Eastern states as well. The old response to the bottlenecks and inflationary pressures arising from 'overinvestment' had been to shift resources from 'non-priority' to 'priority' sectors of the economy. But declining growth rates, on the one hand, and the increasing proportion of output dependent on international trade on the other, reduced enormously the resources that could be moved in this way. The strain on resources prevented many enterprises in 'priority' and 'non-priority' sectors attaining old output levels, let alone the new ones specified in the 'plans'. The economy as a whole stagnated, or even began to decline, while shortages of consumer goods and even some producer goods proliferated. The state capitalist command economy had entered a period of generalised crisis.

For a time those who ran the state tried to ward off the growing crisis through 'reforms' ('acceleration', then 'perestroika', then a gradual introduction of market mechanisms). But reforms simply could not work and the whole of society drifted to social and political as well as economic crisis. At this point a section of the ruling class came to believe they had no choice but to allow the crisis to run its course, to allow enterprises to compete directly with each other for resources which were in short supply, even though this could only lead to the internal economy going into recession on a scale not experienced by the advanced Western countries since the 1930s.

Such a recession represents the transformation of an economy of shortages, of 'underproduction', into an economy of overproduction. That is why factories in Poland are shutting down because they cannot sell their output, and why foodstuffs are piling up in the countryside while growing numbers of people go hungry. Whether Mandel understands it or not, the dialectic of state capitalist

development transformed the nearly empty Warsaw shops of 1989 into the Warsaw shops of 1990, overfull of goods that working people could not afford to buy.

It is similar shock treatment that Gorbachev says he intends to apply, under the Shatalin programme, to the USSR. I have argued at length in previous articles that the road of the market and recession will not solve the problems of the bureaucracy, and that, as in the West, the attempt to follow this path will be accompanied by continuing splits inside the ruling class. [33] The point here, however, is that significant sections of the ruling bureaucracies have felt driven in this direction by the dynamic of the command economy itself. It is a pity that people like Mandel are so blinded by inadequate theoretical formulations that they refuse to recognise this.

Two traditions on theory and practice

Towards the end of his attack on me Mandel suggests that the only reason the British SWP is interested in such arguments is because we are ‘scholastic’, ‘hopeless splitters’, only interested in ‘stirring up artificial distinctions with every other revolutionary current’. But, as Lenin used to put it, ‘without a revolutionary theory there can be no revolutionary practice’. And a theory which is based on contradictions and falsities cannot lead to consistent – and therefore revolutionary – practice, however subjectively revolutionary its adherents.

Theory is not some abstraction, divorced from practice. It determines how you understand a rapidly changing reality

and your tasks in relation to it. At key points in history your theoretical understanding determines on which side of the barricades you find yourself. So it was that those who had a correct understanding of imperialism in the years 1914–18 had no difficulty coming out against the war, while those who simply stuck to old formulae from Marx and Engels often succumbed to the pressures to back their own ruling classes. So it was that in 1917 those old Bolsheviki who stuck to the formula of ‘the democratic dictatorship of the proletariat and the peasantry’ were often led to support the provisional government.

We are witnessing enormous changes in the USSR and Eastern Europe today. We cannot come to terms with such changes simply by relying on common sense formulations. As Gramsci used to insist, to base yourself on common sense is simply to accept in an uncritical manner the prevailing ideas, the ideas of the ruling class.

For 60 years rulers East and West had a common interest in claiming that Stalinism was a version of socialism, indeed, as ‘actually existing socialism’ the only non-utopian version. This enabled the state capitalist rulers of the East to conceal their real purposes from their own peoples and from the most militant opponents of capitalism in the West. And it enabled the rulers of the West to weaken opposition to themselves by pointing to the East and claiming that socialism entailed loss of freedom for the mass of workers. Pushed alike by both sets of rulers, it is hardly surprising that the notion entered in the ‘common sense’ of the great majority of the world’s people.

The task of Marxist theory is to challenge such common sense. Unfortunately, instead of doing so, Mandel resorts to it in order to back up his own assertions, as when he argues that ‘literally no one in these countries, or in the world,

denies the evidence ... [of] a restoration of capitalism in several East European countries.'

If we are to accept ideas because of their popularity, we might as well also concede that nationalisation under capitalism is a form of socialism, that Labour parties always form 'socialist' governments, and, today, that the crisis of the East European economies proves the 'failure of socialism'. All those ideas have been held as widely as the view that Eastern Europe is moving from 'socialism' to 'capitalism'.

We have to reject all these ideas because a scientific understanding of society means starting from the relations of production and exploitation – and these are not changed simply by a change in the party which runs the government, by the state taking over the means of production ... or by the state giving up some of that ownership.

If you do not challenge such 'common sense' you cannot put forward a clear, independent working class politics. For a workers' state, however deformed or degenerate, to become a capitalist state must be a step back historically, a stage in a counter-revolutionary process which Marxists should oppose. But if this is so, should Marxists not be supporting those sections of the *nomenklatura* most resistant to such a change – supporting Ligachev when he argues against privatisation, supporting the Stalin-lover Nina Andreyeva when she denounces Gorbachev's 'restorationist' tendencies, supporting Iliescu when he crushes the Bucharest students? Should Marxists perhaps have supported Honecker's efforts to use force against a movement which so easily fell under West German hegemony?

Mandel argues that no section of the Fourth International has ever fallen into such a trap. But it has in the past created illusions in those who ran the East European states.

Whatever his claims today, in 1956 Mandel did encourage the belief, widespread on the reformist left East and West, that the accession of Gomulka to power guaranteed 'socialist democracy'. He did write:

The power of the movement has become irresistible. Socialist democracy will still have many battles to win in Poland. But the principle battle, that which has permitted millions of workers to identify themselves again with the workers' states, is already won. [34]

He did praise the 'new leadership' of Polish Stalinism for keeping at the head of the movement, while complaining that the reformers inside the Hungarian party leadership had not been able to do so:

The subtle interaction between the objective and subjective factors, between pressure from below and the crystallisation of an opposition at the top of the Communist Party, an interaction which made possible the Polish victory, was missing in Hungary.

He did go beyond mourning the Hungarian premier Imre Nagy as a victim of Khrushchev to praising him for his 'attempt to conquer the leadership of ... the revolution'. [35]

The theory of the Eastern states which Mandel adheres to has allowed many people – including some with years of activity within the Fourth International – to go much further. Isaac Deutscher did support the crushing of the East German and Hungarian risings, and so did splinter groups from the Fourth International like those led by Cochrane in the US and Lawrence in Britain. The **Militant** group in Britain (for a number of years the official section of Mandel's International) did argue that Marxists should be prepared for 'tactical' alliances with Honecker in Germany and 'sections of the securitate' in Romania, and did support

the crushing of the Bucharest students. And the American Socialist Workers Party did not change its politics of Castro worship when, a couple of years back, it ended its 25 year old term as one of the biggest sections of Mandel's International and insisted it was no longer 'Trotskyist'.

Slipshod theoretical formulations do not inevitably lead to reactionary practical conclusions. But they make it easier to draw them. And Mandel's formulations are slipshod. He claims that in 'Hungary, Poland and the German Democratic Republic ... a significant section of the *nomenklatura*' has 'been seen to tiptoe away from the stage of society'. But, any objective analysis of what has happened in these countries points to something else.

There has been a change of the ruling party. But it has left virtually untouched those who organise and benefit from exploitation in the enterprises, the ruling class. Not only does at least 80 percent of industry remain in the hands of state appointees in Hungary and Poland at the time of writing, but most of the 20 percent or so which has been privatised has passed into the ownership of those with *nomenklatura* backgrounds. The hierarchies of control in the armed forces, the police and much of the media remain in very much the same hands as before. The individuals who hold ministerial portfolios might have changed, but the key structures of the state have not.

Things are more complicated in the case of what used to be East Germany. But it is former *nomenklatura* managers who are negotiating the joint agreements between East German and Western capital. Even when there are complete takeovers from the West, many senior managers from the *nomenklatura* remain at their posts as subordinate members of the newly unified ruling class. The East German section of the main German capitalist party, the Christian Democrats, is a former front party for the *nomenklatura*,

full of figures who prospered in the old East German state. And West German capitalism has found a role for sections of the old East German officer corps and even many former members of the Stasi. [36]

If, as Mandel claims, a 'restoration of capitalism' is occurring in Eastern Europe, he ought to be able to say when the decisive change, the counter-revolution, from a state representing one mode of production to one representing another, occurred. Was it with the changes of the autumn and winter of 1999? Was it with the formation of non-Stalinist governments? Was it with the privatisation of less than 20 percent of industry? Or is it still to happen?

He hints that privatisation is the key question for instance, when he says that privatisation could lead to recession in the USSR. But in that case with only 20 percent of the economy privately owned Poland must still have the economy of a workers' state (a workers' state with a bourgeois government?). But that economy is already experiencing a recession worse than any experienced in the West since the 1930s.

The logic of Mandel's argument is to say that the key struggle for workers is to defend what remains of the 'workers' state' – the nationalised form of property and the old mechanisms of the command economy. It is a logic which can be very dangerous for the genuine left in the Eastern countries.

Workers are only too aware that it is the old command economy that has led to the queues, the shortages, the ecological disasters, the rising unemployment and now the recession. They hate that section of the *nomenklatura* which identifies with the old methods. That is why in the USSR the new workers' organisations have been bitterly opposed to Ryzhkov and have easily succumbed to illusions in Yeltsin with his calls for rapid privatisation. That is why in Poland

Walesa can build a populist campaign for the presidency based on demagoguery against the *nomenklatura* and, again, the demand for more rapid privatisation. That is why workers in East Germany fell into the trap of believing their future would best be protected by rapid incorporation into West Germany.

Genuine socialists have to warn workers that the market and privatisation offer no solution to the crisis. But we cannot do so if we give the impression that the alternative is to stick with the old ways, that somehow if the old ways had been left intact everything would be all right. Even worse is for socialists to call upon workers to make 'sacrifices' to protect the old ways.

Yet this is exactly what happened with the majority of the United Left in East Germany in the late spring of 1999. The Christian Democrats had won the general election through West German Chancellor Kohl's promise of a one to one exchange rate between East and West German marks. He then tried to renege on this promise, and a huge protest demonstration of workers took place. The majority of the United Left opposed this demonstration, claiming that the most important thing was to protect the nationalised East German enterprises against international competition, and that this would be more difficult with an exchange rate that gave East German workers higher rather than lower wages.

Fortunately, a minority of United Left members rejected this position, arguing that the central question was of independent organisation of workers in defence of their own interests, both against their old bosses and against those West German interests who wanted to join with the old bosses in exploiting them. [37]

Such issues will arise again and again in the Eastern states. Some sections of the bureaucracy will try to mobilise workers behind their own programme of 'reforms' and the

market. Other sections will claim their defence of the old system is a defence of workers' interests. Genuine socialists have to stand firm against both sections, insisting that both want workers to pay for their crisis. But we can only do so if we are clear that the move from the command economy to the market is neither a step forward nor a step backwards, but a step sideways, from one way of organising capitalist exploitation to another.

The importance of these arguments can be seen if you look at the history of restructuring and privatisation in countries like Britain. The biggest attacks on working class conditions and jobs usually occurred while firms remained in state ownership. Managements urged workers to accept these measures as the price of maintaining nationalisation, and, in key cases like British Leyland (now renamed Rover) and British shipbuilding, won support of union leaders and senior shop stewards to this position. Then after five or ten years of repeated closures, redundancies and speed up, those same managements endorsed privatisation and increased their own salaries enormously. Privatisation came *after* the biggest attacks on workers, not before it. And union officials and stewards who saw privatisation as *the* issue, as more important than the attacks, made it more difficult for workers to fight back. We can only hope that Mandel's arguments do not lead some his followers in the East to play a similar role today.

But it is not only in the Eastern states that an understanding of state capitalism is important. The crisis of the Eastern states has led, inevitably, to a world wide crisis among those sections of the left who used to be influenced by Stalinism. Vast numbers of people who used to believe that the Stalinist model was *the* alternative to the ruling classes of the West and the Third World are now wondering whether there is an alternative at all.

It has been this, for instance, which has allowed the leadership of the South African Communist Party – probably the only one in the world still to be growing – to justify its embrace of the mixed economy and foreign investment. [38] It is this which provided the leadership of the Greek Communist Party with its rationale for moving in two short years from Stalinism via an accommodation of Eurocommunism to the formation of a coalition government with the right wing New Democracy party.

It is certainly not sectarian for South African or Greek revolutionaries to try to provide a clear explanation of what is happening in the Eastern states. But they cannot provide such explanations unless they argue out the issue among themselves, without any fudging. Yet Mandel is calling for such fudging when he implies it makes no difference to revolutionaries in Eastern Europe whether they accept our views or his, and calls for them all to affiliate to his International. If he were really confident in his assertion that a counter-revolution is taking place, then he would surely be insistent that those of us who do not agree should be in a different organisation.

The argument over state capitalism has implications that go beyond the question of the Eastern states. In the Third World there are many regimes which have copied totalitarian features from the old Stalinist states. A state capitalist analysis enables socialists to understand where such features come from – and also to understand that they will eventually be blasted apart by the combined impact of economic crisis and a growing working class.

By contrast, without such an analysis, it is all too easy to fall into the trap of seeing these regimes as uniquely horrific, as worse than any conceivable alternative. There was such confusion in relation to Iran in the late 1990s – at the very time that the US was engaged in a massive military effort

aimed at ensuring the defeat of Iran in the first Gulf War. Typical was an article by Val Moghadam which appeared in **New Left Review**:

How could it be seriously argued that the Islamic regime's economic policies – some populist, some statist, some anachronistic (eg on the ban on loan interest) – reflected 'capitalist laws of accumulation'? ... It was quite simply not a capitalist, still less a bourgeois government ... The fundamental problem was not that the regime was capitalist, but that it was incapable of organising a viable and just political economy based upon democratic rights and the socio-economic needs of the population ... This was despite the fact that in the summer of 1979, the government began nationalising all major industries, banks, insurance companies and foreign trade. [39]

So the lack of an understanding of the forms capitalism has taken in the 20th century led to the view that a Third World regime like Khomeini's was qualitatively worse than a 'normal' bourgeois regime. This was the conclusion which Fred Halliday drew in the same issue of **New Left Review**, contrasting the 'progressive position' of the 'liberal bourgeoisie' to 'the reactionary ideas and policies of Khomeini'. [40] Such analyses led to a refusal to oppose the US offensive against Iran.

Halliday had argued for years that the Eastern states were different from and superior to the West. In an article that appeared early in 1990 he still spoke of 'the degree to which there did exist in the "communist" states a system based on different social and economic criteria' to capitalism and of 'the internationalist commitments that were one of the brighter sides of the Brezhnevite era'. [41] He went on to describe what was happening in the Eastern states as

involving 'recidivism of epochal proportions'. [42] Yet without any analysis to explain these changes, he could only conclude that they undermined much of the classical Marxist analysis:

The greatest mistake of Marxist and socialist thinking ... was the underestimation of capitalism itself, both in terms of its potential for continued expansion and in terms of its not having within it a catastrophist teleology ... [43]

What this necessitates, and provides the opportunity for, is a reassessment and realignment not only of Marxism and the socialist movement but the whole radical and revolutionary traditions within Western society as a whole.

Central to this he argued was a return to the liberal values of the Enlightenment, a 'recognition of how relevant pre-Marxist radical currents may be, especially in the face of the resurgent challenges of the time, clericalism, nationalism and irrationalism.' [44]

What this meant in practice for Halliday was shown in the late summer of 1990 when, in radio interviews, he urged Western military intervention against Iraq, he maintained, 'I would not think that at a future juncture, if sanctions fail, that military action to oust Iraq from Kuwait would be unjustified.' [45]

The only way the genuine left internationally can deal with such disorientation is by subjecting all the old, commonsense accounts of the Eastern states to the most stringent scientific scrutiny. For this reason we make no apology for trying to build an international tendency based on our analysis of the world system, an analysis in which the notion of state capitalism is central.

But the national organisations that make up the tendency certainly do not simply talk about state capitalism, in the

way that Mandel claims. If that were true, we in Britain would never have gained the 'roots in the working class' to which Mandel refers, OSE would never have become the biggest group on the Greek far left and been able to intervene in the recent general strike and the German Sozialistische Arbeitergruppe would never have been able to win members within the United Left in the former DDR.

Even where the organisations in our tendency are small, their work is not characterised by any abstract and sectarian fixation around the question of state capitalism. The French group, Socialisme Internationale, has centred most of its activity in recent years around the demand that the left moves seriously to confront the Nazis of the *Front National* – a task which the biggest revolutionary organisation in France, *Lutte Ouvrière*, refuses to consider and which the second biggest organisation, the *Ligue Communiste Révolutionnaire*, only began to take seriously in the early summer of 1990. *Socialisme Internationale*'s most 'notorious' intervention on the political scene so far was in 1989 when it alone of the revolutionary organisations took an uncompromising stand on the right of girls from immigrant families to wear the Islamic veil to school in the face of a campaign against them orchestrated by the racist right.

Groups like those in the United States, Ireland, Australia, Canada, Denmark, Holland, Norway, are active in all sorts of struggles – from the defence of abortion rights to picket lines against union busting and opposition to racism and imperialism – while attempting to make revolutionary politics relevant to a new generation of activists through papers which combine theory and practice, propaganda and agitation. And all of our groups can boast an exemplary record in opposing Western war drives in the Middle East,

both against Iran in the 1996 and 1997 and against Iraq more recently.

Mandel complains that our tendency is small. So is his International: we have about 6,000 supporters internationally, and his International claimed 10,000 members in 1985 [46] and since then it has lost its once powerful American section, the US Socialist Workers Party. So we both count our supporters in thousands, while the world working class is about a 1,000 million strong. Neither of us should be ashamed of the fact. For two generations Stalinism dominated and disillusioned the left internationally, marginalising its opponents when it did not murder them. The question is how to build now that Stalinism itself has collapsed.

Mandel believes a small organisation can become a bigger one if it fudges its analysis and avoids coming to terms with what is really happening in the world. We do not. Those of us with clear answers to the crisis of Stalinism can grow and play a positive role in the class struggle East and West. Those without such clarity may attract confused people around them for a period, but will just as surely lose them.

Notes

1. See V.I. Lenin, **Imperialism, the Highest Stage of Capitalism**; N. Bukharin, **Imperialism and the World Economy** (London, 1972); N. Bukharin, **The Economics of the Transformation Period** (New York, 1971) [Online as part 2 of a PDF: **The Politics and Economics of the Transformation Period**; web.ed.]; V.I. Lenin, **Marginal notes to Bukharin's economics of the transformation period** in *ibid.*

2. F. Engels, **Critique of the Erfurt Programme** (Cyclostyled Translation, London nd).

3. N. Bukharin, **Imperialism**, pp. 119–125.
4. L. Trotsky, **The First Five Years of the Communist International**, Vol 1 (New York, 1945), p. 23.
5. A. Amsden, **Third World Industrialisation: “Global Fordism” or a new model?**, **New Left Review** 182, London, July/August 1990, p. 21.
6. Goldman and Korba, **Economic Growth in Czechoslovakia** (Prague, 1969), p. 41.
7. R. Hutchinson, *Periodic fluctuations in Soviet historical growth rates*, **Soviet Studies**, January 1969.
8. Translated in **Eastern European Economics**, Vol. X nos. 3–4.
9. B. Horvat, *Business cycles in Yugoslavia*, translated in **Eastern European Economics**, Vol. IX, No. 3–4.
10. If Mandel had actually read the material produced by our organisation at the time he would know that, far from supporting the idea that something called ‘organised capitalism’ which had dispensed with these contradictions, much of our effort went into arguing with the proponents of that idea. See, for example, M. Kidron’s 1956 critiques of R. Crosland and J. Strachey reprinted in **A Socialist Review**, (London 1965) and his **Rejoinder to left reformism** in **International Socialism** (first series), Winter 1961–2.
11. See, for example, B. Kostinsky and M. Belkindas, *Official Soviet Gross National Product Accounting*, in CIA Directorate of Intelligence, **Measuring Soviet GNP, Problems and Solutions** (Washington 1990).
12. A. Nove, **An Economic History of the USSR** (London 1969), p. 361.
13. See, for example, *The future of the Russian Empire, reform or revolution*, **Socialist Review** (December 1956), reprinted in **Neither Washington Nor Moscow**, (London 1992), **Russia from Stalin to Khrushchev**, (London 1958); part two of the 1964 edition of **State Capitalism in Russia**, published as **Russia: a Marxist analysis**.
14. Speech translated in BBC monitoring service, 12 October 1990.

15. In P. Baran and P. Sweezy, **Monopoly Capital** (Harmondsworth 1973).
16. M. Kidron and E. Dallas, *Waste US: 1970*, in M. Kidron, **Capital and Theory** (London 1974).
17. Figures given in W.G. Harm, **The Politics of Soviet Agriculture, 1960–1970** (Baltimore 1972), pp. 197–p. 9 and pp. 224–25.
18. **Finansy SSR** 28/69.
19. For a complaint about these questions in the early Brezhnev years, see Ladenkov, **Voprosy Ekonomiki**, 1967, no 20, translated in **Soviet Review**, IX no. 3.
20. Estimates for growth rates given in CIA Directorate of Intelligence, **op. cit.**, pp. 110–13.
21. For one account of this example, see D.W. Conklin, *Barriers to technological change in the USSR: the case of chemical fertilisers*, **Soviet Studies**, 1969, p. 359.
22. Food and Agricultural Organisation, **World Agricultural Statistics**, 1996, pp. 178, 176 and 11.
23. For an earlier discussion on the shortcomings of Soviet fertilisers, see D.W. Conklin, **op. cit.**, p. 353.
24. FAO, **op. cit.**
25. **Pravda**, 31 October 1989.
26. **Moscow News**, 3 September 1989.
27. I. Advion suggests a ‘probable’ unemployment total of 8.4 million, or 6.2 percent of the employed workforce in *A note on the current level, pattern and trends of unemployment in the USSR*, **Soviet Studies**, July 1989, p. 460.
28. The US unemployment rate in August 1990 was 5.6 percent. International comparisons of unemployment rates are difficult to make. Nevertheless it is clear that the USSR is not qualitatively different in this respect to the West.
29. Minayeva, deputy head of All Union Central Council of Trade Unions, reported on 12 January 1999 in **Trud**.

30. See my articles, *Poland and the Crisis of State Capitalism*, in **International Socialism**, first series, **93** and **94**, (1976). There is a summary of my argument in the concluding chapter of my **Class Struggles in Eastern Europe** (London 1983).

31. T. Cliff, *The nature of state capitalism*, **Socialist Review**, March 1957, reprinted in **A Socialist Review** (London 1965).

32. The state did continue to play a role. The recessions of 1974–76 and 1990–82 were not nearly as deep as that of the 1930s. Unemployment in the early 1930s rose to one third of the workforce in the two countries where the recessions hit worst, the US and Germany. By contrast, it only rose to about 14 percent in the worst hit Western country of the early 1990s, Britain. It is stupid of Mandel to try to ignore this by naively comparing the last two recessions not with that of interwar years, but with the average over the past 150 years – an average that reflects the vitality of capitalism’s youth, not the decay of its old age.

33. See C. Harman, *The Myth of the Market*, **International Socialism** 2 : 42, and *The Storm Breaks*, **International Socialism** 2 : 46.

34. E. Germaine (pseudonym of Ernest Mandel) **Quatrième Internationale**, December 1956, p. 21–22.

35. **Ibid.**, p. 23.

36. For the efforts of the CDU Interior Minister in East Germany to keep sections of Stasi functioning, see the reports in **Klassenkampf**, June 1990, p. 4, and October 1990, p. 4.

37. For a full report of these events see **Klassenkampf**, May 1990, pp. 9–11.

38. See J. Slovo, **Has Socialism Failed?** (London 1990).

39. V. Moghadam, *Socialism or anti-imperialism? The left and revolution in Iran*, **New Left Review** 166, November–December 1997, p. 20.

40. *The Iranian revolution and its implications*, an interview with Fred Halliday, **ibid.**, p. 37.

41. F. Halliday, *The ends of the Cold War*, **New Left Review** 180, March–April 1990, pp. 12–13.

42. **New Left Review** 180, p. 22.
43. **New Left Review** 180, p. 18.
44. **New Left Review** 180, p. 23.
45. Interview in **Marxism Today**, October 1990.
46. When its Australian section left it.
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