

Communist

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Voice



Successor to the
Workers' Advocate

Neo-liberalism begins to crack

The world economic crisis that began in East Asia in 1997 has been spreading from one country to another. It has not just devastated the livelihood of dozens of millions of people, but it is beginning to shake the faith of the world bourgeoisie in neo-liberal, free-market economics. Since World War II, the world bourgeoisie has swung back and forth between periods of massive extension of the state sector in various countries and periods of privatization. The long swing to free-market fanaticism in the 1980s and 1990s was bound

eventually to lead to a swing of the pendulum back in the other direction; and the growing economic difficulties are the agent spurring on this change.

So far, there are only small cracks in the neo-liberal orthodoxy, but already it underlines a major issue facing workers and left-wing activists. To fight against capitalist exploitation, it is not sufficient to condemn neo-liberalism. If the working masses are not to be made to pay and pay for solving the capitalist crisis, they must not take protectionism and government regulation as socialistic or even pro-people in itself. Instead they must distinguish between government regulation in general, and measures that benefit the masses. Only the organization of the working class for class struggle can bring real progress, and this struggle must be directed both against the free-market fanatics and against the bourgeois plans to regulate the economy for their own profit.

This lends importance to the analysis of the state-capitalism of the past. If the left-wing movement sees the old social-democratic economies in Europe as "socialist", or the more developed state-capitalism that existed at one time in Eastern Europe and the late Soviet Union as "communist", it will end up supporting one or another section of the bourgeoisie. It will support a form of capitalism that prepared and strengthened the ruling classes that would later implement the great privatization wave of the 80s and 90s. This issue of *Communist Voice* contains a number of articles analyzing the Stalinist form of state-capitalism and showing that it contains within itself the seeds of the free-market bourgeoisie.

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What is *Communist Voice*?

Communist Voice is a theoretical journal which not only exposes the capitalist system, but deals with the tragedy that has befallen the revolutionary movement. It confronts the thorny questions and controversies facing progressive activists today, and holds that the crisis of the working class movement can only be overcome if Marxist theory again enlightens the struggle for the emancipation of the oppressed. The liberating ideas of Marx, Engels and Lenin have been twisted beyond recognition, not only by outright capitalist spokespeople, but also by the false "communist" regimes of China, Cuba and others today, and of the Soviet Union and Eastern Europe of yesterday. *Communist Voice* denounces these distortions (revisions) of the ideas of Marxism-Leninism — whether Stalinism or Trotskyism or reformism — and stands for placing revolutionary theory on a solid basis through the criticism of revisionism and by analyzing the new developments in the basic economic and political structure of the world today. Through this work, the *Communist Voice* seeks to pave the way for communism to once again become the red, fighting banner of the revolutionary working class movement. Only the influence of the real communist theory can help the goal of a classless, communist society again spread among the workers and oppressed here and around the globe. Only the spread of anti-revisionist Marxism can overcome the influence of liberal, reformist and petty-bourgeois nationalist trends and allow the struggle against capitalism to break out in full force.

The revolutionary parties and movements of the working class in the 19th and 20th centuries never achieved their full goals. The working masses fought monarchy, fascism, colonialism, and various capitalist classes, and also made their first attempts to establish a new social system — however these attempts never went beyond the first steps. This class struggle will be renewed in the 21st century, as the masses are faced with how to escape from the escalating misery brought by capitalist development around the world. To hasten the day

of the revival of the revolutionary movement, the *CV* opposes the neo-conservative and reformist ideologies that are dominant today. It holds that progressive work today requires more than opposing the ultra-conservatives and more than trying to reform the marketplace. It means helping reorganize the working class movement on a basis independent of the liberals and reformists as well as the conservatives. The *CV* sees its theoretical tasks as helping to clear the way for a future reorganization of the working class into, first and foremost, its own political party, as well as other organizations that truly uphold proletarian class interests.

Communist Voice thus continues the Marxist-Leninist and anti-revisionist cause to which its predecessor, the *Workers' Advocate*, was dedicated. For a quarter of a century, the *Workers' Advocate* was the paper of a series of activist organizations, the last one being the Marxist-Leninist Party. The demoralization of the revolutionary ranks included the dissolution of the MLP and, along with it, the *Workers' Advocate*. But the *Communist Voice* continues, in a different form, with fewer resources, and with more emphasis on theoretical work, the struggle of the *Workers' Advocate* to contribute to the development of a mass communist party.

The *Communist Voice* is published by the **Communist Voice Organization**, which links together members in a few cities. The CVO calls on all activists who want to fight capitalism in all its guises to join with us in opposing all the bankrupt theories and practices of the past — from Western-style capitalism to Stalinist state capitalism, from reformism to anarchism, from reliance on the pro-capitalist trade union bigwigs to "left" communist sectarianism toward "impure" struggles. It is time to lay the basis for the revolutionary communism of the future by revitalizing the communist theory and practice of today. Only when communism spreads among the millions and millions of oppressed can the struggle against capitalism again become a force that shakes the world!

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Neo-liberalism begins to crack

Continued from the front page

The neo-liberal era

Let's examine these points more closely. The economic and political collapse of the former Soviet bloc and the economic growth in Western Europe, the U.S. and East Asia were among the events convincing most of the world bourgeoisie of the profitability of extreme free-market economics. The long post-World War II expansion was supposed to prove that capitalism could overcome its internal problems. The high rates of development in East Asia were supposed to show that even developing countries could solve their problems by simply embracing the world market.

Yet this economic expansion has gone along with intensified exploitation, as capitalism always does. The gap between rich and poor countries has been growing. The accelerated plunder of world resources has given rise to an unprecedented level of environmental devastation. If the memory of the 1930s has faded in the most advanced industrial economies, hundreds of millions of people in the "developing world" have experienced utter devastation and misery at every economic downturn. But so long as the system as a whole grew, the world bourgeoisie was content with it. Indeed, the driving of the working class of whole countries into sweatshops could only be good for its profits.

The crisis of neo-liberalism

But the irony of history is that East Asia, once the showcase of capitalist economics, was also the place where the present world overproduction crisis broke out in 1997. Since then, it has been spreading from one country to another. This year it has brought yet another catastrophic decline to Russia; it has threatened Brazil and Latin America as a whole; and a recession is expected in the U.S. and Canada next year. This crisis is not only devastating the livelihood of millions upon

millions of people, but it is beginning to upset the belief of the world bourgeoisie in neo-liberalism.

Faced with the most astonishing economic crisis since the Great Depression, there are already proposals here and there to abandon the rigors of free-market fanaticism. The tremendous harm done by IMF prescriptions in East Asia in 1997, when IMF-imposed austerity policies helped turn financial panics into total disasters, has also helped discredit neo-liberalism. Some of the leading lights of neo-liberalism are preoccupied trying to prove that neo-liberalism really isn't responsible for the wreckage.

* The Malaysian government has imposed controls on international trade in its currency, and mandated a one-year delay on the repatriation abroad of earnings. It also has a reputation for criticizing IMF policies and denouncing international speculators.

* In the face of the possibility of mass starvation this winter, the Russian government is hesitantly considering abandoning IMF orthodoxy, running the printing presses, and renationalizing some enterprises.

* There is renewed attention in reformist circles to the "Tobin tax". This was originally proposed in 1972 by Professor James Tobin, who won the Nobel prize in economics in 1981. By means of a very small tax on international currency transactions, he hoped to curb wild speculative swings. This idea has been dusted off recently and attracted renewed attention.

* This May Joseph Stiglitz, the chief economist and senior vice-president for the World Bank, criticized the "Washington consensus" of U.S. officials with the World Bank and the IMF, saying that IMF/World Bank policies often had harmful consequences and would have "thwarted" economic expansion in the US if applied there.

* The World Bank issued its latest comprehensive report on December 2, entitled "Global Economic Prospects and the Developing Countries 1998/1999". It is worried about the coming year and suggests that some modification is needed in applying the neo-liberal agenda. It accepts the need for a certain

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amount of regulation, and Joseph Stiglitz's foreword says that "in some cases it may be necessary to reverse the excesses of financial sector deregulation". He writes of the need for "a greater receptivity to interventions designed to stabilize capital flows", for "more equitable burden sharing" among the countries of the world, and for social "safety nets" in the developing world.

* The IMF itself, after sacrificing country after country to the balanced budget and fiscal austerity, is now urging some East Asian countries to run a budget deficit.

* The U.S. government, so eager to lecture East Asia about the benefits of letting companies fail, let the Federal Reserve bail out the huge American "hedge fund" called (misleadingly, given its speculative nature) Long-Term Capital Management.

* Some bourgeois economists are worrying about the bankruptcy of their supposed "science". The self-satisfied neo-liberal Paul Krugman worried about this in a recent article "Is the Economic Crisis a Crisis for Economics?" The leading advocate of rapid privatization via "shock therapy", Jeffrey Sachs, has been trying for some time to disassociate himself from the disaster that "shock therapy" and IMF prescriptions have brought to Russia and various other countries: he and other neo-liberal economists are trying to prove that it is only incomplete or distorted application of their principles that has led to the current fiasco. Meanwhile a few establishment economists are even suggesting that there should be a new look at Marx. Of course, the "Marx" they are interested in is the one who supposedly showed how to patch up the capitalist system via state regulation and state-capitalism.

* There is some talk of an East Asian bloc carrying out its own financial policies, differing somewhat from those of the IMF. This plan is, of course, held back by the looming financial collapse threatening Japan itself, as Japan would have to be its main financial pillar.

All these cracks in neo-liberalism are actually very small, very mild, and are mostly readjustments more than anything else. Only in an era when capitalist profit-seeking has enthroned ultra-dogmatic laissez-faire principles could the advocacy of a few government controls, or of some deficit spending appear as bold, radical departures. Many or all of the departures from neo-liberalism being timidly put forward were actually the old bourgeois orthodoxy: the East Asia economies grew up on government regulation while it wasn't so long ago that the G-7 bourgeoisie looked to Keynesian government deficits as a way of overcoming economic slowdowns. Moreover, few of these modifications in neo-liberalism are yet being taken. Malaysia actually did implement controls on currency and investment, but there has been more posturing than action in Russia so far. Neo-liberalism isn't dead; and the IMF is still continuing to sacrifice countries on the altar of free-market orthodoxy.

But these small cracks in neo-liberal orthodoxy are signs of things to come. If the economic crisis were to vanish and general growth resume, then the neo-liberal orthodoxy might rule for another decade or two. But in the turbulent times facing us, the small cracks won't go away. On the whole, the bourgeoisie is still sticking to neo-liberalism with a single-mindedness worthy of a better cause, but its only loyalty is to

profits and exploitation.

Of course, it is not concern for the masses which will motivate the bourgeoisie to modify neo-liberalism. The bourgeoisie isn't going to relent because of the hundredth or thousandth article showing that the gap between rich and poor has been growing; the bourgeoisie rejoices in that gap. It backs neo-liberalism precisely because that gap is growing. It is only when faced repeatedly with economic disaster that threatens it as well as the poor that the bourgeoisie will take notice.

Today the American bourgeoisie still doesn't believe that crisis will touch it. The stock market dip upset it, but now that the stock market is going back up the scare is receding. As even establishment economists talk of a coming "slowdown" in the American economy in 1999, the bourgeoisie can see no further than the latest rebound of the stock market. The Federal Reserve repeatedly drops interest rates, the magic numbers in the stock market go up, and the ruling class finds that all's right in the world. Let Indonesia starve; let Thailand starve; let Mexico starve; let Russia starve; the richest world bourgeoisie doesn't care. But the crisis won't stop there. It is when economic difficulties threaten the U.S. and other G-7 countries, and continue to do so for a period of time, that the world bourgeoisie will start a major shift of policy.

The capitalist economy is inherently anarchic and uncertain. But whether the world crisis spreads to the U.S. this coming year, as many economists believe, or whether there is a temporary pause in the progress of the crisis, one thing is clear. The new millennium is going to begin on a bumpy economic road. Sudden financial panics, economic zigzags, sudden crises engulfing this or that country, the ruining in a few weeks of economic advances that developed over years and years, and economic uncertainty is the legacy that the 20th century is going to bequeath to the 21st century.

Moreover, aside from the overproduction and financial crises facing the world economy, environmental problems are also mounting up on a world scale. Free trade cannot deal with global warming, the devastation of the world's forests, the over-fishing and polluting of the world's oceans, the possible flooding of some island nations, and other major problems. True, the bourgeoisie will not be convinced by the reports of scientists: it can always hire scientific hacks to reassure it, and it will take comfort from the number of times that environmental nightmares didn't materialize. It will take a few catastrophes before the bourgeoisie takes environmentalism that seriously. But eventually it will be turn towards global regulations of some sort, and even, perhaps, to some very strict ones. But far from this bringing a utopia, the bourgeoisie will tailor its measures so as to preserve its domination of the masses and its fat profit margins; and it will pay attention to one environmental problem only to create another. It will even defend its squeezing of the masses as an environmental measure. The struggle against the bourgeoisie to preserve the livelihood and environment of the masses and to stop the devastation of the earth will not be over, but only have changed its form.

From neo-liberalism to what?

But what will a swing away from neo-liberalism mean? Does it mean the abandonment of capitalism? Not at all. As the 20th century comes to an end, the working class movement faces massive disorganization. There is little if any organized challenge to the hegemony of the bourgeoisie. In this situation, despite the mass anger which will arise, what is coming will at first be a swing of the policy of the world bourgeoisie, not its overthrow.

Moreover, the exploiters can and will use the need for regulation to justify cutbacks and restrictions on the working masses. To oppose this, the workers and activists will need to have a critical assessment of bourgeois state regulation. There will be many struggles of the working masses against the harsh conditions being forced on them and for policies in their favor. To carry out these struggles effectively and merge them into a class-wide struggle, the workers must build up an independent class movement, and not rally behind the state-capitalist section of the bourgeoisie. With regard to state regulation, the working class must maintain a critical position, supporting only policies which favor the masses, and realizing that there will be a constant struggle over the formulation, application, and administration of state policies. There will always be a struggle against tyrannical forms of state regulation, because even when some democratization is achieved, the state remains linked by a thousand threads with the monopoly bourgeoisie so long as capitalism exists. Thus, in order to utilize the bankruptcy of neo-liberalism to reorganize a socialist movement of the proletariat, there has to be opposition to bourgeois policy in all its forms, and not just in its free-market form.

The world bourgeoisie itself has swung back and forth on economic policy. Monopolization has proceeded rapidly during the last century, and it has often taken the form of developing state regulation and state monopolies. Particular periods of state regulation include the rapid development of German capitalism prior to World War I, the massive development of state regulation in all the major belligerent countries during World Wars I and II, and a world wave of state regulation following World War II. For decades, the bourgeoisie and even world bourgeois economic institutions such as the World Bank and various UN commissions supported government intervention and large state sectors in Western Europe and in various countries of the third world. Meanwhile the new bourgeoisie that arose in the Soviet-bloc countries based its power on the state-sector and developed the most extensive form of state-capitalism that has yet existed.

The bourgeoisie that today ruins millions of people in the name of the free-market will feel no compulsion tomorrow squeezing millions of people in the name of state-regulation. The bourgeoisie when it abandons neo-liberalism will be no more progressive than when it embraced neo-liberalism. We have mentioned that the Malaysian government is among those that have imposed restrictions on international speculation. But this government is a thoroughly capitalist government that has repressed the people for decades for the sake of maintaining a "good" business atmosphere for international capitalism, and

has recently carried out massive privatization of the economy. It presently attributes the crisis solely to speculation in order to hide the responsibility of capitalism as a whole for the present overproduction crisis. It is also an authoritarian government which denies basic political freedoms. It's typical that Prime Minister Mohamed Malathir, in denouncing international speculators, also descended into anti-Semitism. It's typical that when Malathir fell out with his own protege, the Malaysian Minister of Finance, Anwar Ibrahim, he turned to repression, imprisoning Ibrahim on some flimsy pretexts. The Western leaders who, at the latest APEC meeting in November, denounced the persecution of Ibrahim were, no doubt, monsters of hypocrisy; for years they have never said anything about the repression of the working masses and were concerned now only because they opposed Malathir's present economic controls and backed Ibrahim's continued neo-liberal orthodoxy. But the working masses have had reason for decades to oppose both the economic and political policies of the Malaysian government.

Moreover, the state regulation of the future will spring up from the soil of the neo-liberalism of today. Even during the height of neo-liberalism in the 80s and 90s, while there has been massive privatization, a foundation for future state regulation has been building up. Neo-liberalism, while eliminating protective legislation and forcing various countries to abandon protectionism, has simultaneously built up a "new world order" of international economic regulation which enforces the neo-liberal dogmas. Never before has the world bourgeoisie insisted on such power for world agencies such as the IMF and such global coordination of the economic strategies. Meanwhile, on the soil of the privatization of government monopolies and removal of government regulations, huge private monopolies are building up, dwarfing even those of the past. The era of "globalization" has been the era of the giant multinational corporation, which typically has a budget bigger than that of many countries in the world. This shows once again that, as Marxism has always maintained, monopoly grows from the very soil of free competition. There has been a cancerous growth of giant world corporations; the crisis, by killing off a number of competing firms, is strengthening this trend to the domination of whole branches of the world economy by a handful of firms. This private monopoly will help provide an economic basis for a swing back to state regulation and some state monopoly.

This means that, if the left-wing movement is to wage a class struggle against the bourgeoisie and not just champion one bourgeois policy over another, it cannot restrict itself to denouncing free-market policies. There is also the issue of what attitude to the old government-regulated capitalism. The collapse of the most complete forms of state-capitalism in the Soviet bloc (and the fading away of these forms in China, Cuba and other supposedly "communist" regimes which haven't collapsed but which have moved over towards market-capitalism) hasn't eliminated the importance of evaluating the old state capitalism. It is a question that will arise in the early years of the 21st century as the crisis deepens and the world bourgeoisie has to adapt.

State capitalism and the revisionist parody of socialism

Much of the material in this issue of *Communist Voice* bears on this assessment of state capitalism. The article on the current Russian crisis shows the complete fiasco that the IMF neo-liberal prescriptions have brought to the Russian economy. But it also traces how the roots of this crisis stretch back to the days of state-capitalism (wrongly called "communism" by the state-capitalist bureaucrats in order to reconcile the workers to it). Indeed, much of the current Russian bourgeoisie comes from the old state-capitalist ruling class. Moreover, the competitive struggle of private interests among the Soviet executives already flourished in the Soviet economy, right under the surface of the overall directives mandated by the central ministries. The way forward for the Russian workers must involve struggle against both the new free-market system and nostalgia for the old form of state-capitalism.

Another article focuses mainly on the anarchy of production that existed despite the state planning in the late Soviet Union. It is a review of Walter Daum's book *The Life and Death of Stalinism*. It shows that Daum, while noting the existence of this anarchy, doesn't grasp its theoretical significance and regards the existence of competition among the Soviet

executives as a secondary feature of the Soviet economy. He is blinded by the Trotskyist ideology which he holds so zealously to. In fact, the rampant competition in the Soviet economy was one of the best illustrations of the capitalist nature of the Stalinist system; it shows that the Soviet economy was not organized along Marxist lines.

The article on China focuses on what happened to the peasantry during the privatization of the communes. This is a review of William Hinton's book *The Great Reversal: The Privatization of China, 1978-1989*. Hinton discusses many of the sorry results of privatization, but doesn't see its roots in the old system. The review shows how it proceeded as the result of forces that built up within the Chinese state-capitalist economy. Moreover, despite Hinton's belief that the development of Chinese national capitalism (as opposed to foreign-lackey capitalism) is impossible, privatization actually amounted to a further stage in its development. Hinton doesn't pay attention to the class differentiation that was growing in the Chinese countryside prior to privatization. If he had, he might have realized that one cannot simply rally supporters of old social situation prior to the great reversal, but must organize an independent movement of the working masses and a new Chinese revolutionary party. □

Right of self-determination for Kosovo

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Kosovars remained oppressed in Titoist Yugoslavia, something which would come back to haunt the Serbian people when Milosevic rose to power on a wave of anti-Albanian hysteria. The lesson is that recognizing the right to self-determination does not cause national strife; it is a precondition for uniting the working masses in great struggles. It is the denial of national rights that inflames national hatreds and national strife.

The key question in the Kosovo crisis is to help prepare

conditions for the working class in Kosovo, in Serbia, and in its neighbors to rise again as a militant, revolutionary force. The only stand on the national question that will facilitate organizing the working class of these lands is advocating the right to self-determination. There are other things that will have to be done as well. It is necessary to show workers that Yugoslavia was not socialist, but state-capitalist. It is necessary that the workers find their way to struggle against the sacrifices being forced among them. But the working class will be both diverted from its class aims and torn apart into separate national contingents unless it champions national freedom for all nationalities. □

Support the right to self-determination of Kosovo!

By Joseph Green

The Yugoslav tragedy has taken a new turn this year. Serbian police and troops have been trampling the population of the province of Kosovo. Many villages have been destroyed by artillery fire or been burned down; there have been a number of massacres; and hundreds of thousands of Albanians have either fled Kosovo or been left homeless. Kosovo is a small territory of a little over 4,000 square miles, with a population of approximately two million people, most of whom are Albanians. Having never been first-class citizens in Serbia, they want Kosovo to be independent of Serbia, while the Serbian government is determined that Kosovo will be Serbian whether the population wants it or not.

The struggle in Kosovo thus centers on the right to national self-determination. For over a century, since the formation of the Albanian League of Prizren in 1878, Kosovo has been one of the centers of the Albanian national movement. When the country of Albania was formed in 1912-13, the imperialist powers split off Kosovo from the rest of the areas of predominantly Albanian population, and kept Kosovo out of Albania. The Albanian Kosovars were a savagely persecuted minority in the monarchist Yugoslavia that existed between World War I and II; they were better-off but still second-class citizens in the state-capitalist Yugoslavia that existed after World War II, with Kosovo remaining far and away the poorest and most backward area in Yugoslavia, and falling further behind each year. After World War II, all the main nationalities of Yugoslavia, with the exception of the Albanians, formed republics that, while united together in federal Yugoslavia, had, on paper at least, the right to self-determination, that is, the right to leave Yugoslavia if they so choose. Kosovo however did not become a republic, and the Albanians were kept within the borders of Serbia. The Albanian national question was a cancer that ate away at Yugoslavia, and the stepped-up oppression of the Albanians by the Milosevic government in Serbia scared a number of other nationalities in Yugoslavia and contributed to the break up of Yugoslavia. The only democratic solution to the national question in Kosovo is that the Kosovan population itself should decide whether to be part of Serbia, or to be an independent country, or to seek to join some other country.

But the right to self-determination isn't just necessary in order to help the Albanian Kosovars. It is also necessary in the interest of the Serbian working class, youth, and progressive activists. The oppression of Kosovo has been a rope around the neck of the Serbian people. It was chauvinist hysteria against the Albanians that allowed the Serbian people to be enslaved to the aggressive and reactionary regime of Slobodan Milosevic at the end of 1987, the regime which still oppresses the Serbian

working masses today. Milosevic came to power as part of a crusade against the Albanians, and he proceeded by early 1989 to strip Kosovo of the autonomy that it had enjoyed for some time. He has diverted the attention of the Serbian people away from the deep-seated crisis of Serbian state-capitalism to military adventures against Serbia's neighbors.

A number of imperialist powers have intervened in the Kosovo crisis, mainly the United States and various Western European powers, but also Russia. None of these powers support the right to self-determination of the Kosovan people; the U.S. government, for instance, has repeatedly reiterated its opposition to independence for Kosovo, whatever the Kosovan population itself wants. They have not only threatened Serbia with attack for trampling Kosovo, but they have also done what they could to clip the wings of the Albanian Kosovars who are resisting the Serbian offensives. A strong distinction has to be made between the many individuals who have sought to aid the peoples of the Balkans out of sympathy and opposition to oppression, and the policies of the imperialist governments. It is the governments of the imperialist powers that are not interested in the welfare of the peoples of the former Yugoslavia, but in pursuing their own national interests and empire-building. Moreover, it is the extreme truculence of the Serbian government, which has in the last decade supported military action against Slovenia, Croatia, Bosnia-Herzegovina, and now Kosovo, and which has recently threatened Macedonia, that has been the main factor opening up the region to the foreign intervention. Meanwhile the U.S. government and European Union have posed as the saviors of the Albanians in Kosovo, as they posed as saviors of the Bosnians, while enforcing solutions that will settle nothing and simply leave outside powers as arbiters of the situation. In Kosovo as in Bosnia, they have threatened the victims of the aggression as well as the aggressors, and the Dayton Accords legalized the dismemberment of Bosnia. The Russian government has also played a bad role, opposing the right to self-determination of the Kosovans not only in order to maintain its traditional alliances with the Serbian ruling class, but because it wants to deny national rights to the peoples it oppresses, such as the Chechens.

Not all the problems of the Kosovars come from Serbian domination. National rights for Kosovo won't solve the economic backwardness of the region and the exploitation of the working masses. The working class is disorganized in Kosovo, as elsewhere in the Balkans, and it will take much time and effort to build up an effective class struggle for its interests. As it does this, it will have to build up its solidarity with the workers of minority nationalities in Kosovo as well as the workers in other countries of the Balkans. But this does not negate, but enhances, the importance of a democratic solution to the national question. It is only by championing the right to

self-determination of other nations, as well as of its own, and by defending the rights of national minorities, that the workers of one nationality gain the trust of workers of other nationalities. Unity across national lines cannot be achieved by closing one's eyes to national oppression, but only by fighting against it. For socialists, upholding the right to self-determination is of especial importance precisely because it is the only way to build up the international class solidarity and to contribute to rebuilding the revolutionary proletarian movement in the Balkans. It is the attempts to deny the right to self-determination that have contributed to the breakup of Yugoslavia, that have inflamed and embittered this process, and that have caused the bloody tragedies and "ethnic cleansing" that have taken place. It is only by upholding the right to self-determination (and the rights of national minorities) that the working class can forge a strong weapon against the chauvinism of all the local bourgeoisies.

The flareup of the war in Kosovo

This year has seen the struggle in Kosovo escalate to a war. Up to now, the majority of Albanians pursued their national demands in a peaceful manner. The Kosovo Liberation Army (KLA, or UCK in Albanian), which has been organizing an armed struggle to obtain independence, had only emerged in the last few years, and was a tiny group. The mainstream Albanian opposition, organized in an unofficial government, was led by Ibrahim Rugova of the Democratic League of Kosovo, who stood for nonviolence.¹

But this year the Serbian government opened a military campaign in the Drenica region of Kosovo. It aimed to annihilate the KLA, and the method it used was to terrorize and attack the civilian population as a whole. Villages were shelled, and civilians massacred. Over 80 people died in March, and thousands fled their homes. The result of the Drenica massacre was that the Albanian population took to arms, and the KLA began to grow like wildfire. The war in Kosovo was on.

In the following months Serbian special police detachments, and military units using tanks and artillery, attacked one village after another, burned down villages after the inhabitants fled, and instituted "ethnic cleansing" of regions of Kosovo. There were hundreds of deaths and more and more refugees. The Serbian government, seeing that the overwhelming majority of the population wanted Kosovo out of Serbia, waged war on the entire Albanian population.

The KLA blocked roads, liberated villages, and expanded its control, at one point controlling close to one-half of Kosovo. The Serbian military then intensified its operations in Kosovo, making yet more extensive use of heavy weapons. The number of civilian casualties skyrocketed, and hundreds of thousands of people were left homeless, facing an uncertain fate in winter.

¹Rugova had won elections organized by the Albanian Kosovars outside the bounds of Serbian legality. However, it's not clear how much support he still commands after the events of this year.

The KLA lost most of its territorial gains, but the hatred for Serbian oppression and the desire for independence was strengthened. The war is far from over.

The Serbian Justification

The justification for all this by the Serbian government is simple. The Milosevic government has repeatedly declared that it will not allow Kosovo to leave Serbia under any circumstances (or even to have the type of autonomy that it had achieved with the Yugoslav Constitution of 1974). Radio Yugoslavia regards all Albanians who disagree as "terrorists", whose main occupation in life is atrocities against Serbians.

Perhaps one might think that, after all, the war is on and atrocities will take place on both sides, even if the Serbian government is responsible for most of them. So the material from Radio Yugoslavia (which posts transcripts of its broadcasts on the Internet) might be thought to be simply the typical war reportage of a bourgeois government. But the truth is more sinister. The hysteria against "Albanian terrorists" began decades ago, long before the armed struggle had begun.

In 1981, Albanians in the then-autonomous province of Kosovo demonstrated peacefully for Kosovo to have republican status (which would have placed Kosovo outside Serbia but kept it within the Yugoslavian federal union, although with the right, on paper at least, to decide whether to leave Yugoslavia). The demonstrations were repressed harshly, martial law was declared, and there were many dead and wounded. Subsequently, in Serbia proper, the nationalists began to increase their ranting against the Albanian nationality, and to win over various political figures, both within the government and the opposition. Already by 1986-7 this campaign reached an astonishing height (and also was carried on in the neighboring republic of Montenegro); it was sponsored by the Serbian ruling party and regime after Milosevic took power. Albanians were routinely described as "separatist terrorist beasts", purveyors of "Stalinized chauvinism", counter-revolutionaries, and depraved people whose very birthrate was an anti-Serb plot. The Albanians were supposed to have driven hundreds of thousands of Serbs and Montenegrins from Kosovo, and to be rapers of Serbian women and murderers of Serbian men.

A single example may suffice to give one the flavor of this campaign. The Serbian Association of University Teachers and Researchers declared the following in an open letter in the mid-80s to the world entitled "The truth About Genocide in Kosovo and Metohija":

"Albanian terrorist beasts rampage today in Kosovo and Metohija, attacking and destroying everything that is Serbian. They break into Serbian homes and terrorize the few unfortunate souls still remaining there. . . the Albanian terrorists are today attacking the Serb and Montenegrin population in Kosovo and Metohija with all kinds of modern weapons, and with the aid of infiltrated trained terrorists from Albania and other countries, so that blood is even shed, while Serb women and children are evacuated,

abandoning their homes to the devastating rage of Albanian terrorists."²

This is not even a distortion: it is utter, racist fantasy. Take the number of murders committed with all modern weapons that were supposedly wielded by hate-filled terrorists. It was pointed out in 1987 that

"How many actual murders of Slavs have been committed in Kosovo over the past five years? The Yugoslav press has reported exactly one: the outcome of a dispute among neighbours over land, of the kind that is unfortunately still quite common in Yugoslavia. The judicial investigation showed no indication that the crime had been committed out of nationalistic hatred. The perpetrator was speedily executed, to the great consternation of all those Yugoslavs who have been actively campaigning against capitalist punishment."³

Particularly prominent in the Serbian nationalist press were tales of rapes of Serbian women by Albanian Kosovars. Young women, old women, nuns, whoever, so long as they were Serbs, they were all supposedly sought out and attacked. Day after day new stories surfaced, and outrage grew. Yet investigations and official statistics proved that the rate of rapes in Kosovo was, if anything, substantially lower than in Serbia proper, and that Serbian women weren't being singled out. A Serbian woman was safer in Kosovo than on the streets of Belgrade.⁴

²Thompson, Mark, *A Paper House: The Ending of Yugoslavia*, p. 130.

³This is from a reply in July 1987 by Branka Magas to nationalist critics in Belgrade. It is reproduced in her book *The Destruction of Yugoslavia: Tracking the Break-up, 1980-92*, pp. 61-2, which also includes the full exchange.

Another writer claims that official Yugoslav statistics for the number of murders from March 1981 to October 1987 in Kosovo, a seven year period, show that there were two murders of Serbs/Montenegrins by Albanians in 1981 and none thereafter. There were three Albanians murdered by Serb/Montenegrins in this seven-year period. This counts only the Albanians killed by ordinary criminals, not the far, far larger number of Albanians killed by the Yugoslav security forces in suppressing the 1981 demonstrations alone. These figures are given in Arshi Pipa's book *Albanian Stalinism: Ideo-Political Aspects*, p. 254, footnote 24. Pipa gets them from an article published in the late 80s in Zagreb by Darko Hudelist, who interviewed the leader of the Department of Internal Affairs in Kosovo.

⁴The hysteria about rape was so loud that many sources feel compelled to discuss and refute it. For example, one writer points out that "The only serious study of this issue was carried out by an independent committee of Serbian lawyers and human rights experts in 1990. Analysing all the statistics on rape and (continued...)

A large number of Serbs did leave Kosovo, but not because of any campaign to push Serbs out of Kosovo. Some Serbs may have felt uncomfortable in Kosovo under an autonomous administration, especially if they read the nationalist publications about how their Albanian neighbors were beasts and rapists. But mainly Serbs left Kosovo because of the low standard of living there, much lower than elsewhere in Serbia or Yugoslavia, just as people in other parts of Yugoslavia migrated from one place to another in search of better conditions. So Serbs tended to leave southern Serbia in general, including not just Kosovo but areas under completely Serbian administration. Many Albanians too migrated away from Kosovo in order to find work elsewhere in Yugoslavia or even in Germany or the United States, although they tended to maintain their ties with Kosovo and send money back home (similar to how Mexican toilers seek work in the U.S. in order to keep their families afloat).

No doubt Serbs in Kosovo had some grievances against the provincial government. Some likely had burning indignation over the curbing of some of the special privileges that Serbs had enjoyed in Kosovo earlier, similar to the indignation about the supposed "reverse discrimination" against whites in the US. But there may well have been legitimate grievances too. Throughout Yugoslavia, in every republic, province, city, or industry, the people had grievances against the heavy-handed, bungling, oppressive bureaucracy, and Kosovo's autonomous status didn't change the nature of the state-capitalist bureaucracy, built along the same lines as the bureaucracy elsewhere in Serbia. But the anti-Albanian campaign had nothing to do with correcting bureaucratic errors; quite the contrary, it was used by the bureaucracy of Serbia proper to divert the popular anger away itself and towards suitable ethnic scapegoats.

The demonization of the Albanians led to measures being taken against them. The result has been described as follows: ". . . By 1987 Kosovo had become—in violation of both the letter and the spirit of the [Yugoslav] constitution—a legal zone *sui generis* [unique

⁴(...continued)

attempted rape for the 1980s, they found first of all that the frequency of this crime was significantly lower in Kosovo than in other parts of Yugoslavia: while inner Serbia, on average, had 2.43 cases per year for every 10,000 men in the population, the figure in Kosovo was 0.96. They also found that in the great majority of cases in Kosovo (71 per cent) the assailant and the victim were of the same nationality. Altogether the number of cases where an Albanian committed or attempted the rape of a Serbian woman was just over thirty-one in the whole period from 1982 to 1989: an average of fewer than five per year." (Malcolm, Noel, *Kosovo: A Short History*, p. 339) Of course, official rape figures may underestimate the problem, but these figures nevertheless refute the nationalist hysteria. Moreover, since the figures are for the same country during the same time period, it can be expected that the comparison between different areas might well be accurate.

unto itself—JG]. Factories started to be built in Kosovo for Serbs only, Albanian families were evicted from Serb villages, sale of Serb-owned land to Albanians were prohibited, rape declared a political crime. Albanians were heavily sentenced for minor and frequently invented misdemeanors. . . . Racial slurs in the media were tolerated. This anti-Albanian campaign in Serbia in turn encouraged the leadership of Macedonia [a neighboring Yugoslav Republic—JG] to begin a policy of (unconstitutionally) restricting educational opportunities for Albanian children, limiting welfare benefits, at times even destroying Albanian houses, and generally discriminating against this part of the republic's population."⁵

It is this racist propaganda against the Albanians that the Serbian government is continuing today, and that underpins its war on Kosovo. It should also be noted that the demonization of the Albanians in the 80s served as a model for the demonization of others nationalities and thus facilitated the bloody wars in Croatia and Bosnia-Hercegovina.

The Recent History of Kosovo

One of the reasons for the discontent of the Albanian Kosovars is that Kosovo has always been the most poverty-stricken and undeveloped region in Yugoslavia. Take the figures for gross domestic product per capita (GDP/c). In 1952, Kosovo had less than half the GDP/c of Serbia proper or of Yugoslavia overall. While the absolute figures for GDP/c grew, Kosovo's relative position deteriorated. By 1969, Kosovo was down to one-third of the GDP/c of these other areas, and by 1989, Kosovo had slipped to one-fourth of the GDP/c for these areas (and one-eighth that of the richest Yugoslav republic, Slovenia).⁶

It is true that Kosovo ended up getting a disproportionately large share of Yugoslavia's system of transfer funds for the aid of underdeveloped republics and provinces. However this didn't help the mass of Albanians; it seems to have resulted in modernizing the key extraction industries and mines in Kosovo; and perhaps it also subsidized corruption in the local bureaucracy. The situation here is analogous to that in the Mexican state of Chiapas. The Chiapas peasants that revolted under the leadership of the Zapatistas were among the poorest in Mexico. Yet Chiapas had received quite a lot of funds from the federal government, and also had a rich energy industry (both hydroelectric dams and an oil industry). Chiapas was a source of enrichment for someone, but not the mass of the population, and something similar could be said for Kosovo.

⁵Branka Magas, *The Destruction of Yugoslavia*, 196.

⁶This is from Table 4-2 in Dragomir Vojnic "Disparity and Disintegration: The Economic Dimension of Yugoslavia's Demise", which is chapter four of *Yugoslavia: The Former and Future: Reflections by Scholars from the Region*, edited by Payam Akhavan and Robert Howse.

Kosovo had suffered quite a lot in the first two decades of Tito's Yugoslavia, when the notorious tyrant Alexander Rankovic was Yugoslav interior minister (that is, the chief police official). Repression was fierce, even the Albanian language was restricted, and Serbs ran just about all the local government positions. When Rankovic fell from power in 1966, change came to Kosovo. A process of Albanianization of various posts took place. Moreover, the new Yugoslav Constitution of 1974 seemed to give autonomous provinces (which Kosovo was at that time) almost all of the rights of Yugoslav republics, except the right to self-determination.

In and of itself, autonomy is by no means a flawed policy. It depends on the circumstances, on what is actually being called "autonomy", and on the will of the people involved. Autonomy can sometimes serve as a civilized and effective solution to certain national questions. Even in Kosovo, it did improve the conditions of the Albanians, but only so far.

In reality, Albanians continued to be second-class citizens. The repression may not have been as harsh as under Rankovic, but it was bad enough, and remained worse than what any other part of Yugoslavia was subject to. The Yugoslav security forces were heavy-handed and lethal in suppressing any sign of discontent, such as the demonstrations in 1981 in favor of republican status. The Albanian officials in the autonomous administration took to trying to appease Serbian anger by themselves instituting harsh police measures against the Albanian people. As we have seen, from 1986-87, a new series of anti-Albanian measures were implemented in Kosovo. So the suppression of the Albanian strikes and demonstrations in 1989 and the sacking of Albanian miners for protesting the plan to eliminate Kosovo's status as an autonomous province, were not an aberration of the system; they were fully in line with how the Albanian Kosovars had always been treated.

So even during the period of autonomy, Albanians continued to be second-class citizens. For example, in the United States, despite the formal equality which blacks and Hispanics now have, they fill the jails and the gas chambers. In Yugoslavia, despite the formal guarantees for Albanians, the same thing happens. Repression for demonstrations would include the questioning of tens of thousands of Albanian Kosovars, and long prison sentences were common. Albanians seem to have been heavily overrepresented in the ranks of political offenders, such as teenagers sentenced to jail for shouting "Long live the Republic of Kosovo!" And it is notable that almost half of the 35 cases of capital punishment during 1975-1985 were carried out against Albanians, who constituted only about 8% of the Yugoslav population.⁷ However, the number of official executions is negligible besides the number of Kosovars killed by the security forces.

Also important is that the old autonomous system, even if the Albanians had really been equal under it, preserved the old Yugoslav bureaucracy. Yugoslavia was not a socialist country, despite its pretensions. It had a state-capitalist system, and the

⁷Arshi Pipa, *Ibid.*, 152. He says that this is from official Yugoslav statistics.

socialist label simply served to disorient the working class and prevent it from defending its interests. This state-capitalist system went into economic crisis already in 1980, with the standard of living falling from year to year, with industries running at a fraction of their capacity because there was no funds to import essential materials, with the exposure of the corruption and frauds that had been accumulating for years, and with the breaking apart of the old ruling class into squabbling national fractions. It was not just second-class citizens like the Albanians, but Yugoslavs everywhere who were dissatisfied. Strikes had begun, and no doubt nationalism was eventually seen both by the regime and the bourgeois opposition as one way to ward off the class struggle.

Unfortunately, there was no understanding among the Yugoslav working people of the nature of the Yugoslav state-capitalist system. So the socialist pretenses of the state-capitalist bureaucracy was not shattered, the idea of moving towards a market system was dominant, and this tied the people to the bourgeois opposition forces and blocked the formation of a revolutionary opposition. Going from state-capitalism to market capitalism means exchanging one form of economic oppression for another. The way forward for the working masses isn't only to eliminate the old bureaucratic tutelage, but to understand how it differed from real socialism, and to build up a new class struggle. It will be awhile before they do this, but whatever detours they take, however tortuous the path, the only way forward is towards something new, not nostalgia for the old system. Few want to go back to the old state-capitalist system; most want to loosen the bureaucratic tyranny; and even the Serbs are only held back—for the time being—by the chains of the rabid chauvinism and oppression unleashed by the Milosevic government.

These factors help explain why many Albanian Kosovars may not look back fondly on the memory of Kosovo as an autonomous province. But moreover, there is no going back. For better or worse, the Yugoslavia of old is gone. Probably not many Albanians will shed too many tears about that, but what exists today is worse. It is no longer a question of being one of many nationalities inside a federal system that at least pays lip-service to national freedom. Today what remains of "Yugoslavia" is simply a federation of Serbia and Montenegro; even Montenegro is dissatisfied and is currently challenging the legality of the present government imposed by Serbia on "Yugoslavia"; and Serbia is ruled by dedicated "ethnic cleansers". Being a province of Serbia today would mean being linked to the Milosevic government, which is among the most repulsive ones to spring from the decay of the old Yugoslavia.

The Military Intervention of the Big Powers

The wars of the Serbian government against its neighbors have opened up the region to the military intervention of the big powers. Both Serbia and its neighbors are seeking the support of outside powers, while the big powers intervened directly after the large-scale violence began.

The intervention of the U.S. government and the European Union isn't because Western imperialism wanted to tear

Yugoslavia apart: they have historically, once the break between Stalin and Tito took place, propped up Titoist Yugoslavia as a counterweight against the Soviet bloc. Its economy lived on Western aid. (After Stalin died, Yugoslavia also sought to repair its links with Soviet Union as far as possible, without harming its links to the West, thus balancing between the U.S. and the Soviet Union.) When the Soviet bloc disintegrated, Yugoslavia lost its special geo-political importance for the Western powers, but they wanted stability in the Balkans. On the whole, this meant to them that Yugoslavia should stay together.

It is only when the breakup of Yugoslavia was quite far along that the Western powers began to squabble over what was to be done. Germany and Austria, for example, wanted the independence of Slovenia and Croatia to be recognized, whereas the United States and various other big powers remained opposed. Even as negotiations between Slovenia, Croatia and Serbia broke down in 1991, the then-U.S. Secretary of State, James Baker, visited Belgrade on June 21 and informed everyone that the U.S. would not recognize Slovenian or Croatian independence "under any circumstances". Soon afterwards, on June 27, the Serbian-dominated "Yugoslav" army invaded Slovenia.⁸ The European Community didn't recognize Slovenian and Croatian independence from Yugoslavia until January 15, 1992 (Germany recognizing them a month earlier, while the U.S. government waited until April 6), after half a year of fighting, first in Slovenia and then in Croatia. The stand of the Western powers towards the other republics of Yugoslavia was more hesitant still.

As to Kosovo, the big powers are presently demanding that Kosovo should stay inside Serbia, or at least inside the rump "Yugoslavian" federation of Serbia and Montenegro. The imperialist "Contact Group" (U.S., Britain, France, Germany, Italy, and Russia) is opposed to the Kosovans having the right to self-determination. They are opposed to the Kosovan people leaving Serbia, and also opposed to the ferocity of the Serbian war on Kosovo. They want the fighting to end, the Albanians to agree to stay in Serbia, and the Serbians to agree to restore Kosovo's old autonomous status. They have sought to prevent arms from reaching the KLA, and they have threatened military action against Serbia if large-scale massacres continue to take place. But the old status is not acceptable to the Milosevic government, and it is not acceptable to the Kosovars either.

There are many people who have been horrified at the carnage in the lands of ex-Yugoslavia and have tried to help. They have brought aid to refugees, documented many of the events of the wars in the region, and so forth. They have seen the zigzags of big power policy. Their role in the region is one thing; the role of the governments of the big powers is another.

The big powers do not stand for principles, but only for their own interests. They pride themselves on calming the situation, whereas their policy can only help inflame it further. The only thing they have achieved is to make themselves one of

⁸They were probably encouraged by Baker's remarks, but this does not mean that Baker wanted this invasion.

the arbiters of the regime.

The Right to Self-Determination

It should be the choice of the Kosovo population whether to be independent or to remain linked with Serbia. There seems to be little doubt about what the Kosovo population wants, which is why Serbia is trying to settle the issue with modern weapons and "ethnic cleansing". But to advocate the right to self-determination doesn't mean that one has to support any particular Albanian organization or any particular solution of the national question. It means that one believes that the population concerned should decide the question; that Kosovo should be part of Serbia, or independent, or should seek unity with a third country, according to what it itself wishes to do.

It has been raised that Kosovo is too small an area for the right to self-determination to make sense. Actually, Kosovo is more populous than Montenegro, which was always a republic of Yugoslavia. Kosovo has been an area with an Albanian national movement for over a century. It is not an arbitrary territory, but a definite national area. It is just as possible for it to form an independent republic as any other republic of the former Yugoslavia. Moreover the Kosovars probably wouldn't want to stay independent but would gravitate to unity with another country, such as Albania.

It has been suggested that the right to self-determination would only apply if the mass of people were socialist and left-wing. Since the Kosovars are just as confused and disoriented as the other peoples of Yugoslavia or Eastern Europe, and certainly aren't socialist at this time, it has been suggested that it is reactionary for them to separate from Serbia. But Serbia is not socialist either; it is moving over to market-capitalism while preserving the oppressive bureaucracy of state-capitalism. And if the Serbia government were really socialist, it would be the foremost among those championing the right to self-determination. From Marx and Engels to Lenin, it has been held that socialism can only be built on the basis of the initiative of the people, and that a socialist country must grant the right to self-determination to the included nationalities.

It has been claimed that if the idea of the right to self-determination became popular in the Balkans, then there would be a sea of troubles as certain other national questions still exist. A number of them center around Macedonia, for example. It has a substantial Albanian population which may wish to unite with an independent Kosovo or with a united Kosovo/Albania. As well, Greece doesn't even accept that the Macedonian nationality exists, and it also has territorial claims on Albania proper. It is possible that bourgeois chauvinists will start wars over boundaries, as the Milosevic government of Serbia has already done. But what is certain is that unless the right of self-determination is accepted, there will never be peace in the Balkans. The national questions that are postponed by putting the peoples under a bayonet will reappear later in an even more difficult form.

Having the right to self-determination would not solve all of Kosovo's problems. It would not suddenly bring prosperity to the masses, and it would certainly immerse Kosovo in a sea of

complex problems concerning its relations with its neighbors. There are still more tragedies waiting to work themselves out in this region. But the only way forward in Kosovo for the mass of people to determine what Kosovo is to be.

The right to self-determination is not the sole issue of national freedom. There is also the question of supporting the rights of minorities. These issues are crucial for the working class, because they are necessary for the workers to unite across national lines. For a revolutionary workers movement devoted to the class struggle, the fight for the right to self-determination, and ensuring that the national arrangements are in accord with the popular will in the affected territory, is often more important than any particular outcome of the national struggle (such as independence, autonomy, federation or a guarantee of minority rights inside a larger entity). It is necessary for the workers to demonstrate confidence in the workers of other nationalities, and to show in practice that their trust and belief in each other, across national lines, is more important to them than anything else. It is precisely this attachment to a democratic solution of the national question which can serve the workers in the Balkans as a sharp weapon to attack the chauvinism of the bourgeoisie of all nationalities. It does not negate bourgeois nationalism to ignore the national question, thus implicitly accepting the dictation of the most powerful national bourgeoisie. It only negates bourgeois nationalism to uphold national freedom and the unity of workers across all lines.

It has been claimed that the right to self-determination might be one factor, but the intervention of the big powers overrides it. But it has been Serbia's military campaigns in denial of the right to self-determination which has created the field for big power intervention. And it is only the unity of the proletariat across national lines, a unity which can only be built on the basis of national freedom, which can provide a solid opposition to local chauvinists and foreign imperialists.

The experience of the anti-fascist struggle in Yugoslavia in World War II is instructive about the preconditions for the unity of the working masses. Yugoslavia was occupied by the Nazis, who claimed to solve the national problems in Yugoslavia by, for example, creating a separate Croatian state. The partisans didn't tell the people that the right to self-determination must be reactionary and obsolete and Croatian independence a fascist dream because the fascists had divided up Yugoslavia. If the partisans had done that, they would have failed to inspire the Yugoslavian masses and would have been defeated. Instead they showed that the local fascist regimes were reactionary puppet regimes and promised that the various nationalities would have a genuine right to self-determination as one of the fruits of victory over fascism. This was what allowed the partisans to unite anti-fascist fighters from all over Yugoslavia. And the Yugoslavia established after World War II did to some extent live up to the partisan promises; it had far more national freedom than monarchist Yugoslavia. Unfortunately, the Titoist leadership of the partisans hesitated to promise rights to the Albanians during World War II, resulting in infinite difficulties for the anti-fascist struggle in Kosovo. And the Albanian

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A Maoist conundrum: review of William Hinton's *The Great Reversal*

By Pete Brown

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William Hinton is a well-known leader of the U.S.-China Friendship Association. A farmer in Pennsylvania, Hinton first visited China in the 1950s. He and some of his family members have made prolonged stays in China since that time. Hinton authored books and articles showing life in China, especially in the rural areas, and became an agriculture adviser to some Chinese localities.

This book¹ is a series of essays written by Hinton in the 1980s showing his growing disillusionment with the new regime of Deng Xiaoping, as Deng and his cohorts launched the "modernization" campaign leading to the restoration of private-market capitalism. In the first articles Hinton appears fairly naive and surprised by Deng's policy shifts. He's taken in by Deng's "socialist" rhetoric and is willing to give Deng's policies a chance.

But by the end of the book Hinton has become disillusioned in Deng. He sees that the "socialist" rhetoric is nothing but hot air, that what Deng & co. are really after is the complete privatization of the Chinese economy. Particularly after the 1989 Tien An Men "democracy square" movement and Deng's massacre of protesters, Hinton bitterly denounces the regime as corrupt and rightist. At this time Hinton severed his connections with the Chinese government and swore to not visit China again until the official verdict on Tien An Men had been reversed.

Hinton's overall outlook is that of a thoughtful and good-hearted Maoist.² He really seems to have the interests of the rural Chinese people at heart. But his judgment is restricted by

the narrow confines of Maoist three-worldism. Thus he was taken in at first by Deng's rhetoric because he saw problems with a certain stagnation in the economy, and he hoped that Deng's reforms might speed up agricultural mechanization. And when he finally grows angry and resentful at the end, his strategy is confined to the call for a coup to overthrow Deng's clique; he thinks a military coup will easily restore the old system (which he regards as socialist). Hinton has no analysis of how the old system was state-capitalist, in which the bureaucrats did not simply stagnate things through policy errors but actually formed a new bourgeoisie based on their control of the state sector. Hinton has no grasp of the class differences state-capitalism engenders and intensifies nor of the profound class struggle required to overcome it. In the end, then, Hinton's book is a graphic example of the weakness of Maoism in the face of the neo-liberal onslaught. This is what I mean by the Maoist conundrum: Hinton has enough sense to see things wrong with the old system and also to sense that something's very wrong with the path charted out by Deng, but isn't clear about what's wrong and can't do anything about it.

Are co-ops a guarantee of socialism?

One of the main points stressed by Hinton is that the privatization of agriculture will mean disaster for China. The book gives a lot of valuable information about how the breakup of rural communes (large-scale co-operatives) proceeded in China, and of how this engendered some severe problems. Now the collectivization of Chinese agriculture in the 1950s on the whole improved things for the peasantry. But Hinton's Maoist ideology clouds his judgment about this issue. He thinks that the rural communes were a guarantee of socialism; this is an exaggeration of their significance. Further, he regards the breakup of communes as a disaster that will mean not only the end of socialism, but mass starvation and the return of the enslavement of China. Hinton strikes a patriotic three-worldist pose with his insistence that China can only survive as an independent state if it "maintains socialism", which for him means bringing back co-operative agriculture. This negates the fact that China is one of the major capitalist powers of the world.

Hinton's position raises the question of whether rural producer co-ops are a guarantee of socialism. Hinton certainly seems to think so, even though he recognizes that state ownership by itself does not constitute socialism. In fact he criticizes Deng & co. for the theory that so long as the land is nationalized (owned by the state), that China must still be socialist. Hinton sees this is bogus, since when land-use is divided up into millions of small plots through family contracts, then clearly there is no socialized production. Hinton sees this. But what about the co-op system in which land-use was divided

¹Hinton, William, *The Great Reversal: The Privatization of China, 1978-1989*, New York: Monthly Review Press, 1990..

²Note that there are different varieties of Maoism. Some Maoist groups are more left-leaning than Hinton. The RCP,USA for example continues to support the "Gang of Four", though Hinton praises Deng for getting rid of them. But all Maoists share three-worldist state-capitalist prejudices.

up into tens of thousands of independent communes which rose and fell on their own? Hinton thinks such a system *defined* socialism.

But inside communes the peasants maintained their identity as a separate class distinct from the working class. Their economic enterprises (both agricultural and other) were not owned by the working people as a whole or managed on behalf of the toilers as a whole, which is the sort of ownership and management that would exist under socialism. Ownership/management by the toilers as a whole could take the form at first (during the period of transition to socialism) either of state farms or of communes in which the peasants' livelihood and resources are linked to the overall economy and not just to their local conditions. But the Chinese communes, though working with nationalized land, were independent enterprises with sharply differing conditions. Individual members of the commune were not paid a wage, but instead were remunerated according to a system of profit-sharing. Thus the peasants were not part of a centralized planned economy. The state did set some agricultural prices and set quotas of grain it would purchase from communes. And the state provided some support and guidance to communes. Nonetheless the communes remained separate enterprises with wide disparities in incomes. Strikingly, Hinton admits that under the old system only about 30% of the communes did well (he says they "were prospering"); 40%, he says, "held their own" (i.e., were stagnating); while 30% were doing badly — the members were dirt-poor and had no prospects of improvement. A system that allows 30% of its members to languish in poverty is obviously not socialist.

In China the peasantry were not a small segment of the population; in fact they were (and are) the overwhelming majority. So even if we defined the industrial working class in state-owned enterprises as the "socialist sector", this sector was dwarfed in size by the "non-socialist sector" of peasants grouped into co-ops and communes. So it's way off the mark for Hinton to call China of the 1960s socialist.

The forming of agricultural co-ops is generally a positive step in the transition to socialism. This was true of China also. But taking some positive steps did not give China a socialist, planned economy. Nor did it guarantee that China would continue evolving toward socialism. Russia is another example which shows that, even if the peasantry is grouped into co-ops for generations, it still may go back to the full restoration of private-market capitalism.

So Hinton's theoretical argument that equates co-operativist agriculture with socialism is bogus. Furthermore, Hinton's argument that China's agriculture *must* be co-operativist in order to maintain production is also suspect. On p. 155 he says that co-ops "provided the scale and the infrastructure for the modernization and mechanization of the Chinese countryside, a development that has been severely hampered if not totally aborted by the family-contract system [Deng's system of private-enterprise agriculture]."

It's generally agreed, and Hinton admits as much, that the first few years under Deng's reforms (late 70s-early 80s) resulted in a spurt of production in Chinese agriculture and rising living standards for many peasants. Hinton explains this

away by saying many peasants were enthused about *any* change, at first, and threw themselves into production work; also by the fact that many communes, as they were breaking up, sold off their stored-up surpluses on the private market. Hinton's probably right about this. It's also generally agreed, and Hinton stresses this point, that after the mid-80s a decline set in. The peasants' original enthusiasm for the new system petered out. Capitalist competition wiped out a number of peasants, and those who were left did not have the resources to immediately go over to large-scale mechanized farming. At this point farm production, at least in basic grains, actually declined for a few years.

Hinton paints the picture that this generated a crisis in agriculture that was part of an overall crisis in the economy in the late 80s. Inflation was developing while new production and jobs were lagging. Hinton argues that these problems underlay the development of the political protest movement that broke out in 1989.

But since then there have been a number of new reforms by the Chinese government, both in agriculture and the general economy. Hinton's book doesn't cover the 90s, and I have no accurate statistics about agricultural development. Occasionally there are articles in the press about various aspects of it, and one gets the picture that it is developing in a classical capitalist way. Poorer peasants are being forced off the land and are flocking to the cities for jobs. So clearly class contradictions in the countryside are intensifying. Farmers are moving over towards production of more profitable crops rather than basic grains. Tens of millions of impoverished peasants are heading for the cities, while some successful farmers have realized Deng's dream, "It is glorious to get rich." Hinton's view that it's *impossible* for Chinese agriculture to mechanize under a private-market system is probably wrong. In fact some multinational corporations such as Caterpillar are planning to set up factories producing farm equipment in China.

Hinton goes so far as to say, on p. 166, ". . . autonomous self-generating national capitalism for China is no more viable an option today than it was in 1930 . . ." Hinton gives many examples to show the destructive effects of private-market capitalism in agriculture. For example, since roads and hydraulic projects don't belong to a single capitalist farmer, then under the family-contract system there's no incentive for individual farmers to take care of them. And the same goes for the environment: Hinton shows how the family-contract system led to massive destruction of grasslands and forests.

Even so, it's an exaggeration to say that this social irresponsibility makes the development of a private-capitalist China *impossible*. Some of the same facts cited by Hinton would no doubt be cited by neo-liberals to argue, "You see how great private-market capitalism is? It stimulates people to cut down trees and sell lumber, thereby developing the economy." Hinton's arguments show that capitalism is incredibly wasteful of both natural and human resources. They show that capitalist development is an incredibly painful process. But Western nations, as well as Eastern ones like Japan and South Korea, went through this process and eventually built modern industrial economies, and there's no reason to think this is *impossible* in

China. Painful, wasteful, and exploitative — yes; but impossible? — unlikely.

Objective and subjective factors

To back up his contention that capitalist development in China is impossible, Hinton cites objective and subjective factors. For one thing, he says the world market is already glutted with export goods of the type China is capable of producing. Thus it will be impossible for China to follow the path pioneered by South Korea, Taiwan, Hong Kong and Singapore.

Actually this argument has more force today than it did when Hinton wrote it (about 1990). In the early 1990s China's economy grew at a furious pace, as fast or faster than any country's economy has ever grown. And China's exports, e.g. to the U.S., also grew rapidly. Since 1996, however, the world glut Hinton talked about has taken a bite out of China's growth. The Asian economic crisis has slowed China's growth, and the possibility of a devaluation and recession looms on the horizon.

But so what? Every capitalist country goes through cycles of boom and bust. This doesn't mean capitalism is impossible; it simply means capitalism is anarchic, and particularly chaotic for the ordinary worker or poor peasant trying to survive. Hinton is repeating the viewpoint of the late 19th century Narodniks, who tried to maintain that capitalist development was impossible in Russia. Lenin correctly countered their arguments by, for one thing, showing that in fact Russia was *already* developing capitalistically. The same is true of China today. Today, in the late 90s, China is accumulating the elements of a major crisis — its banks are insolvent, environmental pressures are building, city slums are packed with the unemployed, etc. But the crisis that breaks out will be a crisis of capitalism and another proof that it has been rapidly developing in China.

Hinton's Maoist three-worldist viewpoint is also similar to that of the dependency theorists of the 1970s-80s. Dependency theory taught that third-world countries could not develop capitalistically. Hinton raises (p. 160) the possibility of "renewed neocolonial status and eventual debt peonage" for China. But this is a serious misreading of China's status as a world power. Though China is still, per capita, a very poor country, its economy as a whole is very large. In fact, some economists estimate the total value of goods and services produced in China to be equal to or greater than in the U.S. (this depends on how you count noncommercial parts of the economy such as subsistence agriculture, how you figure currency exchange rates, etc.). China's exports today even rival Japan's. And China's trade continues to grow on the plus side rather than racking up deficits as predicted by Hinton. (For 1998 China's predicted trade surplus with the U.S. will be a record \$60 billion — *Wall Street Journal*, Nov. 25.) China is also a major military power. It has a huge army, a growing navy, and is the only Asian country (aside from Russia) with nuclear weapons armed and ready to launch. It's highly unlikely that China is going to undergo "renewed neocolonial status".

Hinton also argues that the resistance of the working masses

— urban industrial workers and rural peasants — will make it impossible to privatize the economy. On p. 171 he says the working class will defend its "iron rice bowl" to the last. He paints a nice picture of a working class mobilized, united and secure. That would be nice, if it were true. But actually it's an overestimation of what the Chinese revolution accomplished. The Chinese proletariat, like their Russian comrades, have been disarmed by decades of revisionist rot parading as communism. A number of strikes and other resistance struggles have broken out as the privatization plan proceeds. But these have been kept under control by the Dengists' combination of repression and throwing a few sops at rebellious localities. It will take something much deeper to stop the privatization campaign. And at the present time the Chinese workers lack the organization and experience to launch a serious, classwide struggle against the so-called "Communist Party of China." This is what is needed, though Hinton himself has a positive assessment of the CPC.

The same point can be made about the peasants, whom Hinton says (p. 173) will never give up the land-use rights to their subsistence plots. This would make it impossible for capitalist farmers to consolidate large land holdings and thereby hobble capitalist agriculture. But no doubt impoverished peasants, faced with starvation, will instead opt to lease out their land to their richer neighbors who are becoming capitalist farmers. This is what has happened elsewhere — for example in Mexico where some of the poorer peasants leased out their *ejido* (co-op) land long before it was legal to do so. As the private market invades more and more, no doubt the government will even pass laws mandating the leasing or selling of such land.

Grasping at straws, on p. 168 Hinton argues that the state bureaucrats will oppose privatization. But he himself cites cases in which government assets have been handed over to local bureaucrats. Hinton denounces this corruption but somehow misses that this process on a large scale is exactly what will disarm any potential opposition to privatization on the part of the state bureaucracy.

All in all, Hinton is misled by his romanticized Maoist notion that China already in the 1960s was a socialist country. The only support for privatization, in his view, comes from the "capitalist roaders" Deng and a few other comprador sellouts in the leadership of the CPC.

Getting rich under socialism

One of the oddest, yet most frequent, of Hinton's arguments against privatization is his insistence that peasants could have enriched themselves under the co-op system just as well, or better, than under Deng's privatization policy. As noted before, Hinton himself admits that under the old system some 70% of the communes were *not* prospering. And even within communes that were doing well, Hinton's examples show that this was often more to the benefit of a few commune leaders than to the mass of members. He doesn't seem to notice that the enrichment of a few peasants under the commune system throws in doubt his concept of a "socialist" China in the 1960s.

When Deng launched his campaign for privatization, he accompanied it with a lot of propaganda against egalitarianism. The Dengists said that the commune system fostered inefficiency by, supposedly, paying everyone the same. They insisted that people should be paid according to their output, and privatizing was the only way to ensure this.

Hinton opposed privatization, but not on the basis that he was an advocate of equality. On the contrary. He gives examples of prosperous co-ops to show that co-ops, too, could allow people to get rich. But some examples he cites are of communes that have ten times the land per capita as the average commune. Hinton doesn't seem bothered by this inequality — he just uses it to argue for the prosperity of some co-ops (while other co-ops remained mired in poverty). He also points proudly to some commune leaders who were paid fat salaries, many times what the ordinary members of their own commune made. Hinton thinks this is great that some individuals could enrich themselves under the co-op system; but what about the great mass of peasants?

Pursuing this point, Hinton is drawn more and more to capitalist-sounding arguments. On p. 147 he says,

“There is no reason why tens of thousands of co-operative units can't relate to each other and to the state-capitalist economy through the market just as individuals now do.”

Co-ops can be just as market-driven, just as competitive and capitalist as individual families are; therefore we should maintain co-ops as an essential part of socialism!?

Foreign-lackey capitalism or Chinese state-capitalism?

Hinton finally began to get an inkling of state-capitalism in the 1980s. On p. 187 he says the ruling group

“are certainly not trying to build socialism — they're *all* capitalist roaders. And they've developed beyond that to the point of being bureaucratic capitalists with strong comprador tendencies.” (emphasis Hinton's.) And further: “People with clout, people in high office, have been able to use their influence to buy commodities at low prices from the state and turn around and sell them at higher prices on the free market. In this way they have been able to make fortunes. . . So you have what could be called the development of bureaucratic capitalism, government officials who are taking over huge chunks of industry and combining them as private fortunes and then making comprador deals with external capitalists.”

So in the late 80s Hinton began to grasp that the ruling clique was operating in a capitalist way. But he still doesn't grasp the reality of state-capitalism. He thinks this is a phenomenon that only appeared in the 1980s as private markets were set up. Before that, apparently, the state bureaucrats were all socialist.

But who, and what, created the pressure for privatization in

the first place? Hinton treats this as just an oddball policy thought up by Deng & co. and foisted on the rest of the Chinese nation. According to him it serves only foreign capital and its “compradors” inside China. But weren't the state bureaucrats functioning as a ruling class *before* the privatization campaign began? Weren't they *already* in positions of power and relative wealth? And didn't they see the privatization campaign as a way to further consolidate their positions, to free themselves from public scrutiny and supervision? Hinton is reluctant to admit this because it would mean admitting that even under Mao a stratum of privileged bureaucrats was being fostered. This would blow away his contention that Mao's China was socialist. It raises the question who, and what, put these bureaucrats in a position where they could profit. And it exposes the weakness of Mao's campaign to supposedly revolutionize China in the 1960s.

A shallow critique of the Cultural Revolution

Mao first identified Deng and his mentor, Liu Shaoqui, as “capitalist-roaders” in the 1960s. To counter the influence of such people Mao launched the “Great Proletarian Cultural Revolution”. But the shortcomings of the cultural revolution stand out clearly when we consider the views of Hinton, a latter-day Maoist. Like Hinton, Mao and his faction tended to see capitalism as only manifestations of the free market or direct capitalism, or as bad officials inside the CPC who supported these things. They thought one was a bourgeois if one had wrong views, and a communist leader if one had good views, and missed the issue of the structure of the economy. Mao sounded very radical when he called on the Chinese youth to “bombard the bourgeois headquarters” and exposed that the capitalist-roaders were “right inside the Communist Party.” But Mao, like Hinton, didn't have any inkling of China being a state-capitalist society. In this respect his views were just the standard Stalinist-Trotskyist excuse for state-capitalism: the Communist Party was in power, industry was nationalized, agriculture was collectivized; therefore China must be socialist even though the working class was passive and a new ruling class of state bureaucrats made all the decisions and dominated and ran the state sector and the Communist Party.

Underneath his fine words to “bombard the bourgeois headquarters” Mao was mobilizing the masses into a factional fight. The issue turned on this individual or that, rather than the deeper issues. And the fight became very complex as Mao himself changed direction a number of times. But throughout the GPCR Mao never wanted the masses to confront the fundamental issues on the economy. China's economic system and social base were supposedly fine, completely socialist; no one was supposed to question that. Mao's cultural revolution developed in a highly charged atmosphere that quickly became politicized in a factional sense; but it never confronted the underlying class issues of the state-capitalist system.

Mao would not even tolerate discussion of economic reforms. When the GPCR spread to and became popular among the working class in the fall of 1966, workers enthusiastically began forming their own versions of Red Guard brigades (the

student youth first formed Red Guard contingents in summer '66). And workers saw this movement as an opportunity to raise their legitimate grievances. Thus the GPCR began to take an economic turn, allowing workers to denounce the bureaucrats who sat on their backs in the factories and to demand better working conditions. In December '66 the workers sent petitioners to Beijing who demonstrated at the Ministry of Labor, closing it down, and met with Jiang Qing (Mao's wife and a top leader of the GPCR). In their protests the workers demanded relief from a prolonged wage freeze and the delay in turning contract labor ("temps") into regular workers. They also protested the insufficient labor insurance and fringe benefits, the lack of employment for high school graduates, insufficient housing (workers were being assigned to dormitories), and management's slowness in paying overtime compensation.³

Jiang Qing at first expressed sympathy for the workers' cause. But Mao and other top leaders of the CPC didn't want serious economic issues being taken up by the working masses. So in early January '67 the Central Committee issued a special circular against this, and the cultural revolution took a new turn: "smashing counterrevolutionary economism." Student Red Guards were mobilized to go to the factories to spread this new line, and petitioners to Beijing were turned away. Most of the workers demonstrating in Beijing were eventually persuaded to return home and go back to work; those who hung on through February were finally arrested and their Red Guard contingents banned.

Hinton's own critique of the GPCR is that it "committed excesses". He's right about that, but this is a rather shallow critique; it's the critique of a Maoist who followed Mao in both his left-leaning and right-leaning periods. But as the episode cited above shows, the GPCR was never intended as a serious attempt to revolutionize Chinese society, to put the working class in charge of the economy and state. After the GPCR, just like before, a state-capitalist bureaucracy remained sitting on the backs of the Chinese working class. And Hinton, like Mao, has no critique of this system. In fact Hinton promotes it as "socialist" and finds plenty of sympathy in his heart for the Chinese state, army and ruling party. The only problem, in his view, is the few capitalist-roaders gathered around Deng Xiaoping. Hinton's touching faith in the bureaucracy reaches its apex when he says the present capitalist policy being pursued by Deng could be solved with a military coup. This is another superficial idea, similar to the Trotskyists' call for "political revolution" (i.e., change the individuals or factions leading the ruling party while leaving the state-capitalist system alone). And Hinton was only led to make this "militant" call after Deng had destroyed his ruling group's credibility with the Tien An Men massacre.

³Information on this episode is contained in the book *A Brief Analysis of the Cultural Revolution* by Liu Guokai, edited by Anita Chan of Australian National University, published 1987. See Part I, Section 5, Smashing "Counterrevolutionary Economism". Liu Guokai was a Red Guard who in the 1980s became a pro-democracy dissident.

Hinton defends the movement as inoffensive to the bureaucracy

By 1990, following the Tien An Men massacre, Hinton had broken with Deng's administration. Hinton's book contains valuable eyewitness description of events at that time in Beijing. Hinton stresses that the students in Tien An Men were supported by the working masses of the city. All through Beijing the workers erected barricades in their neighborhoods to try and block the army from going after the students. When the crackdown finally came, the army pushed through these barricades and in the process killed many workers long before they reached the central square. This account is valuable because it shows that the students' movement was not an isolated phenomenon; it reflected anger and resentment among broad sections of the working class. And it fits in with other reports at the time about contingents of workers coming to the square to support the students just before the crackdown occurred. Like Mao, Deng's greatest fear was that the working masses themselves would take up and move on issues of concern to them.

Hinton addresses the views of some opportunist groups in the U.S. who maintained that the students were right-wing pro-capitalist demonstrators, and that Deng and Li Peng were justified in using force against them to "defend socialism". Hinton correctly points out (p. 190), ". . . the students are not the right wing [despite their illusions in free markets, etc.]. The right wing consists of Deng and his group."

But in defending the student movement Hinton at the same bows to the opportunists with his view that China, despite Deng, is socialist. Thus Hinton concedes the major point that one should be concerned about "defending socialism in China" — which really means defending the state-capitalist bureaucracy, army and ruling party. Hinton's difference with the opportunists lies in his assessment that the student movement did not really threaten the bureaucracy. He feels their demands were reasonable and could have readily been granted: "Prior to the martial law decree they [the students] were asking for dialogue, a freer press, more democratic rights, public disclosure of high officials' assets." (p. 190) Hinton defends the students by arguing there is nothing revolutionary or insurrectionary in these demands. So Hinton defends the students as inoffensive.

Despite what Hinton says, however, the movement did cut at the basis of Deng's regime and threaten to undermine it. The simple demand for public disclosure of high officials' assets, if implemented, would have been enough to reveal Deng's administration as scandalously corrupt. And if the workers began pushing on these demands it would undermine the state-capitalist system itself. Despite the confusion of activists concerning the relationship between Chinese state-capitalism and socialism, it was within the '89 movement that one could see the start of independent mass action. This is the reason that leftists should stand with the mass struggle against the old state-capitalist tyranny, even though the mass movement is facing the problem of the same capitalist influence as the mass struggle faced in Eastern Europe. Socialism can only come as the

product of mass initiative and mass consciousness, and not from the orders of state-capitalist bureaucrats.⁴ Thus, despite all the detours that the Chinese workers may make on the road to building up a new communist movement, leftists must defend socialism not by defending the state-capitalist tyrants but by encouraging, within the popular movement against tyranny, consciousness of the real nature of state capitalism.

Maoism degenerates to Nasserism

But despite the massacres Hinton still can't tear himself away from his Maoist framework to denounce the Chinese state bureaucracy and army. On p. 191 he addresses those who want a genuine leftist solution: "Some people in the U.S. are calling for . . . a new revolutionary party in China and a new revolution." Opposing this call, Hinton says there are plenty of "dedicated communists in the CPC and in the army." All that's needed, he says, is for them to be energized, for example through "an army coup led by radical officers." This is how desperate Maoism has become, its "communist" third-world radicalism reduced to good old-fashioned Nasserism. The state is repressive? No problem — just locate a few radical officers. They'll dump Deng Xiaoping as easily as Nasser got rid of King Farouk. Then China can just continue down its merry

⁴The Stalinist and Trotskyist revisionists are notorious for not grasping — rather, for opposing — this point. For example the latest (November 20) issue of *Workers' Vanguard*, newspaper of the Spartacist League, in an article on the Philippines says, "Trotskyists stand for unconditional military defense of China and the other remaining deformed workers states against imperialist attack and internal counterrevolution" By "internal counterrevolution" they mean the '89 movement and similar movements of protest. So when push comes to shove, the Sparts couldn't care less whether the Chinese "workers state", as they term it, is "deformed"; they will defend it to the death, "unconditionally", against the mass protests.

The Sparts try to make this outrageous position sound better by adding, at the end of the above sentence, ". . . while fighting for proletarian political revolution to oust the nationalist Stalinist bureaucracies." The Sparts dream of a pure proletarian, purely political movement they can safely support. Such a movement, of course, will be led by a sister Trotskyist party — that's their guarantee that it's "proletarian." This sectarian dreaming is promulgated only for the purpose of opposing the real movements of protest that have come up in China.

socialist road.

The only struggle Hinton calls for is limited to the economic sphere. He says the students have to learn to "stand with the workers against surrendering all prerogatives to management. They have to defend the 'iron rice bowl', the job security workers won through revolution." (p. 191) And he mentions similar types of struggles among the peasantry. This is fine. And in fact the workers and peasants in China are taking up these sorts of struggles. But the trouble is, these struggles always come up against a repressive state machine led by corrupt bureaucrats entrenched in the CPC. So for them to have any chance of success you have to deal with the political question. Is the Chinese state really a dictatorship of the proletariat? Does the CPC really represent the working masses? As soon as the question is asked, you see how absurd the answer is that Hinton provides (or rather, assumes).

Hinton's touching faith in the Chinese "People's Liberation Army" reflects the pre-1989 illusions of the students and workers themselves. Up until the last moment many students in Tien An Men were expressing the conviction that "the People's Liberation Army will never fire on the Chinese people." They were wrong, and they paid for that mistake. But now that people are ready to question the whole regime due to that experience, Hinton is trying to drag them back to the old illusions and the old ideology. This is particularly egregious since Hinton is so dead-set against the privatization campaign, and according to reports the PLA itself is the most corrupt and most pro-privatization segment of the Chinese bureaucracy. PLA officers run many goods-producing enterprises, many of which have now been privatized, their assets taken over by the officers. They invite foreign capital in to help expand the enterprises and to develop export markets for them. It's not likely these officers are going to throw out the Dengists in any kind of "radical coup".

Hinton opposes the transition from state-capitalism to private-market capitalism. But he doesn't understand the depths of the support for this transition among the Chinese state, bureaucracy and party. He simply assumes that China before Deng's ascendancy was a socialist state and economy. This assumption must be challenged in the light of present-day developments. The Chinese youth, the students, the workers and peasants cannot build a strong, successful movement against the neo-liberal onslaught by falling back into Maoist orthodoxy. Building a new revolutionary party and developing a new revolutionary movement, a movement based on the ever-fresh ideas of Marxism, is exactly what they need. □

Detroit Workers' Voice on the lessons of some important struggles: **GM strike; Puerto Rican general strike; and the rail blockade by striking Russian miners**

The following three articles are from *Detroit Workers Voice* #20 (August 10, 1998), published by the Detroit Marxist-Leninist Study Group.

What can be learned from the GM strike?

The 54-day strike by GM workers was welcomed by workers everywhere who are fed up with the job cutting and productivity drives of the capitalist employers. The fact that a business giant like GM was shut down was an inspiring sight. Likewise was the solidarity of GM workers in Canada. GM lost billions of dollars, refuting all the talk about strikes being outdated.

One would expect that the result of such a strike would be a victory for the workers, and the UAW bureaucrats claim this was the result. But was it? The settlement allows GM to continue to whittle down the workforce and institute heavier workloads. GM merely had to agree to not completely close or sell a couple of plants until the end of next year. As well, GM threatened to get many local strikes banned as "illegal" during this strike and has served notice it will press ahead on this in the future. Thus, the groundwork for future skirmishes has been laid. But if the workers are to have a fighting chance, they will need to develop a militant alternative to the stand of the UAW officials.

The deal between GM and the UAW bureaucrats

The strike began when GM moved dies for stamping auto parts from the Flint Stamping Plant. A few days after the strike began, GM offered to return the dies to the plant if and when UAW officials agreed to productivity measures. In the strike settlement GM agreed to continue investing in the plant but got the UAW bureaucrats to agree to a 15% increase in productivity by raising production quotas and reducing the workforce by 500 workers. As well, GM agreed not to close or sell the Delphi Automotive System parts plants in Flint and Dayton, Ohio until December, 1999 in return for a temporary no strike pledge. An analysis by a member of the financial sharks at Morgan Stanley Dean Witter says that "the no-strike elements of the pact could help GM carry off some fairly substantial restructuring" that would help the company carry out the elimination of 50,000 jobs without fear of union retaliation. Indeed, it is reported that some 800 jobs will be cut at the Delphi East plant in Flint as part of the deal. Nor will the settlement stop GM from going ahead with its planned closing of the Buick City assembly plant in Flint.

GM outsources its whole Delphi division

Meanwhile, only a week after the strike settlement, GM announced it would turn all its Delphi parts plants into a separate company that must compete for GM's business against lower-wage parts plants. In this way, Delphi workers are going to face heavy pressure for further concessions. 200,000 present GM workers worldwide will wind up under this new company by the time its separation process is completed at the end of next year. The new company will negotiate a separate national contract when the present agreement expires in September 1999. In effect, GM has in one stroke outsourced its entire auto parts production operations.

The UAW bureaucrats had portrayed the settlement as opposing the selling off of plants. But when it was announced that 200,000 jobs would be outsourced, they confined themselves to mumbling a few words about how they would allegedly protect the conditions of the workers going into the new company. Thus, they are going along with the plan to spin-off the new company, a move everyone knows will make it easier for GM to close plants outright and drive the workers' conditions down. The UAW leaders pretend the settlement was a great triumph, pointing out that besides the temporary reprieve for a couple of plants, workers would get some holiday pay they would have gotten had they not been idled by the strike. But even this small crumb won't cost GM anything as it is funded from the joint UAW-GM job-training funds. And overall, the settlement has paved the way for a renewed assault on the workers' livelihoods.

UAW leaders bow down to threats to ban the strike

The miserable strike settlement was all the more disgraceful because the strike itself was very effective. GM's North American operations were basically shut down and there was no immediate threat of bringing in scabs. GM's profits took a stiff hit and the appearance of new vehicle lines was threatened. Workers spirits were strong and even the UAW leaders themselves were talking about continuing the strike through Labor Day and longer.

But when GM went to an arbitrator to have the strikes

declared "illegal," the UAW leadership caved in to the pressure to end the struggle. The UAW leaders had used a contract provision permitting local strikes over health and safety issues to launch this strike and several others in the past. GM told the arbitrator this was just a pretense since the strike was really over GM's decision to remove work from the Flint stamping plant and other "restructuring" and that the contract prohibited strikes over such issues. As soon as GM took the issue to an arbitrator, the UAW officials announced they would obey the arbitrator's decision. This was a clear signal that they were not willing to continue the strike if it meant risking possible legal sanctions. Just before the arbitrator's decision was about to be made, the strike was abandoned in favor of the rotten settlement. GM had challenged the UAW's use of this form of local strikes and the UAW backed down.

While the UAW leaders groan about anti-worker laws, they bow down before them. The government and the capitalists have collaborated to create a web of legal obstacles to derail the workers' struggles. When confronted by such obstacles, the UAW hierarchy tosses away the strike weapon. But if the workers' struggle is confined to what the fat cats and their anti-worker laws allow, the workers will continue to be beaten down. Of course, the UAW bureaucrats may call more strikes in the future. But workers must be prepared to wage a struggle that goes beyond what the UAW leadership wants.

Use the new struggles to organize on a new basis

Despite the stand of the UAW leaders, the GM strike represents part of a new wave of worker activity against the capitalist offensive. The corporate giants and their media mouthpieces assure us the class struggle is a relic of the past. But as capitalism has gone into crisis in Asia and workers everywhere are being squeezed, a new wave of the workers' movement is beginning to revive both here and abroad. Just last month a general strike rocked Puerto Rico. A massive general strike shut down Denmark earlier this year, while today the South Korean workers are continuing to wage a large-scale struggle against soaring unemployment. A couple of months ago the Indonesian masses toppled the fascist Suharto when he imposed IMF austerity measures on them.

The eruptions of struggle show the contrast between the potential might of the workers and the treacherous policy of the timid trade union officials like the UAW leaders. If the workers are to unleash their potential and not be ground down by the corporations, much hard work lies ahead. Workers are going to have to get organized on a new basis which frees them from the constraints of the trade union bureaucracy and allows the rank-and-file to take matters into their own hands. □

General strike in Puerto Rico

On July 7-8, several hundred thousand workers in Puerto Rico participated in a general strike. They were protesting the planned privatization of the Puerto Rican Telephone company to a consortium headed by the U.S. monopoly, GTE, and including the Puerto Rican bank, Banco Popular. Puerto Rican governor Rossello has also been selling off public hospitals and wants to undermine the public education system with a school voucher system. The privatization of the phone company meant the loss of thousands of jobs. And given the long history of U.S. imperialist domination of Puerto Rico, the sale to a U.S. company was considered an additional outrage.

The general strike was the high point of a struggle that began in mid-June when telephone workers went on strike against Rossello's plans. The workers set up militant picket lines at phone company facilities, defying court injunctions against them and beating back police attacks. A few days later, electrical and water plant workers began a three-day solidarity strike. Health services workers also held work stoppages. There was widespread sabotage of telephone lines and the automated teller machines of Banco Popular as well as a boycott of the bank.

The struggle escalated into the general strike organized by a coalition of 60 unions and other groups. The strike shut down

all the offices of the phone company and Banco Popular as well as the international airport, shopping areas, transport and other public services. Workers chanted "Struggle yes, surrender no" and "Puerto Rico is not for sale."

Unfortunately, a powerful section of the Puerto Rican trade union bureaucrats was as afraid of the escalating struggle as the Puerto Rican authorities. Right after the general strike the picket lines shrunk. The main demand was changed to simply protection from retribution against those who participated in the strike. At the end of July, the bureaucrats made a backroom deal with the phone company. They failed to even get amnesty for workers accused of legal violations during the strike. Meanwhile, they pledged union cooperation in promoting the efficient operation of the company. This deal was railroaded through. At an assembly called by one of the two telephone unions, all dissident opinion was suppressed. Some workers declared their disgust with this and planned their own pickets to denounce the sellout.

Rossello, with the help of a section of sellout trade union leaders, went ahead with the sale to GTE/Banco Popular. But the workers anger will not soon go away. They have had seen for themselves what a powerful force they are when they unite in militant struggle. □

Striking miners block Russian railroads

From *Detroit Workers Voice* #20 (August 10, 1998),
published by the Detroit Marxist-Leninist Study Group:

Millions of Russian workers are owed billions of rubles in back wages. Workers often go without pay for months on end. The Russian coal miners have had enough. In several regions during July, they struck en masse, blocked railroad tracks, and engaged in protests. In the Kuzbass region of the Ural mountains, miners in Chelyabinsk, Yurga, Anzhero-Sudzhensky and elsewhere have blockaded sections of the Trans-Siberian railroad. Miners in the island of Sakhalin in the Russian Far East have blocked trains carrying fuel to power stations, resulting in major power blackouts.

These protests are part of an ongoing movement. Previously, for two weeks in May, miners throughout Russia had also blocked parts of the Trans-Siberian railroad, forcing trains to make huge detours. And there is likely to be a new round of struggle later in the year.

The strikers have widespread support, and many workers have engaged in support actions. Textile workers, teachers, railroad workers, and even technical workers have taken part.

The fruit of free-market reforms

When Russian President Boris Yeltsin instituted radical free-market reforms in 1992, the Russian people were promised a new era of prosperity. Instead the economy shrunk dramatically. Some sources even claim that it is now no larger than that of Spain, which has only one-fourth the population of Russia. Last year the Russian government boasted that the years of decline were over, as the economy didn't shrink, even if it didn't really grow either. But this balloon was punctured as the Asian economic crisis and the drop in world oil prices were a shock to the Russian economy. And then there was the deep Russian financial crisis of May this year. The value of Russian stocks and bonds fell like a stone.

But what is misery to some is pure gold for others. A small section of Russian capitalists and nouveau riche have been making out like bandits during the 90s, importing luxury goods while basic production crashes in Russia. Financial speculation provides fast bucks for those with connections. Meanwhile there is mass homelessness; workers are going unpaid; scientists and technical workers are fleeing abroad; insecure families are afraid to have children; TB and other diseases are skyrocketing; and the Russian population has actually dropped. Social services such as schools, medical care, child care, and pensions have been slashed, and the July 16 bailout agreement with the IMF calls for further slashing.

What is to be done?

Yeltsin's popularity has plummeted. The miners were once the most active workers in demanding the fall of the old system, and their leaders backed Yeltsin. Now they are demanding Yeltsin's resignation.

More strikes and rail blockades are due later this year. But there are a lot of questions about what to do. The free-market liberals who promised utopia if only there was privatization are being discredited. But the official opposition on the left is dominated by carry-overs from the old Stalinist state-capitalist system which falsely called itself "communist". This system had been in crisis for decades, economically stagnant and politically repressive. Today the so-called "communists" of the Russian opposition are divided into those who simply want a slower pace of free-market reforms and those who want to preserve major elements of the old system.

For a revolutionary Marxism opposed to the state-capitalist fraud

A real workers' opposition in Russia would have to denounce both the old state-capitalist system and the Yeltsin free-market reforms (and steer clear of Trotskyism, which isn't that different from Stalinism). There are only a few reports of worker activists who take this stand. So at present this is a small trend at best, with very unclear ideas. But this is the only direction that points to the future. If the workers are to have a perspective for their struggles, they must aim at something new, not a repetition of the past.

It is imperative that we support our class brothers and sisters in Russia. This is especially so as the Yeltsin government is preparing for repression against the mass movement and anti-Yeltsin newspapers. But we must also take part in the struggle to develop a truly Marxist theory. This is the anti-revisionist task taken up by the Communist Voice Organization. We must denounce the blood-sucking free-market capitalism of the West and its world agencies such as the IMF. But we must also denounce state-capitalist regimes like those in China and Cuba as false "communism" and shed no tears for the fall of the old Stalinist regimes in Russia and Eastern Europe. We must support the masses of workers in these countries, not the old bureaucracies. A new, truly communist workers movement will not rise up from the remnants of the tired old "revisionist" parties. Whether here or in Russia, it will come only from the midst of rank-and-file workers and revolutionary activists. □

The old state-capitalist "socialism" was rotten while today

Market-capitalism ravages the Russian economy

By Mark, Detroit

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According to Yeltsin and the world bourgeoisie, free-market "shock therapy" was supposed to be the magic elixir that would revive the stagnating economy of the former Soviet Union. No doubt the old state-capitalism, falsely called "socialism," was rotting alive and its economy gripped in malaise. But the "shock therapy" begun in 1992 has put the sick patient into a prolonged coma. The market reforms have left the Russian economy a shadow of its former self. The industrial base of the economy has been rapidly disappearing and what's left of it barely crawls along on the basis of barter. Agricultural collapse has resulted in reliance on massive food imports and in ever-threatening food shortages. Like many an impoverished country in the Third World, today's Russian economy lives a precarious existence based on the funds provided by the export of a few raw materials whose prices are prone to sudden drops on the world market.

This August, the latest economic crisis struck Russia. Again it is the working masses who are bearing the brunt of this disaster. For the last seven years, their living standards have been in a free-fall. Workers go months and years without wages and are reduced to growing food in their own little gardens and trying to barter goods produced in their workplace to acquire basic necessities. But it is a different story for the Russian elite.

This new elite includes a section of former state-capitalist bureaucrats who have made fortunes by taking over privatized enterprises, capitalists who were not part of the old hierarchy but were fostered under the old system, and criminal gangs who began to amass wealth and power as kingpins of the black market. These groups live like royalty amidst the economic ruin. They are the new masters of Russia: they are the highest products of market-capitalism there.

While the market has been killing the Russian workers for seven years, the August crisis also brought a blow to the profits of the foreign capitalist investors as the Russian government defaulted on securities they sold them. This event, coming on the heels of the crisis in Asia and the economic woes in Latin America, set off a plunge in stock markets around the world. Suddenly the economic mess in Russia became front-page news in the capitalist press.

In this situation, the Russian government is moving toward somewhat more state intervention in the economy. Despite the hysterical stories in the bourgeois media, these moves don't mark a return to the old, so-called "communist" system. Indeed, there was no such system to return to as the old order was state-capitalism parading itself under socialist labels. Rather they are an attempt by Yeltsin and the main parties of the Russian legislative Duma, including Zyuganov's phony "Communist" Party, to save the market economy from complete collapse by undertaking some minor reforms.

The Russian crisis shows that the market is no answer to state capitalism. In fact, things have gotten so bad that even defenders of the market economy like the Yeltsin government are themselves temporarily backing away from some of the more extreme neo-liberal prescriptions. Likewise, various circles in Western capitalism itself are challenging the neo-liberal economic formulas that have been pushed by the IMF in Russia and have dominated Western capitalist economics for more than a decade. (The IMF itself has recently backed away from some of the dogmas it imposed in Asia in light of the continuing crisis there. Now, for example, they consider it OK if some Asian governments run deficits in order to stimulate their economies.) But capitalism with more state oversight will not turn the exploiters into lambs. Rather this policy aims to bail out the exploiters from the mess they have made. Thus, the minor tinkering being proposed by the Yeltsin and the Russian rulers will hardly make a dent in the suffering of the masses. Nor would a return to the old Soviet revisionist state-capitalist system solve the workers' problems. The workers must press their own demands and develop their own independent outlook by rejecting both the old phony socialism and the present market system. Only if the old rot is discarded can the

rebuilding of genuine anti-revisionist communism begin to light the way forward for the rebuilding of a revolutionary workers' trend.

The August financial meltdown

The August economic crisis resulted in the Russian government defaulting on its debt obligations to domestic and foreign financiers. It also led to a dramatic drop in the value of the ruble against other currencies. Faced with growing budget deficits, the Russian government had for several years been issuing short-term bonds and treasury bills. Given the shaky nature of the Russian economy however, the government had to offer super-high rates of return to attract investors. In this they succeeded. But meeting these debt obligations actually made the budget crisis worse, leading the government to issue still more bonds. More and more of the budget just went into meeting the debt payments, leading to cuts in education, social services, and the wages of state workers among other things. The snowballing debt obligations had consumed 30% of the budget by mid-1998 and were projected to engulf a whopping 60% by the year 2000 if trends had remained unchanged.

In addition, the high rates of return on short-term government securities tended to further dry up direct investment in industry, which, like investment in government debt, was risky but also required waiting a long time for relatively low rates of return. This only added to the overall economic crisis that led to the budget deficits in the first place. At the same time, failure to pay wages helped dry up the domestic demand for goods which contributed to the decline of industrial production and the inability to collect tax revenues upon which the state budget depended.

The IMF reached agreement in July 1998 on a \$22.6 billion bail-out package to try and stave off the looming financial disaster and soon the Russian government received the first installment of some \$3.8 billion. As part of the deal, Yeltsin guaranteed the IMF that the money would pay off the foreign bondholders and that he would not devalue the ruble. The IMF installment wound up in the pockets of the financiers but it could not stave off the financial collapse. The government debt problem had reached the point of no return. Then-Prime Minister Kirienko, who was sacked by Yeltsin in August, pointed out that in May 1998, the government was paying out over \$1 billion *per week* in short-term debt obligations, a sum *greater than the entire budget receipts that month!*¹ As investors saw the handwriting on the wall, it became hard for the Russian government to find any takers for its new debt issues no matter how high a rate of return it promised. Having reached this

¹Kirienko is quoted in a statement by Dr. Boris Kagarlitsky to the U.S. Congress Banking Subcommittee on Sept. 10, 1998. Kagarlitsky is an adviser to the Russian Duma and a Senior Research Fellow of the Institute for Comparative Political Studies of the Russian Academy of Sciences.

impasse, in August the government in essence declared a default on its short-term debt. Payments to Russian banks were stopped and the government announced it would issue new securities to these banks as a substitute. A 90-day moratorium on debt payments to foreign bondholders was declared and it is expected that much of this debt will never be repaid.

The default has helped push a number of Russian banks into crisis. With the crumbling of Russian industry, a number of banks tied to particular industrial sectors have sought to offset the decline in funds from the industrial enterprises by selling their government bond holdings or using them as collateral for loans. Now that source of revenue is dead and a number of banks are even closer to collapse. Recently it was announced that about half of Russia's 1,500 banks will be forced to fold. Estimates of the loss to foreign investors because of the default on short-term debt are between \$30-50 billion. German banks have been among the main investors who will lose, along with the well-publicized U.S. "hedge fund" investors, Long-Term Capital Management, who had to be bailed out by a banking consortium brought together by the U.S. Federal Reserve.

The IMF "rescue" package was no more successful in avoiding devaluation of the ruble. The stabilization of the ruble after the hyperinflation of the early 90s in Russia was hailed by the neo-liberal crusade as portending the revival of the Russian economy. They boasted that inflation had been reduced to a "mere" 14%. But the general economy remained a shambles. In May 1998 the Russian stock market crashed and by late August it had lost 84% of its value compared to its peak in its preceding short-lived "boom." In recent months, the Russian government tried to bolster the ruble by purchasing rubles with its foreign currency reserves and gold. But these efforts would have bankrupted these reserves in a few months. Thus, the government had to let the ruble "float." The ruble sank like a stone, losing over two-thirds of its value against the dollar at one point.

The devaluation of the dollar has meant new suffering for the Russian masses. The present Russian economy has grown dependent on imports for not only luxury goods, but basic necessities like food. Moscow, for instance, imports 60% of its food. The bragging about controlling inflation has been replaced by government reports predicting prices to rise 2 or 3 times in the next year.

The general program of market reform and its consequences

The series of economic crises that have ravaged the Russian economy is the product of the program of market reform "shock therapy" that began in 1992. This program not only meant doing away with the old state-capitalist structures, but doing so very rapidly. Allegedly, a speedy transition to the market would involve the least pain and rapidly lead to prosperity. At the beginning of this plan, Yeltsin boasted there would be only a brief six-month period of sacrifice for the masses which would be followed by dramatic improvements in living

standards. Instead this program has devastated the masses and destroyed the economy, which many economists think may take decades to revive.

Privatization of state enterprises

One of the major changes brought about under market reform was privatization of state property. Under the old system, although industry was state-owned there was actually nothing socialist about it. Placing the means of production in the hands of the state is a necessary part of the workers efforts to place the economy under their control and make the transition to socialism. But under the phony socialism that existed in the Soviet Union, a relative handful of state and party bureaucrats controlled the enterprises and the workers remained an exploited class. While there was a central plan for the economy, in fact private interests ruled and competition was rampant between enterprises, between enterprises and the ministries, and between ministries. Anarchy of production continued to reign through the state economy. Despite state ownership the social system was not really socialist but capitalist in nature. Thus, Yeltsin's privatization was not the beginning of private interest control over production, but capped off the process and legalized it. Yesterday's minister, factory manager or higher party functionary has, in many cases, become today's private owner of state property.

At first, there was a good amount of opposition to Yeltsin's privatization from among the state bureaucracy. But this had little to do with opposition to moving toward the free market in general. The better-positioned bureaucrats mainly wanted to make sure that privatization was carried out in such a way that they would have the inside track on taking over the state property. The first big wave of privatization involved issuing vouchers to the population that could be used toward acquiring shares in privatized companies. But an insignificant share in a company with a dubious future offered nothing to ordinary Russians, who sold off the vouchers to the wealthy. Later, in the mid-90s, the cash-strapped government held closed auctions where select banks used their ties to government agencies to acquire important state enterprises at bargain basement prices in return for lending the government money.

Once enough of the former state economic lords were convinced they could retain their privileged position in the new market system, privatization moved ahead rapidly. The proportion of the workforce employed in non-state firms grew from 13% in late 1991 to 70% at the end of 1994, accounting for 78.5% of industrial output. By January 1997, only 9% of officially registered enterprises were entirely state-owned.²

²Some statistics in this paragraph are from *The economics and politics of transition to an open market economy: Russia*; p.11. This is a 1998 report prepared by Andrei Schleifer and Daniel Treisman for the OECD. Other statistics are from Kotz and Weir's *Revolution from above: the demise of the Soviet system*; p.172; published by Routledge; London; 1997.

Lifting price controls

Along with the expropriation of state property by private owners, the old system of state control of prices was abolished. In January 1992, state controls were removed from 80% of wholesale and 90% of retail prices. In the old Soviet system, shortages of consumer goods was a chronic problem. According to the proponents of shock therapy, ending price controls would provide stimulation for production and insure that production matched consumers' needs.

But the free market cure was worse than the disease. Skyrocketing prices killed the ability of the masses to purchase consumer goods. In 1992, prices rose 2,500% and real wages dropped 28%. Over the next several years, inflation slowed from this torrid pace but remained high. Real wages continued to decline. This decline in purchasing power naturally led to a decline in industrial output. Runaway inflation not only destroyed the value of the ruble, but led to a situation where the money supply of enterprises was depleted, and payment in wages was replaced by payment in goods produced by the enterprise. The Russian economy was reduced to the barter system. Workers bartered goods they received as payment from their enterprises to get their necessities. Companies bartered among each other. In April 1992, barter made up about 5% of industrial sales. Five years later, barter accounted for 45% of these sales.³

Faced with economic chaos inside Russia, the owners of the newly-privatized enterprises did what any self-respecting profiteer would do. They converted rubles into foreign currency and stashed them in the Western banks, often illegally. Countless billions of dollars of capital left Russia in this way. As well, the Russian capitalists couldn't resist trying to make money from the inflationary climate by speculating in foreign currencies, minerals and real estate. Meanwhile, investment in plant and equipment rapidly dried up. Thus, far from price liberalization leading to a new surge of production and consumer goods, production fell into the abyss.

Free trade and capital flows

Another major feature of the market transition has been a marked decline in restrictions on trade and capital flows. As noted above, Russian capital freely left the country (albeit sometimes illegally). But despite the easing of restrictions, there has been relatively little direct foreign investment to compensate, and there has been a net flow of capital leaving Russia. Of course, there was the splurge of short-term foreign investment in Russian debt. We have already seen the wonderful results of that in bankrupting the national budget and precipitating the latest economic slump.

According to the OECD, an organization of the stronger capitalist countries, Russia followed "a fairly liberal trade policy" in line with its efforts to join the World Trade

³*OECD Economic Surveys (1997-1998): Russian Federation*; pp.115-116.

Organization.⁴ Neo-liberal dogma would hold that this should provide optimal conditions for national prosperity. But, as is well-known, much of Russian industry lagged behind world standards in quality and efficiency. Inevitably, the free trade policy meant that foreign multinationals shoved out domestic producers in a number of fields. Many of the imported consumer goods are beyond the reach of the workers, but the new Russian yuppies gobble them up.

With the collapse in Russian agriculture, imported food is filling the void. Indeed, in the wake of this August's crisis, the Russian government has further liberalized its food import laws and has also been begging for food contributions from the big capitalist powers so as to avoid mass starvation.

It should also be pointed out that while the capitalist powers assure Russia that foreign access to Russian markets is bound to bolster the economy, in fact there is hardly a capitalist country that hasn't at some point in its history used protectionism to bolster their weaker industries.

Yeltsin's dictatorial rule

According to U.S. officials and the mainstream media, the transition to market economy has brought with it a transition to democracy. It's true the old Soviet party-state bureaucracy, which stifled the masses and was despised by them, is gone. But what has taken its place is far from democratic. The new political structure has all the trappings of bourgeois democracy — rival political parties, elections, a parliament, etc. But from the start, president Yeltsin has had the power to rule by decree.

When Yeltsin felt his policies and power being challenged by the parliament in 1993, he had loyal troops bomb the parliament building, ordered a reign of terror against opposition groups, and had his powers enshrined in a new constitution. Some major media outlets are little more than Yeltsin cheer-leading squads and he has sent thugs to intimidate rival capitalist media outlets. Yeltsin has even created a special 25,000-man "praetorian guard" to carry out his dirty work.⁵ Yeltsin's dictatorial powers were also on display in the dirty war to suppress the independence movement in Chechnya. He mobilized several army divisions without approval of any government bodies and without even notifying his defense minister. Given the extent of Yeltsin's rule by decree, the legislative Duma's powers are quite limited.

Yeltsin's rule by decree has not brought any stability to the political system however. Nor has the system been solidified by the fact that the amount of government bureaucrats today in "privatized" Russia is considerably larger than in Soviet times.⁶

⁴*Ibid.*; p.67.

⁵Blank, Stephen; "Russian democracy: from the future to the past"; p. 570. This article is contained in the journal *Demokratizatsiya: the journal of post-Soviet democratization*; vol.6, no.3, Summer 1998; Heldref Publications.

⁶*Ibid.*; p.568, The size of the bureaucracy increased from

Instead, rival groups of capitalist "oligarchs" ruthlessly compete to influence the new political system, shape its structures to their liking, and set up their own private power structures, which often rival the government power. Bribery is rampant and any number of key government officials are themselves big industrialists or bankers who don't even bother to formally break their ties with the businesses when they enter office.

Of course, even in "model" bourgeois democracies like the U.S. and Western Europe, government policy is determined by the needs of big capital. But in Russia, the process is particularly naked. It is widely reported that Yeltsin's 1996 election, for instance, was brought and paid for by a consortium of big financiers and oil moguls led by media and oil titan, Boris Berezovsky. Moreover, in Russia the competing groups have not yet reconciled themselves to a general system in which to mitigate their disputes. So alongside Yeltsin's dictate, local fiefdoms arise. For instance, the mayor of Moscow, Luzhkov, has turned the city government into his own personal kingdom where he has a finger in all the businesses and runs the city like a Mafia don. In fact, it is reported that Luzhkov, international financier George Soros, and other private capitalists have personally been financing sectors of the armed forces which otherwise would have collapsed due to the government's perpetual budget crises.⁷ Along with this, there are strong criminal gangs that create their own authority and sometimes become integrated into the normal police and military forces.

While the big capitalists claw each other for influence over the state, they share common interests in seeing the workers exploited and kept in their place. In turn, the workers despise the government. Although Yeltsin had considerable support from the population when he first came to power, today he's universally despised and the government is rightfully seen as a corrupt cesspool.

The sad balance sheet of shock therapy

What then was the economic balance sheet of shock therapy?

First of all, there was a dramatic decline in economic output. Between 1991 and 1995, GDP fell by 42% and industrial production by 46%. Even if we take into account estimates of the economy which try to add in unofficial economic activity, the GDP declined by "only" a third in the first half of the 1990s.⁸ There was a very tiny blip up in 1997, which had the free-market advocates predicting the corner had been turned. But new crises have led to further economic decline. The amount of capital investment in 1996 was only a quarter of what it was in 1990, meaning plants and machinery are rapidly

⁶(...continued)

one million in 1989 to 1.7 million in 1994.

⁷*Ibid.*; p.554.

⁸*OECD Economic Surveys (1997-1998): Russian Federation*; p.30. Based on World Bank and Soviet government estimates.

decaying. The only booming sector of the economy is financial swindling and bureaucratic parasitism, otherwise known as banking, insurance, trade and public administration. Meanwhile, production of food staples like cooking oil declined by over 40% from 1991-1995. Since the August ruble devaluation, the cost of imported food has doubled, and the role of food imports has been rising with the decline in domestic agriculture. Likewise, production of consumer goods like refrigerators declined by 53% and TVs by 78% in the same time period. In basic industrial goods, the picture is also gloomy. For example, from 1991-95, steel production fell by 33% and petroleum declined by 34%.⁹ In the old system, store shelves often lacked consumer goods. But thanks to the market, sometimes store shelves are well-stocked — not because production has increased, but because no one can afford the goods. This is also why in 1992 huge inventories of unsold goods began to pile up in warehouses.

The economic collapse has fallen like a ton of bricks on workers, those on pension, and the less fortunate sections of the middle strata. Overall, unemployment rose to over 9% by 1996. But this doesn't tell the full story. In the industrial sector, fully one-third of the workforce was on forced leave or involuntarily working part-time. Employment in industry dropped by 25% in the first half of the 90s.¹⁰ Wages have been decimated. Real monthly pay in 1995 had dropped to about half of 1990 levels. Similar figures hold for the fate of the average pension, while smaller pensions have fallen even more rapidly.

The toll of social ills has grown in proportion to the economic depression. Health care budgets have been slashed at a time when need is greater than ever. Outbreaks of diseases like cholera and diphtheria have occurred. A sudden and dramatic decline in birth rates has been accompanied by an equally rapid rise in the death rate. Life expectancy for males has fallen from 65.5 years in 1990 to 57.5 years in 1994, giving Russia a lower life span than such chronically poor countries as India. Educational institutions have lost much of their funding. Meanwhile, scientists and technicians have been fleeing the country and function as a cheap pool of talent for the U.S. and other capitalist powers.

The bourgeoisie and IMF fiddle while Russia burns

If the economy has been in such dire straits, why did the Yeltsin government and the IMF insist on sticking to the "shock therapy" prescriptions? This is explained by the fact that Yeltsin had support from the strongest sections of the new private bourgeoisie. Various big Russian capitalists disagree with this or that policy. But overall, they were allowed to ravage the former state assets for their own profit, and salt the money

⁹Sector figures are from Kotz and Weir; *Revolution from above*; p.178.

¹⁰Statistics in this paragraph are from *OECD Economic Surveys (1997-1998): Russian Federation*; p.38.

away overseas. The Yeltsin regime has allowed them to get away with not paying their legally-mandated taxes and has participated gleefully in the corruption which has benefited big business. Billions of dollars in the state budget and IMF loans quietly "disappear" into the pockets of the capitalists.

While much of industry and agriculture has suffered, there are some super-wealthy "winners" amidst the carnage who have used their resources to keep Yeltsin around despite the fact that he has no support among the masses. Key banking-industrial groups, for instance, certain raw materials producers that rely on exports, have gotten fat off Yeltsin's policies. We have already mentioned the consortium of financiers and industrialists who bankrolled Yeltsin's 1996 presidential campaign.

In particular, the Russian government has been banking on oil and gas exports to save the economy. Exports of oil and gas from Russia to countries outside the CIS (Confederation of Independent States) have risen steadily, and so long as prices for these commodities in the world market were high, this helped produce a favorable balance of trade. These exports have been Russia's main source of foreign currency and thus are essential in paying off the country's growing foreign debt. The positive balance of trade gave the sick economy a veneer of well-being and made it convenient to ignore that the neo-liberal policy was strangling the economy as a whole. But the policy of staking everything on the fluctuations of the world oil markets was bound to come back and haunt Yeltsin. Sure enough, one of the immediate causes of the August 1998 crisis was a glut on world oil markets which drove the price of that commodity down.

It is also notable that the prime minister for most of Yeltsin's reign has been Victor Chernomyrdin, who formerly oversaw the giant Gazprom oil/gas monopoly as a minister in the old Soviet Union and later made a fortune through his holdings in that company when it became privatized. While the economic problems in Russia have taken their toll on the domestic oil capitalists too, the oil capitalists see a big future in exporting to the world market and support Yeltsin because they see him as someone opposed to re-nationalizing the industry.¹¹

Yeltsin could also count on the support of the IMF and the major imperialist countries who saw in Yeltsin their best chance to impose policies that would be most beneficial to the imperialist multinationals and financial sharks. In return for IMF loans, the Russian government followed the IMF plans that would allegedly alleviate inflation. The instability of the ruble has been a major concern to foreign investors who fear devaluations destroying the value of their investments. According to the

¹¹Gazprom, like the other oil giants, is among the biggest tax-dodgers in the country. But the government tolerates this. In return for this favor, Gazprom has agreed to keep supplying Russian industry and individual consumers who can't afford their product, sometimes accepting barter payments as a substitute. This part of Gazprom's business may not be a profit machine, but the owners of the company are willing to bear this for now because they see there is a fortune to be made as an international oil giant.

IMF, the key to avoid inflation was cutting the budget at all costs. This was done with a vengeance. Subsidies, social welfare and government-paid wages were slashed, helping destroy living standards and drying up domestic demand. At the same time, the government's ability to funnel funds or credit to industry shriveled. Inflation was temporarily contained to some extent, but at the cost of ruining the economy. The IMF also insisted that the solution to the budget deficit problem was the issuing of short-term debt. This was a great way for foreign investors to make a fast buck. Moreover, the IMF also dangled the carrot of profiteering from financing the deficit in front of the Russian banks who previously had reaped profits from funneling state funds to industry, a practice the IMF wanted to stop. So on the one hand the IMF policy shrunk the economy while on the other, the rapidly increasing government debt payments incited further government deficits. This August, the chickens came home to roost as the whole plan collapsed, the government defaulted on its debt payments and the ruble's value plummeted.

The partial retreat from neo-liberalism

Faced with the August disaster, and faced with growing discontent among the workers, Yeltsin was forced to swing a bit away from the neo-liberal dogmas. He scapegoated his prime minister, Kirienko, for Yeltsin's own policies. Only a few months earlier, Kirienko had replaced Chernomyrdin, who was forced out in disgrace. In August, Chernomyrdin was resurrected by Yeltsin and installed as acting prime minister. But the Duma refused to go along with Chernomyrdin, and so on September 11, Yevgeny Primakov took over as a compromise between Yeltsin and the Duma. The capitalist press raved that the replacement of Kirienko and some ministers signaled the demise of market reform and the return of the old Soviet system. Baloney. Chernomyrdin has gone along with the Yeltsin program for years. And Primakov has not suggested any radical change, either. As for the "communist" appointed to a top economic planning post, the CPRF's Yuri Maslyukov has done nothing to challenge the government's basic course but instead in the past served as a trade and industry minister under Yeltsin.¹² Nevertheless, certain policies are being considered although they are meant to save the new system, not return to the old. Despite their mild nature, some of these policies differ from the present policy of the likes of the IMF and the Clinton administration, who issue stern warnings about the dire

¹²The fact that there is no intention of going back to the old system can be seen by the fact that even moderate proposals for nationalization are shot down even when they come from free-market types such as Kirienko. One of the reasons Kirienko was bounced as prime minister was that he had threatened to have the government administer certain banks as well as companies that failed to meet their tax payments, such as Gazprom. So it appears that if there is any re-nationalization under Primakov, it will be quite limited and done with reluctance.

consequences of the new course while ignoring the pathetic results of their own brilliant ideas.

Primakov has taken several measures which contradict the current IMF "wisdom." In order to dampen down mass protest, he has paid a portion of the wages that were in arrears. There are also reports that the government will provide some aid to relieve the enormous indebtedness of Russian companies, although it seems this aid will only cover 20% of the debt. In order to meet such needs, the government plans to print more money. The IMF curses this as inciting inflation, which it well may, but of course ignores the ruinous effects of its own policy. There is talk of more strict controls over investment capital and requirements that foreign "hard" currency earnings of companies must be transferred to the government. Upon coming to power the Primakov government denied that they were going to nationalize any companies.¹³ But nationalization of a few companies might not be out of the question. As we go to press there is legislation being proposed in the Duma that would allow for nationalization of certain enterprises. As well, it appears that some failing banks may be put under government administration.

Actually, even the devaluation and default on the debt, carried out by Kirienko just before his firing, contradicted the wishes of the IMF. However, to somewhat soothe the wounds of the foreign financial barons it appears that foreign investment in Russian banks will no longer be limited to 15%, but can reach 100%. This has been hailed by both Russian and foreign financiers.

Thus, although some measures of the new government might irk certain neo-liberals, they hardly challenge the position of private capital in Russia. Even less are there any dramatic measures to improve the plight of the masses. In fact, during Yeltsin's reign there have previously been a number of similar adjustments when the results of shock therapy were too severe.

The free-market system was born of the old state-capitalism

To say the present market system in Russia has failed to deliver on its promises would be the height of understatement. But this is no reason to believe that all would be well if only the old state-capitalist order was restored. The old system was despised by the masses who rightfully saw the ruling bureaucrats as their oppressors. The change that took place in the former Soviet Union was not a change from socialism to capitalism. Rather, what happened was that the decay of the old state-capitalist system gave rise to the present reign of free-market economics. In large part, private capitalism was born

¹³There was a report that during Chernomyrdin's recent brief stay as prime minister, the SBS Agro Bank, might be put under government control to insure that its 25 million small depositors didn't lose their savings. Recently the Primakov government decided to nationalize this bank.

from the private interests that had grown up among the state/party elite under a fraudulent "socialist" label. The old bureaucrat-capitalists had already established defacto ownership of the means of production. This is why a whole section of former state/party officials became advocates of the market and the bureaucrats that wanted to maintain the old system were unable to sustain their resistance.

Part of today's private capitalist class is composed of a section of the old bureaucratic elite. Another section consists of those who were not part of the top officialdom under the old system but were fostered by the institutions of the old system. Another section of the ruling class is made up of entrepreneurs who developed independently of the old state-capitalist institutions. Some individuals in this last category began their business careers in the spaces allowed for private enterprise under the former system or in the black market.

The rot that had consumed the old Soviet order can be seen in the various ways in which the former state-bureaucracy bred the new class of private entrepreneurs. Even under Gorbachev, some top bureaucrats had appropriated some of the state property for themselves, and there was official encouragement of a private capitalist sector. As well, it was during Gorbachev's reign that what was left of the centralized economic apparatus was largely abolished, including Gosplan, the top economic coordinating body, and Gossnab, which oversaw how supplies were allocated among enterprises.

Among the studies of the transformation from state economy into private capitalism is that done by Virginie Coulloudon as research for the Davis Center for Russian Studies at Harvard University.¹⁴ Among other things, she traces the connections between the old and new banking systems. This study notes that under the old system, different banks became linked with particular industrial sectors. These banks had channeled central funds to the enterprises. A number of these bank-industry groups remained in privatized form. According to another study, in the first few years of privatization, these banks greatly profited from their role in distributing state funds.¹⁵ They received a margin of 3% for handling the state funds, a handsome sum in 1992 for instance when these directed credits to the enterprises amounted to 15.5% of GDP. Moreover, these banks profiteered by using funds collected from household and enterprise depositors to speculate in the currency and commodities markets.

Coulloudon also traces how some of the biggest private banks developed from the Central Committee of the CPSU, its youth organization (Komsomol), and even the KGB. Each of these institutions had substantial foreign connections and accumulations of hard currency which could be used to create

¹⁴Virginie Coulloudon's study, entitled "Elite groups in Russia," can be found in the journal *Demokratizatsiya*; vol.6, no.3, Summer 1998, pp.535-539.

¹⁵Schleifer and Treisman; "The economics and politics of transition to an open market economy: Russia"; pp.37-38; OECD; 1998.

new banks. Among the banks created in this way was the OneximBank, founded in 1993. The Russian government gave control of its foreign accounts to this bank, and it became the personal bank of top executives of the foreign trade ministry. As well, it administered federal budgets and other federal programs, including the reconstruction of war-ravaged Chechnya. OneximBank then took advantage of the previously-mentioned "shares for loans" auctions to acquire a majority holding of Russia's biggest nickel producer and a giant telecommunications company.

Besides the transformation of some former top bureaucrats into private capitalists, Soviet officials directly encouraged a new crop of private business entrepreneurs. The Komsomol itself was a veritable breeding ground for future capitalists. With the backing of the CPSU, it set up entrepreneurship training centers, provided the participants with a modest amount of cash, and encouraged them to turn a profit. In part, the CPSU and Komsomol financed themselves this way. But it was also the start for some lucrative personal careers. An example of a major Russian capitalist who got his start in Komsomol is Konstantin Borovoi. After his Komsomol training, he set up his own business under Gorbachev, and later founded Russia's first commodity exchange. Recently-deposed prime minister Kirienko is another member of the present elite who comes out of the Komsomol entrepreneurship circles.

Besides those elements of the new capitalist class who were part of the old elite or had been fostered by the former state-capitalist structures, there is another section of the new Russian elite which developed outside the old structures. Some, like oil and media magnate Boris Berezovsky, chafe at the insider advantages enjoyed by those of the old elite who are now private capitalists. But at the same time, the elite from the old establishment and the "outsiders" like Berezovsky see mutual advantages from reaching deals with each other. Thus, even as Berezovsky campaigned against a government minister who froze him out of sweet deals, he merged with a former member of the old power structure, Khodorkovsky, to create the giant Yuksi oil company. This merger gave Berezovsky the financial clout to go acquire another major oil company, Rosneft.

The transition from the old bureaucracy to the new elite also involves the political sphere. Obviously Yeltsin comes out of the old ruling structure. But he is not some rare exception. According to a 1994 survey of the Russian Academy of Sciences, members of the old apparatus made up 75% of Yeltsin's closest allies, 60% of the parliament, and 74% of government officials.

The transformation of a section of the old bureaucrats into today's business tycoons and top political players is evidence that the former state-capitalism itself gave rise to powerful private interests among the bureaucratic hierarchy. The former bureaucrat-capitalists ran the economy for their own benefit, not those of the workers. Far from the old state-capitalism being the antidote to private property, it fostered its own version of it.

What sort of trend do the Russian workers need?

Today, when the workers are being ground up by the free-market policy, various forces in Russia claim to speak in the name of the workers and socialism. Unfortunately, the dominant perspective among them sees a more state-capitalist policy as the cure for the market. They don't see the need for building a trend opposed to both, or have a perspective of establishing an economy that is really directed by the workers as genuine communism stands for.

The biggest trend of this type is Gennady Zyuganov's Communist Party of the Russian Federation (CPRF). This party came on the scene in 1993, reorganized from the remnants of the old Communist Party of the Soviet Union which was banned by Yeltsin following the abortive coup against Gorbachev in 1991. Despite its pretensions, this party has nothing to do with genuine communism. Indeed, it gained notoriety for forming political blocs with the ultra-nationalist reactionary, Vladimir Zhirinovskiy.¹⁶ Its idea of socialism is little more than creating a larger role for the state sector of the economy and some more social programs. Of course more social welfare would be of assistance to the workers. But the CPRF has shown no willingness to challenge the power of the capitalist oligarchs and so they settle for the most miserly crumbs. Instead the CPRF has allowed itself to be co-opted into the ministries of the Primakov government. It trembles before the big private capitalists, which is why it has backed down on various nationalization proposals in the past. It should also be kept in mind that nationalization in itself does not mean socialism. Socialism also requires that the economy is in the hands of the workers and, despite its "communist" pretensions, the CPRF's only alternative to the market is merely extending the state sector, not an economy run by the workers. All told, the CPRF is basically a meek, reformist parliamentary opposition.¹⁷

The Federation of Independent Trade Unions of Russia (FNPR) is far and away the dominant trade union trend. Its membership tops 40 million. But it follows a policy of class-conciliation and thus dissipates the potential power of the workers in its ranks. This is not surprising considering its roots in the official trade unions of the old Soviet Union which were

¹⁶The affinity between the CPRF and the attitudes of the ultra-reactionary Zhirinovskiy recently revealed itself in an outburst of anti-Semitism by a CPRF legislator, Albert Makashov. Makashov blamed Russia's problems on the "yids," a derogatory term for Jews. Compounding the atrocity was the refusal of the CPRF Duma members to censure Makashov. This in turn opened the door for other capitalist politicians to seek a ban on the CPRF. Interestingly, in the midst of this debate, Zhirinovskiy did the CPRF a good turn, declaring that anti-Semitism wasn't really a problem in Russia and that the furor was much ado about nothing.

¹⁷The Agrarian Party essentially functions as the rural wing of the CPRF.

servile tools of the state-capitalist economic establishment. The FNPR leadership expressed their distress over privatization, but overall they have gone along with the market reforms. While they have now and again called strikes or protests, they have no perspective of building a militant class movement. Typical of their acquiescence to the powers-that-be was their leadership's call for moderation in the face of mass anger at Yeltsin's 1993 bombing of the parliament.

There are several much smaller groups that also purport to be communist but condemn the CPRF leaders for selling out to the free-market forces. However, they hearken back to the days of Stalin for their model. They do not recognize that the system that developed under Stalin was state-capitalist and gave rise to a new type of class rule of the bureaucratic elite over the masses.

Illusions in Gorbachevism

The idea of seeking salvation in the old system also pervades the thought of the left around the world. One variant of this is romanticism about Gorbachev-style reforms. The book *Revolution from above* by David M. Kotz and Fred Weir is an example of this approach. They praise the Stalinist system as "socialist" despite admitting that it had various "flaws," such as the fact that the workers had no power and society was run by a brutal and corrupt elite. But they contend that if only Gorbachev had had more time to tinker with reforming the old system, it could have been salvaged.

But did Gorbachevism mean the workers were assuming control of society? Not at all. Democratization may have created certain openings for the workers to organize outside the old official structures, but it did not transfer power to them or change the basic class structure. What Gorbachev was really concerned with was not helping the workers to organize, but breaking down the centralized control over the economy so as to allow a fuller blooming of private capitalist interests. His main disagreement with Yeltsin and his "shock therapy" was over the pace of market reform. In fact, while eliminating price controls is usually identified with Yeltsin's "shock therapy," in 1990 Gorbachev began to dismantle price controls. This led to prices jumping by over 1,000% in a few months, pushed many incomes below subsistence levels and caused whatever credibility he may have had among the masses to disappear.

This was the reality under Gorbachev which even Kotz and Weir don't deny. But Kotz and Weir fantasize that if Gorbachev had handled things just a little differently, then some more kindly type of socialism might well have come into being instead of the disaster that they themselves admit actually took place. But Gorbachev's measures had nothing to do with undermining capitalist relations. They merely facilitated moving them from one type to another. Given Gorbachev's orientation, eliminating the former central controls could only mean strengthening the claim of those who were in control of the economy to the state assets. Likewise, Gorbachev's general orientation to expand the market sector of the economy could only foster new private capitalists developing from outside the old bureaucracy. What *Revolution from above* cannot come to

grips with is that *no set of reforms* could have transformed the former state-capitalist oppression into something wonderful. Work to bring about a society run by the workers doesn't mean tinkering with the old system, but helping create a revolutionary workers trend that rejects capitalist society in the old and new forms.

In short, the problem is not that there were flaws in the carrying out of Gorbachev's general plan, but that Gorbachev's attempt to fix the crumbling state-capitalist system with market reforms could never have resulted in anything but the advance of private capitalism. And with private capitalist forces increasingly dominating society, Kotz and Weir's "socialism" could never amount to more than hoping for a government that tries to reign in some of the "excesses" of capitalism.

Thus, it is not surprising that Kotz and Weir think of socialism as some kind of government regulation of market forces. This is shown by their description of the ideal society of the future. Kotz and Weir say that their conception of "democratic socialism" involves "some elements of both public regulation and market forces."¹⁸ They laud "market socialism" as a possible solution to achieve their democratic socialism. They describe this system as one in which "profit-seeking enterprises would compete with one another in markets" but also have "significant state intervention" to "reduce inequalities" and provide a social safety net. While Kotz and Weir have their own particular schemes that would allegedly prevent the power of capital from manifesting itself, their underlying idea is no different than that promoted by social-democratic or revisionist governments around the world. They too claim their "socialist" government is compatible with a capitalist economy. In reality though, these governments show time and again that they defend the interests of capital. When the interests of capital are threatened, they too break strikes and impose austerity measures. Kotz and Weir's refined Gorbachevism amounts to another version of a society in the hands of the exploiters but masquerading as socialist.

¹⁸Kotz and Weir; p.232.

Rebuilding a revolutionary workers' movement

If the Russian workers are to rebuild a revolutionary class trend, they must reject the views that dominate the left today. Neither those that collaborate with Yeltsin's free-market policy, nor those who romanticize the departed state-capitalist system offer the workers a perspective for their liberation. Today, the Russian workers are beginning to stir. The strikes and protests of the miners and events like the millions-strong protest in early October against the Yeltsin government are signs of brewing discontent. But the protests also show the severe weaknesses of the workers' movement. Forces like the FNPR and the CPRF, which dominated leadership of the protests, offer no perspective that can inspire the workers even though they are suffering greatly.

This does not mean that there is no point to mass action now, but that there is a need to build a new revolutionary trend. To the extent that this happens, the stronger will be the mass actions aimed at getting some relief from the devastation of the economic crisis. As well, the more the mass motion develops, the better the conditions will be to discuss what orientation serves the cause of the workers. It is significant that there are reports of small organizations of workers who voice their hatred for both the present system and the old phony socialism. These groups don't necessarily have a clear understanding of the problem with the old system nor what tasks must be taken up to effectively fight the present set-up. But their rejection of both the old and new systems is an encouraging sign. The groups that are the tattered remnants of the phony "communism" of the past either make common cause with Yeltsin or try to foist on the masses the very system they were glad to rid themselves of a few years ago. No matter the size of these groups, they will lead the workers into a dead end. A new revolutionary workers' movement will arise not by resurrecting the dead state-capitalist oppression from the grave. It will be established by those who reject both the state-capitalist tyranny and the present free-market hell. □

On Walter Daum's 'The Life and Death of Stalinism': Competition Among Soviet Enterprises and Ministries, and the Collapse of the Soviet Union

By Joseph Green

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Starting this August, the Russian economy has suffered a new disaster, compounding its ongoing decline. Ever since the program of shock therapy and rapid privatization was applied to the Russian economy at the beginning of 1992, a great blight has come across the land. There is mass homelessness, the decline of schools, hospitals and public services in general, millions of workers go without pay, retirees are in a desperate position, etc. Manufacturing and agriculture have declined precipitously, while Russia has turned into a country exporting oil, gas, and unprocessed goods in order to pay for the imports that are flooding the country. One might have thought that the economy had already hit bottom, but the financial crisis of August, and the failure of the wheat and potato crops, has brought the specter of possible mass starvation in the coming winter.

The collapse of the Russian economy shows the stupidity of the free-market orthodoxy which has guided the economy since rapid privatization began in 1992. It also raises again the question of how viable or successful the previous economic system was. Despite the economic stagnation that preceded its collapse in 1991, the Soviet economy at least provided health

care, education, food and a basic standard of living for its citizens. The breakup of the Soviet system and the abandonment of state industry seemed to spell the final word as to the bankruptcy of the past system. But now, with the tragedy caused by free-market economics, some political trends are claiming that the old Soviet system was an alternative. They do not see any possibility that the working class can build an alternative to both state-capitalism and free-market capitalism, but identify the old state-capitalism with socialism. They do not see that there is a fundamental economic difference between a system where the working masses control the economy, using the state for a time as one of their tools, and state ownership by a bureaucratic elite. So it is important to see whether the old state-capitalist system really is an alternative, or whether the present free-market disaster has grown out of the evolution of the state-capitalist system itself.

The internal rot in the old Soviet economy

The old system took on all its basic features during the 1930s under Stalin, during the industrialization and collectivization of the Soviet Union. Its basic structure lasted until close to 1991, when the Soviet Union dissolved. Although the old system promoted itself as "socialist" and "communist", in fact the old system was simply state-capitalism. The economy was directed not by the workers, but by a bureaucratic bourgeoisie whose power was based on its control of the state sector.

Some still dream of the glory days of the old Soviet system, when—whatever its other problems—it industrialized rapidly in the 30s or when it formed the economic base of a world superpower. But the present crisis in the Russian economy builds on a long rot that afflicted the old Soviet system. Like Western market capitalism, the Soviet state-capitalist system went through economic cycles. The periods of rapid industrial growth in the 30s and after the Second World War were followed by the great slowdown during the latter part of Brezhnev's regime, leading to utter stagnation.

The present reliance of the Russian economy on exports of oil and other resources was foreshadowed by the export of oil being one of the few growth areas in the Soviet economy during the last decades of stagnation. While the Soviet economy retained a large industrial base, many enterprises ran large deficits. When oil prices went up on the world market, the Soviet bourgeoisie looked to energy exports as one of the key ways to subsidize the rest of the system. Meanwhile the sale of vodka on the domestic Soviet market was another important growth area.

The Soviet social services, although not devastated as in Yeltsin's Russia, were already declining during the period of stagnation. The Soviet universal health system, for example, was impressive on paper, comprising a massive net of clinics and large number of doctors, but Soviet health standards were more in the line with the better Latin American developing countries than the industrialized European countries and, indeed, were lower than those of most Soviet-bloc countries.

The Soviet economy fell increasingly behind in high technology fields such as computerization despite the existence of a large mass of highly trained professionals and despite a number of theoretical innovations in these fields by Russian scientists. In general, the Soviet Union was increasingly unable to modernize its industrial base.

The overturn of the Soviet system was not a purely political choice. The political crisis was in large part a result of economic problems that had dragged on and on, and for which the Soviet "Communist" Party could find no solution. When the Soviet Union turned to free-market capitalism, this was not an arbitrary choice, but was based on the evolution of market solutions that the Soviet system had been experimenting with for a long time. The Soviet "Communist" Party had a long history of merging Western capitalist forms into the Soviet economic system. Aside from that, the very logic of Soviet state capitalism led to anarchic competition between different state enterprises, ministries, and economic interests.

The division of the population into a minority that is profiting and a majority that is suffering is a notable feature of the new Russia. But the division between a relatively small number of privileged and well-off bureaucrats and a large majority of people who had little or no say economically or politically had already solidified decades earlier. Although the old tsarist bourgeoisie had been overthrown, a new Soviet bourgeoisie, based on control of the state sector, had already taken shape by the 1930s.

Thus the tragedies afflicting Russia now are but the working out of a process set into motion in the days of Soviet state-capitalism. The chrysalis turns into a moth, not by accident, but as the result of its previous development.

Theories of the nature of the Soviet Union

Yet many current theories of the Soviet Union deny that Russian private capitalism has grown out of the state-capitalism of the past. Not only bourgeois economists, but the dominant theorists on the left deny this connection. These theorists explain away the collapse of the Soviet-bloc regimes, and rationalize that these regimes, whatever their problems, were nevertheless not as bad as what replaced them.

* The bourgeois analysis is that economic planning sucks. It holds that the Soviet Union was truly socialist, and that the collapse of the Soviet-bloc economies proved that there is no alternative to capitalism and the free-market. It denies that the present tragedy of the Russian economy is a capitalist one, instead pretending that it is simply the result of not carrying out the perfect set of free-market reforms.

* The technocratic analysis of the Soviet economy is that the

planning agencies used the wrong economic indices. For decades Soviet economists tinkered with different ways of measuring the fulfillment of the plan, and different ways of giving bonuses to the executives who ran Soviet industry. This never solved any fundamental problem of the Soviet economy, yet there are still leftist economists bogged down in trying to figure out the perfect set of economic indices and the proper mathematical techniques to devise a perfect economic plan. They fail to see that the problem was the class relations in the Soviet Union. The main problem in the state sector was not flawed indices, but that it was not run by and for the working masses as a whole but on the basis of enriching a bureaucratic elite.

* The "market socialists" believe that the capitalist market and commodity production can never be dispensed with. They don't want the state to replace market forces, but to regulate them. They thus urged on the evolution of Soviet state-capitalism towards market-capitalism, but they wanted to retain a strong economic role for the state. They often share the technocratic search for better ways of planning, which however they think should either encompass the market or imitate the market. They see the present-day Russian tragedy as stemming simply from insufficient state regulation of the market.

* Many of the market socialists and technocrats hold that the old Soviet Union was a form of repugnant socialism: they may not like the political system of Stalinism, but they think that its economic base was essentially socialist. For them, state control and state regulation, no matter how it is carried out and whoever runs the state, is socialism. So they may recognize that the workers had no control over anything in the Soviet economy, but, no matter, they think that the large state sector in the Soviet Union proves that it was socialist. They may have hopes that the supposed "communist" parties of the former state-capitalist bureaucracies will once again be brought to power, and that this time they will do things right.

* Opposed to all these views is the Marxist analysis that the nature of state sector depends on who controls it and runs it. When the state-sector is the property of a privileged class of bureaucrats, it does not move society towards socialism; the centralized planning at the top is inevitably fragmented by the myriad separate and competing interests of individual executives and groups of executives; and market forces evolve within it, not due to mistaken decisions, but due to the class nature of the system.

Trotskyist views

The Trotskyists have a reputation as being among the foremost critics of Stalinism, but it turns out that their analysis is often quite similar to that of the Stalinists. Their views of the Soviet economies fall into one of the following three categories:

* Most Trotskyist groups believe that the Soviet-bloc economies were "degenerated" or "deformed workers' states", depending on the country. They believe that these countries were essentially socialist or had a "post-capitalist" economic base, consisting of the state sector, although the government, being Stalinist, was oppressive. Thus they hold essentially to

the view characterized above as that the Soviet Union was repugnant socialism, although they express it with their own terminology. This view leads them to defend some or all of the existing state-capitalist regimes, even when they seem to denounce these regimes in extreme language. Under the guise that "military support" is separate from "political support", they may defend the military adventures and aggressions of these regimes as anti-imperialist acts. Basically, they hold that if only the system was led by Trotskyists rather than Stalinists, it would show its socialist potential. They are only fighting with the Stalinists over who will lead the system, not over its fundamental essence. They express this in their formula that there was no need for a "social revolution" in these countries, only a "political revolution".

* The British Socialist Workers Party and other Trotskyists grouped internationally around the "International Socialists" follow the analysis of Tony Cliff. They hold that the Soviet Union was state-capitalist, and not a workers' regime, whether deformed or degenerated. But their view of how the Soviet economy operated is remarkably close to that of the other Trotskyists. They hold that the Soviet state-sector, despite being run by and for a new exploiting class, ran without internal contradictions, without conflicts between different enterprises and managements, like a single factory or a truly socialist economy. In their view, it was only the relations of the Soviet Union with the world market that introduced commodity production and other capitalist principles into the Soviet Union. Thus, despite the condemnation of the Soviet regime by Cliff and his followers, their description of the Soviet economy was very close to the main trends of Trotskyism who regarded the Soviet economy as basically socialist.

*A very small section of Trotskyists claims that the Soviet economy followed the basic laws of capitalism due to its internal class nature. This is the stand of the League for a Revolutionary Party, and its theorist, Walter Daum, whose book *The Life and Death of Stalinism: A Resurrection of Marxist Theory* (1990) is the subject of this article. They not only hold that the Soviet economy was "statified capitalism", which is their way of saying state capitalism, but pay some attention to the anarchy and competition within Soviet state capitalism. They are one of the few groups on the left to do so, and so come closer to a correct assessment of the Soviet economy than any other Trotskyist trend. Thus, although they are dwarfed in size by the main Trotskyist trends, it will be useful to examine their views. As we shall see, their attempt to combine Trotskyism with the recognition of "statified capitalism" ends up involving them in one contradiction after another; they are unable to combine their views into a coherent whole; and they are forced to deny a number of historical facts.

The competition concealed behind Soviet planning—it's important, Daum says

In the introduction to his book, Daum writes that "A central point of this book is to show that Stalinism's *inability* to centralize the economy and therefore to plan scientifically marks it as a

form of capitalism." (p. 15, emphasis as in the original, as it will always be when passages from Daum's book are cited.)

Daum groups under the term "decentralization" the various examples of competition and anarchic conditions in the Soviet economy which he refers to at various places throughout his book. This attention to Soviet "decentralization" leads LRP to talk of the internal reasons for the decay of the Soviet economy, which distinguishes the LRP trend from most other Trotskyist trends.

What does this "decentralization" look like? Daum's book is mainly devoted to his assessment of various theorists and political trends and his particular type of abstract theorizing. Daum mainly refers here and there to the "decentralization" within the Soviet economy, rather than studying it. But there are a few places where Daum describes a number of the ways that competition manifests itself in the Soviet economy. Most of this occurs in a passage about a dozen pages long in chapter 5, which he devotes to a description of the ills of the Soviet economy.¹ As well, scattered throughout the book are additional references to how Soviet economic life differed from what was mandated in the central plan. For example, there are several more remarks about the existence of a labor market in the Soviet Union. On p. 222 Daum points out that various Soviet enterprises bid for labor, often in contradiction to the state plan. This no doubt is related to the fact mentioned earlier by Daum, on p. 174, that a lot of Stalinist legislation mandating repressive conditions at the workplace was eventually ignored or evaded by the enterprise managers. (The reason for this isn't stated there, but was no doubt the competition among the managers to keep sufficient qualified workers at their factory.)

Daum refers to all these phenomena as "decentralization". This is somewhat unfortunate. The impression is created that genuine socialism would have no room for local initiative or any initiative other than that of the central planning bodies, for fear of decentralization. But nevertheless, Daum not only recognizes the existence of anarchic and competitive features of the Soviet economy, but—and this is key—regards this "decentralization" as having been of theoretical importance for a characterization of the Soviet system. If it were just a question of noting the anarchic features of the Soviet economy, then one might simply note that Daum is by no means the first to do so, nor is his description the most careful or comprehensive by any means.

For example, the late Trotskyist scholar Ernst Mandel had already described these features a couple of decades earlier in chapter 15, "The Soviet Economy", of his book *Marxist Economic Theory*. But Mandel regards these features as merely economic defects, caused by the bureaucratic bungling of the Stalinists, that didn't affect the basic economic system. All that had been needed was to replace the leadership: if only Trotskyists had done the planning, everything would have been

¹See Chapter 5, Section 1: Pseudo-socialist capitalism", from the subsection "Pseudo-planning" to the subsection "Unemployment", pp. 198-211.

OK.

No, Daum says, it isn't important

So what is important is not simply noting various anarchic features in the Soviet economy, but seeing their significance. It turns out, however, that Daum is inconsistent on whether the anarchy of the Soviet economy was important. While stressing the issue of "decentralization", Daum denigrates the importance of competition. The subsection of his book, entitled "The Question of Competition", is devoted to proving that only the petty-bourgeoisie could place much stress on competition.

In this subsection, Daum is concerned to refute those people who say that a nationalized economy has gone beyond capitalism, because there is no longer competition between separate, privately-owned capitals. In order to refute this argument, he writes that

"Middle-class theorists stress the desires of individual capitalists and their competition in the market, rather than the interest of the bourgeoisie as a whole to resist the class struggle of the workers. The position is most convenient for those who deny the existence of capitalism in the USSR, where market competition between enterprises is limited." (p. 49)

One might think that Daum would refute those who advocate that nationalization equals socialism by referring to the facts about the competition of different bureaucrats, enterprises, ministries and localities inside the Soviet economy, recognition of which he declared to be one of the "central points" of his book. Indeed, since Daum identifies the competing interests in the Soviet economy as separate "capitals", one might suppose that he would triumphantly answer "the middle-class theorists" by referring again to the competition of these capitals, and remarking that competition on the free market is not the only type of capitalist competition. But Daum, and LRP literature in general, repeatedly denigrate the theoretical significance of competition. Why, he says, competition isn't important in itself, it is merely that

"competition is the *appearance* of the inner nature of capital", an appearance rather than the underlying reality. (p. 50) It is a surface phenomenon, "the operation of surface pressure to enforce the inner laws on the capitalists: it is capitalism's value-policing agent. But it is not the fundamental drive for accumulation." (p. 51)

Daum applies this to the Soviet economy, and tries to explain its economic features by ignoring the supposedly secondary features, such as the competition among the bureaucrats, and emphasizing instead the overall interests of the Soviet ruling class as a whole. He calls this "the national capital" approach (p. 210). He writes that

"under Stalinism the primary social aim of production is *to preserve and maximize the value of the national capital as a whole*—that is, the state-owned capital within the national boundaries" (pp. 198-9).

The "national capital approach" would seem to be more in line with the theories of Tony Cliff, who regarded the Soviet economy as working as one single enterprise, than with a recognition of the squabbling, competitive, dog-eat-dog nature of the Soviet economy. Daum, who regards refuting Cliff and Mandel as among the key goals of the book (p. 24), nevertheless regards the basic laws of the Soviet economy as stemming from its unified nature as explained by the "national capital approach". What he offers the reader with one hand (recognition of competitive phenomena in the Soviet economy), he takes back with the other (denigration of the theoretical importance of competition).

Indeed, how is the reader to make sense of the Soviet economy when the same feature is declared important when it is called "decentralization" but is called a secondary, subordinate, surface phenomenon when it is called "competition"? Even the LRP has trouble with this. Sy Landy, National Secretary for the LRP, wrote an introduction to Daum's book where he simply places these two contradictory views side-by-side, and declares:

"The book destroys a whole series of myths that have encrusted Marxism. For example, it rips apart the now commonplace fallacy that the essence of capitalism is competition. As Marx explained, this was the theory of petty capitalists, not his. The book also systematically decimates the fashionable notion that Stalinism, despite its faults, maintained a centralized planned economy." (p. 4)

Landy can't explain how these contradictory theses of Daum relate to each other; he simply reiterates them. Just in case the reader isn't sufficiently confused about whether the lack of centralization refers to the competitive aspect of the Soviet economy and the market forces within it, Landy immediately goes on to declare that Gorbachev's well-known program of vastly-expanded market reforms was really an attempt to "discipline" (centralize) the economy. By unleashing free-market forces! Landy writes:

"Thus for us Gorbachevism is not an attempt to restore the 'democracy' of the market but [we see it] as a desperate bid to impose discipline and order on an anarchic economy—a bid doomed to failure." (p.4)

Well, if as Daum says, competition is really simply a surface, subordinate feature of an economy, no doubt Gorbachev's program of increased competition could be said to really be a program of centralization. In the same way, a valley can be declared to be a mountain, an ocean to be dry land. But the result of such verbal gymnastics is to make the LRP's theories well-nigh incomprehensible.²

²Landy's and other odd statements by LRP at that time about the supposed centralist tendencies of Gorbachevism seem to be an attempt to prove that LRP had correctly foreseen all the developments in the Stalinist economies, their earlier (continued...)

Competition and state capitalism

Daum to the contrary, the competition and anarchy in the Soviet economy are of immense theoretical significance. For one thing, there are many important features of the Soviet economy which cannot be explained by the overall interests of the Soviet ruling class or by Daum's "national capital approach". There is spectacular waste, inefficiency and stagnation which undermines the overall state-capitalist rule.

Daum himself notes a number of these features of the Soviet economic life, such as

—" . . . imported techniques normally do not spread within the USSR from one firm to another. Competitive secrecy prevents such dispersion. Competitive secrecy prevents such dispersion, and technological conservatism frequently prevents spin-offs from the new technology. . ." (p. 199)

—"the newly built buildings that fall apart, the poor quality of goods at all levels, the disorganization of transport (most obvious in the apparent impossibility of obtaining agricultural produce from one region in another). . ." (p.202)

²(...continued)

predictions having including the idea that the Stalinist economies, although adopting "the more traditional capitalist forms, like privatization and the market", nevertheless "could go only part way in decentralizing economies, given the dominant centralizing and concentrating tendencies at work in all forms of capitalist society, especially in this epoch." (Sy Landy, "Twenty Years of the LRP", in *Proletarian Revolution* #53, Winter 1997, p. 20, col. 1) Similarly Daum writes that:

"Gorbachev and his allies do not wish to restore traditional capitalism or even to decentralize the economy in the interest of local bureaucrats or managers. On the contrary, their purpose is to weaken the ministerial satrapies in the interest of the national ruling class as a whole. Inefficient local managers will be made to modernize or get out of the way. The state will increasingly come to serve the particular interests of the strongest firms as most representative of the general interests of the ruling class. Indeed, the epochal trend toward economic concentration and centralization applies under Stalinist reformism: even though central administration is reduced the monopolies will still grow at the expense of their rivals." (p. 346) Here Daum resorts to the idea that the free-market centralizes the economy via monopolies, whereas elsewhere Daum often stresses that centralization is the opposite of market forces. Moreover, Daum suggests that Gorbachev's program may look like decentralization, but it isn't decentralization in the interest of the local managers! It's simply in the interest of the strongest firms, the strongest local managers! In the same way, one could claim that the U.S. merely seems to have a market economy but it isn't a market economy in the interest of all the capitalists because, after all, only the strongest firms survive, and the state serves their interests.

—"...periodic last-minute drives to meet production goals ('storming'), made necessary by the absence of planned supplies" with the result that the work is done so poorly that it "destroys the usefulness" of the product. (pp. 204, 218)

—starting work on such an unrealistically large number of construction projects that it is impossible to complete them (pp. 204-5)

—hoarding of supplies by enterprises, with the result that scarce supplies "continue to be dispersed and wasted" (p. 199)

—major industrial complexes forcing their customers to accept an inappropriate type of product (p. 198)

Etc.

Daum acknowledges that these things contradict the overall interest of the Soviet ruling class. He says that

"under Stalinism the primary goal of national capital accumulation has to operate in conjunction—and often at variance—with the narrower goals of local and sectoral bureaucrats: maximizing the value of the firm or sector they are responsible for." (p. 197)

Indeed, these are the factors that explain how the internal rot of Soviet revisionism takes place. Those who look back to the old state-capitalism in the Soviet Union as an alternative to the current Russian disaster forget these factors and others.

Nevertheless, Daum insists that one must put the "national capital approach" first. He thus turns away from the significance of competition. While swimming in a sea of examples where competition undermines the overall Soviet system, he tries to find an example proving that not competition, but the laws of development of the single "national capital" explain the Soviet economy. Thus he considers the question of why the Soviet economy fails to reach its planned goals with respect to consumer goods. In reality, this is mainly because the various anarchic factors, such as those listed above, result in the failure to fulfill goals in general, including with respect to construction, major industrial goods, and so forth. But Daum writes that the "national capital approach" shows that "the reason for systematic violation of 'planning priorities'" with respect to consumer goods, and precisely consumer goods, is allegedly because the production of consumer goods supposedly has the special property that it does not "increase the value of the state-owned capital", despite its ability to increase the capital of privately-owned enterprises (p. 201).

Daum, with his "national capital approach", also misses a further key point about the significance of the clash of private and small-group interests in the Soviet economy. This anarchy and competition are not only key to explaining the features of the Soviet economy, but provide a powerful theoretical confirmation of Marxism. Marx and Engels analyzed that the only way to overcome capitalism, and its competitive struggle of one private interest against another, was to replace the marketplace with the control of production by society as a whole. They did not identify social control of production simply with nationalization. They held that a revolutionary working

class would have to nationalize the economy as a step towards socialism and the abolition of commodity production (and eventually the state itself), but they also held that bourgeois nationalization had nothing to do with socialism. They held that social control of production was not simply a legal matter of having state ownership, and they opposed what they called "state socialism", but required having the working class taking power and step by step putting the economy under the control of all the working people.

The question arises as to whether the 20th century experience with the state-capitalist countries confirms or denies Marxism. If the state-capitalist countries really had achieved a social control of production, then they would essentially have created a socialist economy in the Marxist sense. In that case, the sad record of state-capitalism in the 20th century, and its oppression of the working masses, would mean the collapse of Marxist socialism, which would stand revealed as simply another repressive society.

But the state-capitalist countries, despite their state sectors, nationalized industry, and state plans, could not even direct the economies according to the overall interests of the new ruling class (what Daum calls the "national capital"), to say nothing of the interests of society as a whole. Not just the new bourgeoisie as a whole, but individuals and small groups continued to appropriate the results of state industry. The clash of separate interests permeates the state-capitalist economies. This provides a confirmation of the Marxist view that the contradiction between large-scale, social production and the ownership and management of these means of production by competing interests is key to the oppressive nature of capitalism. It confirms Marxism's emphasis on the role of competition in capitalist society; it confirms their views that nationalization itself does not provide social control of production; and it also verifies their denunciation of "state socialism".

Daum does state that "The primary contradiction of capitalist society is between social production and private appropriation." (p. 35) Indeed, Marx, Engels and Lenin put a good deal of emphasis on this contradiction, which sums up the view of Marxism concerning the need to eliminate private appropriation if the forces of social production are to be used for the benefit of all humanity. But, in Daum's account, nothing much follows from this contradiction, and he forgets about it after a few sentences. In fact, the competition within the process of production in the Soviet system, as well as the frenzied system of private appropriation of the benefits of the state sector, show that the state-capitalist societies really haven't resolved this contradiction. Private appropriation remains; indeed, not just the appropriation by a relatively small section of society which became the new bourgeoisie, but private appropriation by individual exploiters and small groups.

In the natural sciences, an unexpected confirmation of a theory is regarded as important. It is sometimes too easy to give a plausible explanation of facts that one knows in advance; one can cut and fit the theory to size because one knows the conclusions one wants to reach. But if a theory, based on examining certain facts, turns out to successfully explain or predict facts that weren't yet known at the time, this strongly

suggests that this theory, while not a limit beyond which it is impossible to go further, really has uncovered some important aspect of nature. Similarly, the existence of competition and competing private interests within Stalinist state-capitalism, a new form of capitalist society that didn't exist in the days of Marx and Engels, provides an impressive theoretical confirmation of some of the basic principles of Marxism.

Daum's contradictions

Daum's denigration of the role of competition thus undermines most of the value in his recognition of the "decentralized" features of the Soviet economy. Moreover, it involves him in a series of contradictions.

Take his analysis of the Soviet Union in the 1930s. Was this centralized or decentralized? Somewhere in his book, Daum gives every possible answer to this question.

Daum's starts out by declaring that Stalinism cannot centralize an economy, and he ridicules the view that the "decentralization of the Soviet economy and deproletarianization of the state had begun only after Stalin's death." (p.16) He points out later that the Stalinist system of the 1930s aimed to "to build up the national capital by tying each bureaucrat to some specific capital, either locally or further up the hierarchy." (p. 237)

But at the same time, Daum wants to claim the industrialization in the 1930s as somehow a victory for socialist centralism. He holds that the degeneration of the Soviet Union into stratified capitalism did not finish until the 18th Party Congress in March 1939 (p. 184). Prior to that, there is supposedly a basically proletarian, and centralized, economic base which is responsible for this economic growth. He writes that

"Despite its brutality and counter-revolutionary implications, however, the industrialization drive of the 1930's was an unprecedented achievement. It made possible the Soviet Union's advance from a backward country to the world's second economic power by the end of World War II . . . The key was the centralized state power achieved by the soviet revolution. It enabled the party to mobilize the cadres' devotion to socialism, focus resources on selected heavy industrial projects and utilize the masses of labor thrown into production during the decade." (pp. 159-9)

Indeed, he goes even further and declares that there was "super-centralization" in the 1930s (p. 159) and only "signs of anarchy" appeared. (p. 239)

However elsewhere he declares that there was only political centralization in the 1930s, and he writes that Stalinism was "as we have seen, . . . *de facto* decentralization of production despite political dictatorship". (p. 353) He says that Stalinism only had "pseudo-planning" (p. 226) and that "no Stalinist plan ever genuinely planned or predicted the economy" (p. 198), and he cites approvingly someone's else statement that one must question "*whether Soviet investment is, or ever has been,*

planned in any way whatsoever" as "a highly realistic overall conclusion". (p. 229)

In brief, he takes every position conceivable on the question whether the Soviet economy was centralized in the 1930s, from yes to no, through partially yes, and on to indubitably yes, and then absolutely not. On this question, as on a number of other theoretical questions, one finds that what Daum says in one place, he contradicts in another. On the question of the 1930s, his contradictions spring in part from his reduction of economics to simply centralism versus decentralization and his relegation of competition to a minor issue. Instead of discussing whether and in what forms competition and anarchy of production can exist in a nationalized economy, whether and in what forms competition and anarchy can appear in a centralized economy, he sees only centralism versus decentralism.

Daum uses "decentralism" to refer to competition, anarchy, and everything bad, while "centralism" and "planning" refer only to very good things, to socialist centralism and planning, or at least the revolutionary planning of a workers' state. In fact, centralism and decentralism can't be discussed in this way. There are different types of centralism and decentralism. There is a certain type of planning and centralism that occurs in capitalism, and not just in socialism; while true socialism will unleash the mass initiative of the people in contrast to capitalism, which forces the overwhelmingly majority of the population to walk in lockstep with their bosses, or even with the decisions of a handful of big bankers. Today world capitalism is monopoly capitalism, subject to huge multinational firms as well as various governmental, or even world, institutions; the capitalists divide up the resources of the world among themselves, squabble over setting world rules of behavior, and subordinate whole nations to the command of a handful of executives. It is not just the state-capitalist regimes that go beyond the old model of mid-19th century capitalism, but Western market capitalism itself which has evolved a long way since then. Capitalist planning does not eliminate the anarchy of production, but does dramatically change its forms. It not only coexists with, but helps intensify the fierce clashes among capitalist groupings and the dog-eat-dog competition of capitalism. The East Asian, Russian, and other financial crises, the overproduction crisis that lies at the base of these financial crises, the devastation of the living conditions of whole nations as well as the ruining of the world environment, show the limits of this planning, and how it is constantly being upset by unexpected results. But it is one thing to note what type of centralism and planning occurs under capitalism, and another to regard them as sham phenomena.

So, with respect to state capitalism, one has to distinguish between the nationalized form and the particular ways in which competition and anarchy manifest themselves. Daum's terminology, which reduces everything to centralism versus decentralism, makes it impossible to consistently discuss state-capitalism. In the Soviet Union of the 1930s, for example, the centralism of the economy wasn't simply a carryover from the 1920s, but increased dramatically. At the same time, there weren't just signs of anarchy and competition, but severe competition among Soviet executives and enterprises. This is an

insoluble contradiction if it is discussed as simply centralism versus decentralism: all one can say is that from one point of view, centralism increased dramatically, but from another point of view, it was ripping apart at the seams. But the same history provides a profound economic lesson about 20th century monopoly capitalism if one studies state-capitalism as a distinct form of capitalist economy in itself, not as simply real or sham centralism and planning. Then one can distinguish the question of how far an economy is nationalized and whether government ministries have replaced the stock market and other market forms with government directives, from the question of how these changes affect the competition in the new bourgeoisie. Then it is no longer an absurd contradiction when the extension of government planning coincides with sharp competitive clashes among enterprises, and one no longer has to solve that contradiction by automatically declaring that there is only a sham extensive of government planning (something which may or may not be true in any particular situation); instead one can study the class relations which determine what effect government planning has on an economy. One can examine how market forces grow up under state capitalism without implying that the state-capitalist ("centralized") form is merely a sham.

The economy of a workers' state

Daum's bare contrast of centralism versus decentralism not only fouls up his description of the 1930s, but also his attempt to describe the features of the transition to socialism and to contrast Stalinist regimes with workers' states. As a result, the only thing that comes through clearly in his account is that there should be a centralized economy, and that Trotskyists would allegedly do much better than Stalinists in running it.

* For example, should the transitional economy accumulate capital, or is it marked by how far it eliminates the character of the means of production as capital? Daum wants it both ways. On one hand, as we have seen, Daum stresses that the guiding principle of state-capitalism is the accumulation of the national capital. This is how he explains the oppressiveness of these regimes, and what he denounces them for. This would suggest that he believes that a workers' state shouldn't do this horrible thing that characterizes Stalinist state-capitalism.

But on the other hand, oddly enough, he holds firmly that a workers' state should accumulate capital. He writes that:

" . . . Stalin's worsening of the material conditions of the workers was not an imperative result of capital accumulation. We argued in Chapter 3 that accumulation is a necessary, bourgeois, task of the workers' state: carrying it out cannot in itself signify the restoration of capitalist rule."
(p. 160)

Any system of large-scale production, whether capitalist or socialist, requires factories, means of production, raw materials, etc. But only under capitalism do these things constitute capital. The whole point of a transitional economy is to step-by-step eliminate their status as capital, by having the working masses as a whole own and manage them. But Daum

instead identifies economic development of any sort as a bourgeois task, and declares that it is the same thing as capital accumulation.

Daum takes this so seriously that he declares that a workers' state, in order to help the fraternal workers of other countries, would export capital to them. He writes that:

"...the export of capital for the purpose of ingesting surplus value is reactionary; but it also reflects the international scale of the modern economy. . . Workers' states in the advanced countries would also send vast amounts of capital abroad—not because of the surplus value it could return but because of the use values that less advanced workers' states need." (p. 279) Indeed, Daum denounces the Soviet Union for allegedly not exporting capital, saying that "The USSR's failure to export capital shows the severe contradiction of a system at once advanced and backward in the extreme."

* Should a transitional economy be run according to the law of value and calculate its plans according to value? Once again, Daum has it both ways. With his red-hot, revolutionary left hand, Daum denounces the Stalinists for the "subordination of the economy to value" (p. 186) He says that value measurement is not a guide to a rational system (p. 33) and that "the fundamental revolutionary task in the economic sphere is combatting the law of value" (p. 135) With respect to the Stalin's eventual declaration that the law of value played some role in the Soviet Union, Daum declares ringingly that it

"was a tacit recognition that capitalist discipline was required, for the work force first of all, but also for the bureaucrats. It meant that production was in the hands of separate, autonomous units which had no alternative but to relate to one another through the exchange of value-embodiment products, i.e., commodities." Moreover, it showed that "the system operates under an alternative form of competition, which in any form executes the inner laws of capital to maintain and deepen the exploitation of the proletariat." (p. 231)

But on the other hand, with his conservative, supposedly realistic, right hand, Daum states that it is important for a workers' state to use value. He points out that Trotsky "called for a market and a monetary regulator—not because he admired capitalist methods but because the reality of backwardness had to be recognized if the crisis was to be overcome; accurate measurement of labor time and resources was critical." (p. 166) Daum even denounces Stalinism for deviating from value, saying that "the statified economy allowed violations of the law of value even greater than under traditional monopoly capitalism" (p. 179) and that "the distortions of value that characterize most of the Stalinist system and hold back the progress of productivity can be understood in the

West by anyone familiar with governmental or other large bureaucratic operations." (p. 203)

Indeed, Daum holds that a workers' state, so long as commodity production exists, would be marked by *the precision by which it set its prices according to labor time*. Price and labor time would supposedly no longer diverge:

"the proletarian state can accumulate value without the contradictions due to the separate ownership of capitalism—which makes exchange value and the labor time underlying it diverge." (p. 126) But the determination of prices by labor time, by the labor-hour, is precisely the law of value.

Will the transitional economy set prices more and more according to the labor-hour as it moves towards socialism? And, when it reaches socialism, will it use the labor-hour as its "natural unit" and basic economic measure in its planning? This is a controversial question among socialist activists. I have expressed my opinion elsewhere, in the course of criticizing the Soviet economist Preobrazhensky, that the labor-hour or labor-content is not the "natural unit" of economic planning nor the overall regulator of production. I gave several examples to show how planning must inevitably diverge from calculations based on the labor-hour, or else duplicate capitalist practices.³ Of course, how much time it takes to produce something will always be of economic interest, but it is not the sole factor of economic interest. I intend to explain this in more detail in an article for the next issue of *Communist Voice*; since my view may surprise many activists, I intend to argue in favor of it at greater length. Here I simply wish to point out that Daum takes both side of the issue, being equally vehement no matter which side of the issue he is on at the moment.

*Daum also waffles back and forth on whether the system of financial management in state industry (the so-called *khozraschet* system) can be used by a workers' state. On one hand, he self-righteously denounces the Stalin constitution of 1936 for putting state industry on the *khozraschet* system. Daum writes that the problem was Soviet firms were treated as "juridically independent" and "they could sign contracts with one another, sue if these were not fulfilled, and win damages in court." (p. 179) But on the other hand, Daum quietly accepts the *khozraschet* system. *Khobraschet* actually was brought into existence by the New Economic Policy of the 1920s, which Daum supports.

To break out of this contradiction, Daum would have to show what is different about what Stalin did in the 1930s, and what was done in the 1920s. But Daum makes erroneous distinctions. To show what is different in 1936, Daum cites someone saying that the decisive moment in the development of *khobraschet* "was in 1936, when it was ordered that an end be

³See the sections on the labor-hour and labor-content in Part VI of the article "Preobrazhensky, Ideologist of State Capitalism, Part 2" in the last issue of *Communist Voice*, vol. 4, #3, Aug. 1998, and particularly see "The labor-content as an irrational measure".

put to state subsidies of enterprises." (p. 179) So Daum seems to say that Stalinism means that the enterprises are allowed to fail. This is apparently made the dividing line between state-capitalist Stalinism and the proper use of *khozraschet* by a workers' state. But actually, the NEP already had seen many enterprises fail due to their inability to make a profit and the refusal, under *khozraschet*, of the state to bail them out. Indeed, much less of this occurred after the 20s. Elsewhere Daum himself writes that "Soviet firms have rarely been forced to liquidate" (p. 205), Soviet managers "have no fear of being forced out of business" (p.204), and that the state-capitalists generally prefer for the unprofitable firms "to stay in production" (p. 206). He also talks of the "overmanning in the factories" (p. 241).

Moreover, Daum goes on to stress how important it is that a workers' state allow these enterprises to fail. He denounces Stalinism for subsidies to "inefficient plants", saying that they are kept in operation "through surplus value supplied by other firms" (p. 206) and declares that "the failure to shut down obsolete enterprises is not a progressive but a reactionary aspect of the system." (p. 206) Daum stresses that "a genuine workers' state . . . would aim to close outmoded plants as quickly as possible." (p. 209)

* Daum denounces the Stalinist planning of the 1930s for ignoring objective laws, and writes that

"In the ideological sphere the Stalinists declared the laws of capitalism abolished. The economist Strumilin declared, 'We are bound by no economic laws. There are no fortresses which Bolsheviks cannot conquer by assault. The question of tempo is subject to the will of human beings.'" (p. 158)

However, Daum denounces Preobrazhensky for claiming that planning is subject to economic law. Daum writes:

"There is no law regulating conscious planning (other than the law of value itself—which holds it back, restricts it and subjects it to the economic scarcities of the existing society.)" (p. 148)

Thus on the accumulation of capital, the use of value in the economy, the subsidizing of inefficient enterprises, and the belief that state planning is subject to no laws (other than certain restrictions from value), Daum takes both sides of the issue. The very features of Stalinism which Daum denounces, Daum also upholds as the way to build a workers' state, provided it is done by Trotskyists, not Stalinists.

Daum passes over briefly, or leaves out altogether, key issues with respect to the distinction between state-capitalism and a workers' state in the course of transition to socialism. The key distinction isn't over the technical questions of planning (such as the regime's theories concerning the law of value and the labor-content of goods). Nor can all NEP-like measures such as some form of *khozraschet* be denounced. *Khozraschet* always has effects on the class structure of the society, but one has to judge whether a system of capitalist competition and bureaucratic management of the economy is being consolidated, or whether *khozraschet* is being sub-

ordinated to a growing control of the economy by the working masses. The key issue concerns whether the working masses are really gaining control over the economy. To deal with the transitional economy, one has to discuss the methods by which the working class extends and strengthens its class organization, how these forms change over time, how they step-by-step encompass the rest of the working masses, and they develop a real control of the economy. Such working-class economic control includes both the forms of control from below as well as the building of centralized institutions at the top, the forms of local initiative as well as the formulation of bold and accurate plans at the top. Daum can't formulate the issue this way, or else his whole theory concerning the 1930s falls to pieces: after all, Daum wants to claim the 1930s as a triumph of socialist planning on the basis of the state ownership and planning, while admitting that the workers were not in control. This is only possible if his view of a workers' state is actually quite close to that of Stalinism.

Even the Daum's party, the League for a Revolutionary Party, felt a bit uneasy over the picture of a workers' state in Daum's book. The review of Daum's book in LRP's journal, *Proletarian Revolution*, states that

"The weakest section is the exposition of the Marxist conception of how the workers' state makes the transformation from capitalism to socialism and an outline of socialist (and communist) society."⁴

But the review had nothing to add to Daum's exposition, which it regarded as having said all that LRP could say on the subject.

Platonic economics

One of the main weaknesses of Daum's theorizing is that it detaches economic theorizing from the actual operation of the economy. There are some vivid, if short, descriptions of Soviet reality in Daum's book, but Daum regards these descriptions as subordinate to something far more important, his grand theorizing.

Daum is fond of vague analogies of the Soviet economy to the Western economy, expressed in pseudo-profound talk of the falling rate of profit, the "national capital", the interests of the Soviet bureaucrats as little "capitals", and so forth. For him, these are the "inner laws" of the economy. At best, such analogies might suggest some avenues for study concerning the relation between state-capitalism and Western capitalism. But for Daum, these analogies replace a close study of the economic life in the Soviet Union.

Take the question of competition among the Soviet bourgeoisie, for example. As we have seen, he regards this as a mere "surface" phenomenon, which only petty-bourgeois theorists could put too much emphasis on. He does briefly give some important examples of Soviet competition, but he does not see the theoretical significance of this.

⁴Dave Franklin, "New Book on Marxist Theory: 'The Life and Death of Stalinism'" in *Proletarian Revolution*, Fall 1990, No. 37, p. 6, col. 2.

In fact, hard work has to be done to trace the evolution of competition and other aspects of the Soviet economy. In an earlier article on the Soviet Union, I discussed the theoretical significance of the existence of anarchy in the Soviet economy. In the CVO articles on Cuba, comrade Mark traced some the broad outlines of historical development of competition and anarchy in post-revolutionary Cuban economy. There has to be further study of how the process works in reality. This is the materialist approach. And it is only through such work that more and more understanding of the economic laws of state-capitalism can be developed.

Daum, on the other hand, acts as if "capital" and "falling rate of profit" existed in a Platonic world, far more profound and real than the world of human beings and economic transactions. Thus he explains phenomena by appealing to general principles about capital, without ever bothering to investigate the differences in how they apply to state-capitalism and Western capitalism. Indeed, for him the recognition that there is "decentralization" in the Soviet economy, and that planning is only what he calls "pseudo-planning", implies that he can just carry over all the categories that apply to Western capitalism, without bothering to investigate the concrete changes that take place, because it is all merely surface changes. This approach differs tremendously from that of Marx, who was at pains to deal with how the evolution of the capitalism of his day changed the forms in which the basic laws of capitalism expressed themselves.

For example, Daum's approach leads him to apply the concept of a falling rate of profit to Soviet state-capitalism without looking closely into what changes must be made in defining the rate of profit and seeing how it works concretely with respect to a system where a firm isn't judged by its rate of profit, nor executives paid on that basis, but according to its fulfillment of plan, and where major investment plans and targets are determined by the ministries, not the firms. Thus his analogy remains empty. But for that matter, there is rather little concrete investigation of the falling rate of profit even with respect to market capitalist economies. Yet Daum is proud of his "new interpretation of Marx's law of the falling tendency of the rate of profit." (p.23)

Marxism, and scientific materialism in general, searches diligently for the general laws underlying what we can see happening in real life. But it insists that these general laws come from a close examination of real life, and that abstractions and generalizations be built up on the basis of a careful study of material reality. Daum lives instead in a world of abstractions and general analogies and metaphors.

The life and death of Trotskyism

Most of Daum's difficulties stem from the fact that he is trying to fit the analysis of Soviet state-capitalism into a Trotskyist framework. But Trotsky never thought that the Soviet Union was state-capitalist, no matter how dominant Stalinism was, and he never even conceded that it was possible

for a new bourgeoisie to arise based on its control of the state sector.

Trotskyism has promoted itself as the greatest opponent of Stalinism. Yet the irony is that on numerous fundamental issues of political theory, Trotskyism is just the flip side of Stalinism. Both the majority of Trotskyists, as well as the Stalinists, hold that the state sector is inherently socialist (provided only that the old bourgeoisie has been overthrown); both have a similar idea of what the Soviet economy should look like; and both depart from Leninism. Most Trotskyists feel that the Stalinist countries had an essentially socialist or proletarian economy, and their criticism of Stalinism, no matter how strident, is that they can run the system better than the Stalinists can. Thus they called for a "political revolution" (a change in leadership), rather than a "social revolution", in the Soviet Union and other state-capitalist countries; this brings out their agreement with the basic features of the Stalinist economic system, and their view that it simply required better leadership.

Unlike most Trotskyists, Daum declares that the Soviet Union was "statified capitalism" (state-capitalist). But he is unable to establish a consistent theory about this. At every step, Trotskyist dogma dogs his steps. The irony is that the theoretical bankruptcy of Trotskyism is revealed by the collapse of Stalinism. Trotskyism gained currency only as Stalinism stamped out the theses of living Leninism, and it lived on as a fringe of Stalinism; the death of Stalinism and the eventual revival of anti-revisionist Marxism will prove to be the death of Trotskyism too. The life and death of Trotskyism are but a reflection of the life and death of Stalinism.

Trotsky's denial of the possibility of Soviet state-capitalism

Daum makes no bones about his zealous adherence to Trotskyism. He declares at the start of his book that he adheres to Trotsky's views on the Soviet Union right up to 1939 (which is the year before Trotsky's death in August 1940) and that everyone must "start with Trotsky's analyses of the degeneration of the Soviet workers' state in the 1930's". (pp.9, 22). This prevents him from seeing the state-capitalist system in the 30s, since Trotsky didn't.

Daum implies his disagreement with Trotsky with respect to the 1939-1940 is essentially a matter of timing as to when capitalist restoration in the Soviet Union would be completed: Daum sees it as completed in 1939 while Trotsky thought it would still take some more time. But in order to present matters in this way, Daum hides the fact that Trotsky held that the restoration of capitalism could only mean the victory of market capitalism, not the consolidation of state-capitalism.

Indeed, Trotsky directly denied the possibility of state-capitalism, and said so in his major theoretical work on the Stalinist system, *The Revolution Betrayed* (1936). This work was written in the mid-30s, when the Stalinist economy was already taking on most of its characteristic features, and Trotsky said no, it cannot be state-capitalism. The LRP, incredibly, takes one of the passages where he specifically argues the impossibility of such a thing as Stalinist state-capitalism and

turns it into its opposite—into the recognition that a country with a nationalized economy can be capitalist. Here is how the LRP accomplishes this feat. The LRP's journal *Proletarian Revolution* writes:

"It is taken as a commonplace by most Trotskyists (and practically everyone else) that a country in which the economy is nationalized cannot be capitalist. Obvious though that may seem, however, it wasn't accepted by Trotsky:

"Theoretically, to be sure, it is possible to conceive a situation in which the bourgeoisie as a whole constitutes itself a stock company which, by means of its state, administers the whole national economy. The economic laws of such a regime would present no mysteries.' (*The Revolution Betrayed*, p. 245.)

"It follows that a totally state-owned economy does not have to be non-capitalist. And its economic laws could be fully grasped, despite the absence of a free market. Trotsky doubted that the old bourgeoisie itself could nationalize a whole economy in practice, and he was right: it took the Stalinists to do it. Nevertheless, it is obvious that a statified economy did not mean a workers' state."⁵

PR is quoting the section of Trotsky's book entitled "State capitalism?", but this section, and the very passage cited by *PR*, go on to deny that this theoretical possibility can occur in practice. The paragraph ends with the assertion that

"Such a regime never existed, however, and, because of profound contradictions among the proprietors themselves, never will exist—the more so since, in its quality of universal repository of capitalist property, the state would be too tempting an object for social revolution." (underlining added)

This clear and emphatic statement by Trotsky is diplomatically "revised" by *PR* into the view that Trotsky "doubted" that the old bourgeoisie would nationalize the economy.

Moreover, Trotsky not only denied that state-capitalism could ever be achieved in practice, but he could only conceive "theoretically" of state-capitalism when the old bourgeoisie rules. The very paragraph by Trotsky cited by *PR* goes on to describe the "economic laws" of state-capitalism as follows:

"A single capitalist, as is well known, receives in the form of profit, not that part of the surplus value which is directly created by the workers of his own enterprise, but a share of the combined surplus value created throughout the country

proportionate to the amount of his own capital. Under an integral 'state capitalism', this law of the equal rate of profit would be realized, not by devious routes—that is, competition among different capitals—but immediately and directly through state bookkeeping." (Trotsky then went on and made the statement I have quoted that this regime has never existed, and will never exist.)

As can be seen, Trotsky was talking about the old bourgeoisie nationalizing the economy.

Trotsky continued, in the following two paragraphs, to contrast a system where the old bourgeoisie had nationalized part of the economy, to the system of nationalized industry in the Soviet Union. He reached the conclusion that it was ridiculous to think that the system in the Soviet Union could be described as state capitalism; he ended the section on "State capitalism?" with the declaration that "Our brief analysis is sufficient to show how absurd are the attempts to identify capitalist state-ism with the Soviet system. The former is reactionary, the latter progressive." Indeed, the very completeness of the nationalization was, in his mind, an argument against it being regarded as state capitalism. Trotsky believed that state capitalism in the real sense—and in Trotsky's eyes, this meant state ownership on behalf of the old bourgeoisie—always "remains partial in character". That is, Trotsky believed that if the entire economy was nationalized, it was not state-capitalism. State-capitalism must "remain partial", i.e., the state sector could only embrace part of the economy, or else state-capitalism had been transcended and a progressive system had replaced it.

Trotsky did talk about the possibility of capitalist restoration in the Soviet Union, but it was always in terms of the old bourgeoisie taking power. Indeed, Trotsky was one of the proud fathers of the argument that the bureaucrats couldn't be state-capitalists because they didn't own stocks or bonds. He wrote, in the next section of *The Revolution Betrayed*, that

"The attempt to represent the Soviet bureaucracy as a class of 'state capitalists' will obviously not withstand criticism. The bureaucracy has neither stocks nor bonds. It is recruited, supplemented and renewed in the manner of an administrative hierarchy, independently of any special property relations of its own. The individual bureaucrat cannot transmit to his heirs his rights in the exploitation of the state apparatus." He identified capitalist restoration with "the collapse of the planned economy" and "the abolition of state property".

Thus *PR* is turning Trotsky on his head when they hold that he recognized that a fully nationalized economy could be capitalist. Daum, in his book, dances around the same passage from *The Revolution Betrayed* that *PR* does. (pp. 81,83) He doesn't directly make the absurd assertion that this passage shows Trotsky advocating a theory of state-capitalism, but he implies the same thing. He pretends, like *PR*, that Trotsky is only denying that the old bourgeoisie will bring state capitalism to life; he says that Trotsky only "discounted the likelihood of

⁵"*Healyism with a Human Face: New Stage Claimed in Budapest*", *Proletarian Revolution*, Fall 1990, No. 37, pp. 9-10, which is the same issue with the review of Daum's book. The same passage by Trotsky is again quoted, with the same commentary on it in almost the same words, in "Death Agony of a Deformed Theory" in *PR* #38, Winter 1991, p. 4 col. 1.

the bourgeoisie nationalizing the entirety of capitalist property itself." He hides the fact that Trotsky said that a system of integral state-capitalism is impossible, and has never and will never occur.

The state sector as a supposedly proletarian form

Far from seeing the rise of state-capitalism in the Soviet Union, Trotsky's idea was the Soviet state sector was socialistic in and of itself, no matter how it was directed and whether the working class had any say in running the state sector or the Soviet government as a whole.⁶ This is why Trotsky held that state-capitalism was impossible: he believed that the state sector was inherently socialist. One would think that Daum and the LRP, who hold that the Stalinist regime was "statified capitalism" (from March 1939 at least), would repudiate this thesis. Instead, Daum tries to maintain this thesis by rephrasing it in a vague and elastic way. He argues repeatedly that "nationalized property is a proletarian form of property". (p. 240)

The revolutionary proletariat will, of course, have to nationalize the economy during the transition to socialism. But this doesn't mean that nationalized property is always proletarian or socialistic just because it is nationalized. The revolutionary proletariat may also have to rise up in arms in order to achieve the socialist revolution, and it will require armed forces to defend the revolution against hostile capitalist countries. It will make use of state power in various ways. Should armed struggle, modern armies, and the state itself be declared "proletarian forms", no matter whose army or whose state it is?

Well, as a matter of fact, Daum goes to the extent of arguing that giant capitalist monopolies and all "statist" forms in capitalist countries are proletarian forms that threaten the bourgeoisie. He writes that

"the monopolist and statist tendencies imminent in decaying capitalism are not class-neutral forms, adaptable equally well to the bourgeoisie and proletariat. They are anti-capitalist even under bourgeois rule in that they reflect the future proletarian society; they thereby pose a threat to the bourgeoisie". (p. 88)

To follow this logic to its conclusion, GM and the multinational corporations, the IMF and some other world agencies, and even the modern monopoly bourgeoisie itself would have to be declared to be anti-capitalist and proletarian forms that "pose a threat to the bourgeoisie". After all, these are among the forms in which "the monopoly and statist tendencies" of modern capitalism are manifested.

Daum's logic confuses two separate things: the ground upon

⁶See the review of Trotsky's statements about the state sector which is contained in "The Trotskyist Opposition and the Soviet State Sector" in "Preobrazhensky: Ideologist of State Capitalism, Part Two" in CV vol. 4, #3, Aug. 1, 1998.

which the modern class struggle arises, and the question of what is a proletarian form. Large-scale production has created the modern proletariat (which is the only class which can bring the socialist revolution) as well as the technological basis for socialism, but that doesn't make the capitalist forms of large-scale production into "proletarian forms". The proletariat works for capitalist firms, but these firms are not "proletarian forms"; they are "bourgeois forms".

Daum's theory of nationalized property as a "proletarian form" involves him in a series of contradictions. Indeed, if nationalized industry is proletarian, then how can the Stalinist state sector in the Soviet Union be state-capitalist? Daum seeks a way out of these contradictions by stating that the form is proletarian, but the content can be anything. He attacks

"the mechanistic belief that the proletarian form of nationalized property implies a dominant proletarian content". He writes that ". . . Marxists must recognize that form reflects content but does not determine it. Form and content continually come into contradiction—which is temporarily resolved at a new level as the content, itself changing, exercises its dominance." (p. 242)

Daum wouldn't have to wiggle back and forth this way if he weren't trying to preserve Trotsky's theory of the inherently socialist character of the state sector.

Moreover, the theory of nationalized property as a "proletarian form" results in practical agitation by the LRP, and its journal *PR*, that, with respect to nationalized industry, merges with that of those Trotskyists who believe that the Stalinist economy was postcapitalist or essentially socialist. LRP's "Theses on the East European Revolutions and the Transitional Program" (1990) called on the workers to "defend nationalized property and the deformed proletarian gains which it embodies", without any mention of the fact that a revolutionary workers' movement would, if it took power, have to smash the old organization of the nationalized economy and run the state sector in a fundamentally different way.⁷ State property on one side versus privatization and decentralization on the other side is the fundamental axis of the statement. It has no discussion of the fact that there are different types of state sectors, other than distinguishing the extent of their centralization. There is no attempt to explain why the old centralized system of Stalinist state-capitalism had exploited the masses and how this exploitation could be avoided in a different type of centralized system.⁸ Putting this into practice, the

⁷See *PR*, Fall 1990, No. 37, pp. 15-16. The theses were "submitted to the Budapest Conference of the Unity of Workers East and West".

⁸Indeed, elsewhere the LRP polemicizes that "The notion that workers have nothing to defend under Stalinism is an error as disastrous as the 'workers' state' illusion." ("Death Agony of a Deformed Theory", *PR* #38, Winter 1991, p. 10, col. 1 and (continued...)

theses opposed some of the formulations of other Trotskyists, such as "defend the Soviet Union" or calling the Soviet Union a "deformed workers' state", but strongly maintained the heart of Trotskyism—the glorification of state property in itself.

LRP's theses went so far as to ridicule the widespread concern with the oppressive and bureaucratic nature of the old state economy. All that the theses could see in such concern was an "advocacy of 'self-management' feed[ing] into the marketizing decentralization schemes of the bourgeois and bureaucratic forces." LRP's theses put forward no alternative idea for how to build a state sector different from the old one. At most, in a section of "transitional demands", they include two demands which, in their entirety, read "*open the books* of private and state firms so that workers can themselves determine the profitability and 'efficiency' of their workplaces; *workers' control* (supervision of production, to keep close tabs on the state and private bosses." These demands assume that the capitalists and the state sector bosses will continue to run industry, and don't even attempt to explain how the workers can themselves run the economy and build up a state sector that differs fundamentally from the old one. Indeed, the traditional sentimental phrase in the theses about the state sector being among the "gains achieved by the proletariat on the basis of the October revolution" is just another way of calling the Soviet economy a "deformed workers' state". What does it matter if the theses disavow the term "deformed workers' state" if they uphold the content of this term? Thus Daum's theorizing collapsed in the heat of practice back into the errors of the old Trotskyism.

The Soviet bureaucracy was supposedly not a new bourgeoisie

Because Trotsky held that the state sector was inherently socialist, he could not see a new bourgeoisie could arise on the basis of its control of the state sector. In *The Revolution Betrayed*, he argued that the Soviet bureaucracy did not constitute a ruling class.⁹

One would think that Daum, who holds that the Stalinist

⁸(...continued)

indeed the entire section entitled "Nothing worth defending?", pp. 9-10.) Here the LRP uses a vague formulation that might be understood in different ways. The formula might be taken to mean only that various benefits the workers had in the old system should be defended, or it might mean that the Soviet system was, in its economic basis, socialistic. As usual, the LRP tries to maintain whatever it can of the old Trotskyism by making it more ambiguous. But why would one defend the livelihood and living conditions of the masses under the slogan that there was something to defend in Stalinism? Should workers in the Western market economies defend their livelihood and rights under the slogan that there is something worth defending in Reaganism or in free-market economics?"

⁹See the section "Is the Bureaucracy a Ruling Class?"

regime was "statified capitalism" or state capitalism, would have discarded Trotsky's idea that there was no ruling class in the Soviet Union. But here again, Daum has maintained the idea, only in a vaguer form. He writes that there was a Soviet ruling class, and it was capitalist, yet it was not a bourgeoisie. He writes that:

"The Stalinist ruling class is properly called capitalist since it embodies the capitalist relation in opposition to the proletariat; it is the exploiter of labor power, 'personified capital' in Marx's phrase. Since it did not evolve historically like the classical bourgeoisie that grew up under feudalism and does not operate the same way, we do not call it a bourgeoisie. Like Trotsky we label it a bureaucracy." (p. 233)

But if state capitalism does not have to resemble Western market capitalism in every detail and yet still is capitalism, why should the state-capitalist ruling class have to resemble the Western European bourgeoisie in every detail or else not be a bourgeoisie? Because Trotsky says so!

So, once again, Daum entangles himself hopelessly in contradictions. On one hand, to explain the difference between a workers' state and state capitalism, he writes that the difference is whether there is a bourgeoisie. In a workers' state, he says

"The proletarians working for the state still produce value and therefore surplus value. But they are not exploited, because there is no exploiting class, no bourgeoisie, to appropriate the surplus value; it goes to the state to be used for the collective good of the workers as determined by the collective working class..." (p. 131)

Here Daum characterizes the bourgeoisie as the class that exploits the working class and appropriates surplus value. But on the other hand, Daum claims that the Soviet ruling class is not a bourgeoisie although it exploits the workers, appropriates their surplus-value, and presides over a capitalist system..

Daum claims that his approach is superior to all other theories of state-capitalism because he is the only one who sees that "the relation between capital and wage labor determines the entire character of the mode of production". (p. 29) Yet he refuses to call the class that exploited wage labor under the Stalinist system a bourgeoisie.

The Soviet Union in the 1930s: workers' state or state-capitalist regime?

A number of Daum's contradictions center on his view that the Soviet Union didn't become state-capitalist until the very end of the 1930s. He denounces the Stalinists as oppressing the working class all through the 1930s, denying them any rights, and carrying out a violent counterrevolution. He says that the regime got worse and worse, working its way up to a "fascism-like apex" by the end of the 30s and becoming a "totalitarian" and "fascist-like regime" (pp. 239-240). And yet, he wants to claim the rapid industrialization of the 1930s as the victories of

a "workers' state" and the sign of the superiority of such workers' states over capitalism. In this, he follows Trotsky, whose book *The Revolution Betrayed* opens with the same contradiction. On one hand, Trotsky boasts of the industrialization that has taken place precisely under Stalinism in the 30s and says that "Socialism has demonstrated it right to victory". (Ch. 1, Sec. 1) On the other hand, he tells us that in some fundamental sense "there is not yet . . . a hint of socialism in the Soviet Union" ("Introduction"), and he denigrates in sections 2-3 the economic growth that he eulogized in section 1.

But Daum's has another reason to deny the capitalist character of the Stalinist system in the 1930s, and to pretend that there is some fundamental difference between it and the Soviet system in the 40s through 80s. Daum writes that if the Soviet Union weren't still a workers' state in the 30s, then this "credits the great Soviet industrial buildup to a capitalist state. To say that capitalism broke through its own barriers against advancing the

productive forces and expanded as rapidly as did the USSR marks capitalism as still progressive and challenges the Marxist assessment of the epoch of decay." (p. 160)

This is another example of Daum's Platonic economics: instead of studying the actual history of capitalist development in the 20th century, Daum once again reasons from abstract generalities. He reasons from what an "epoch of decay" must mean, rather than studying the imperialist epoch on the basis of what actually happens in it.

On point after point, Daum and the LRP are at pains to ensure that nothing should upset the dogmas of Trotskyism. This is why they cannot deal with the competitive and anarchic forces in the state-capitalist economy without being involved in contradiction after contradiction. It is also why, despite their declarations that Stalinism is "statified capitalism" (state-capitalism), they end up with the same general attitude to the Stalinist state sector as other trends of Trotskyism. □

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